

Acknowledgements

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General introduction

Chapter 1

1.1 The distributive logic of active labour market governance

In the last three decades, welfare states have responded to the challenges of intensified international competition, post-industrialization and demographic aging by investing in active labour market policies (ALMPs) such as the provision of placement services, counselling, and case management of jobseekers, training and employment maintain incentives (Serrano-Pascual & Magnussen 2007; Dingeldey 2007; Eichorst et al. 2008; Bonoli 2010). Welfare state studies have intensively debated the drivers (Martin & Swank 2004; Rueda 2006; Bonoli 2010; van Vliet & Koster 2011; Vis 2011; Nelson 2013; Tepe & Vanhuysse 2013; Vlandas 2013) and outcomes (Card, Kluve & Weber 2010; Nelson & Stephens 2012; Bothfeld & Betzelt 2013; Abrassart 2015; Malmberg-Heimonen & Tøge 2015; Martin 2015) of ALMPs. A common feature of these studies is that they focus exclusively on the *policies* of activation. Yet, the switch to activation is also embedded in institutions of active labour market *governance* (ALMG). This involves the assignment of roles, responsibilities and decision-making levels (by states, markets and social partners) in the delivery of active labour market policies. Key institutions such as public employment services (PES) and benefit administrations hold a central position in the implementation of activation measures and the organization of welfare-service delivery (Van Berkel et al. 2011; Considine et al. 2015). Despite its importance in the general shift from welfare to activation, the politics and effects of ALMG are still poorly understood. For example, ALMG arrangements differ profoundly from one European welfare state to another, in terms of the distribution of responsibilities between state, social partners and the market. How can we account for such variation? Another topic of debate is how the involvement of states, markets and social partners affect the employment opportunities of those who are considered to benefit most from activation policies, namely outsiders in the labour market. This dissertation gets to grips with these issues by focusing on what I refer to as *the distributive logic* of ALMG.

My distributive logic argument emphasizes that governance is not a neutral process, instead it involves problem-solving and the empowerment of intentional actors such as parties, government officials and organized interest groups. ALMG arrangements grant certain actors discretionary space in delivering social policies, such as the ability to influence the budget, set policy priorities, and influence the implementation process. ALMG thus affects the power resources of political actors and provide these actors with decision-making authority and long-term control over welfare programmes. For instance, the involvement of social partners in the governance of sickness and disability schemes in the Netherlands enabled these actors to use such schemes as labour-market exit routes for older workers (Visser & Hemerijck 1997). As will be argued in this dissertation, parties, governments and organized interests are strongly aware that involvement in ALMG provides instruments of coercion, which political winners can use to pursue long-term policy interests (Knight 1992). This, in turn, has a profound impact on clients of the welfare state. My distributive logic argument emphasizes that governance arrangements are not only functional requirements for

the implementation of policies, they also involve aspects of control, as well as the empowerment needed to gain such control. In this dissertation, I will assess the political process through which actors acquire this control on the one hand, and the distributive outcomes of this control for different risk groups in society on the other. Thus, in a nutshell, this dissertation covers the distributive politics and outcomes of ALMG.

By focusing on the distributive and political aspects of ALMG, this dissertation also informs studies of ALMG in the field of social policy and public administration. These studies address new modes of coordination between public employment services and benefit administration. These involve inter-agency cooperation, one stop shops, or single gateways (Lindsay & Mcquaid 2009; Clasen & Clegg 2011; Christensen & Læg Reid 2013; Minas 2014), territorial decentralization (Kazepov 2010; Minas et al. 2012; Heidenreich & Aurich-Beerheide 2014; Qvist 2015), and new models for public-private partnerships and for contracting-out services (Struyven 2014; Zimmermann et al. 2014). Such studies enhance our understanding of the various instruments and organizational structures through which active labour market policies are implemented (Fuertes, et al., 2014). Yet, as noted by Bonoli & Champion (2011), this research remains mostly descriptive and has not been informed by a political science perspective. The aim of this dissertation is to achieve the more widespread introduction of this perspective in ALMG and welfare governance in general.

1.2 Research questions

Part I of this dissertation covers the distributive politics of ALMG reform. Comparative welfare state research addressing the shift from welfare to activation mainly focuses on the role of political, institutional, socio-economic and ideational determinants in explaining the scope and direction of active labour market *policies* (Martin & Swank 2004; Rueda 2006; Bonoli 2010; Vis 2011; Nelson 2013; Tepe & Vanhuysse 2013; Vlandas 2013). Typically, the main dependent variable in these studies is social expenditure on various active labour market policy programmes, such as direct job creation, training, labour market services, and employment incentives. Yet the factors shaping the governance of these policies are less well understood. Three main categories of actors can be identified in ALMG. Does the state have sole responsibility for ALMG, does it share its governmental responsibilities with social partners (i.e. representatives of employees and employers), or are aspects of control left to the market? The distribution of responsibilities between state, social partners and the market differs profoundly in ALMG arrangements from one European welfare state to another (Mosley et al. 1998; Ebbinghaus 2010: 270-276; Weishaupt 2011; Clegg, et al. 2011; Schelke 2011). In some countries with a strong tradition of social partnership, such as Germany, Sweden, Denmark and the Netherlands, we see a marked trend towards the exclusion of social partners and a larger role of the market and local governments (Konle-Seidl 2003; Kemmerling & Bruttel 2006 for Germany, Lindvall & Sebring 2005 for Sweden, Damgaard & Torfing 2010 for Denmark). In others, such as France, Austria and Belgium, social partners still play a

dominant role in ALMG (Gramain et al. 2006; Berthet & Burgeois 2011 for France, Struyven 2009 for Belgium, Weishaupt 2011 for Austria). In countries such as Ireland, in which ALMG was traditionally devolved to non-state actors through flexible networks (Grubb, Singh & Tergeist 2009), there are clear signs that ALMG has become more centralized and that the state has assumed a greater role (Dukalow & Considine 2014). *Within* countries, too, there is a great deal of variation in reform processes, such as the formation and subsequent dissolution of the tripartite Manpower Services Commission (MSC) in Britain (Weishaupt 2011), the formation and subsequent dissolution of the Irish National Training and Employment Authority (FAS) (Boyle 2005), and the rapid shift in governance in the Dutch public employment service from corporatism to managed liberalism (Van der Veen & Trommel 1999). As will be argued more substantively in the introduction to Part I, existing theories based on functionalist (Katzenstein 2003), ideational (Heidenreich & Zeitlin 2009) and path-dependent explanations of reform cannot account for this variation in the direction of ALMG patterns between and within countries. Hence the following central research question will be addressed in Part I of this dissertation:

What factors are responsible for the distribution of responsibilities between the state, social partners and markets in ALMG?

Part II of this dissertation covers the distributive outcomes of ALMG. From welfare state research, we learn that welfare policies do not always benefit the most disadvantaged in society. Indeed, rather than bringing about redistribution, they may actually enhance stratification (Korpi & Palme 1998). This argument is carried further in recent studies on dualization (Rueda 2005; Palier & Thelen 2010; Emmenegger et al. 2012), emphasizing the growing divide between labour market insiders and outsiders. These studies identify *policies* that reinforce occupational divides as the main cause of this process (Häusermann & Schwander 2012). In existing studies on dualization, the causal link runs from politics, organized interests and political parties promoting the position of insiders, to policies and outcomes. These studies take the view that active labour market policies primarily benefit “outsider” groups, helping them find their way back into the labour market (Rueda, 2014: 388). My research extends this analysis to the governance of ALMPs. In addition to assessing the linkage between politics, policies and outcomes, the distributive consequences of ALMG are taken into account. My research emphasizes that employment opportunities for outsiders in the labour market are not influenced by policies alone. Governance can also have an impact in this regard. As will be argued more substantively in the introduction to Part II, the involvement of social partners in the institutional-administrative structures of the welfare state can result in insider-based policy outcomes, involving activation policies that are less strongly focused on outsiders in the labour market. Yet, it is unclear whether the reverse is also true. Do activation policies become less insider biased and more beneficial to outsiders in the labour market when other actors (such as the state or the market) have a stronger position

in ALMG? Hence the following central research question will be addressed in Part II of this dissertation:

How, and to what extent, does the involvement of the state and the market in ALMG affect employment opportunities for labour market outsiders?

1.3 Research design and case selection

In part I, I use a *comparative method* to test various explanations of the transformation in ALMG. Comparing countries with one another makes it possible to rule out rival explanations. In addition, hypotheses derived from certain theoretical perspectives can be tested by examining similarities and differences between countries (Landman 2008: 6). Part I's main objective is to identify variables, posit relationships that might exist between them, and illustrate these relationships comparatively in order to generate and substantiate the theory. A variety of comparative methods are used. Chapter 2, co-authored with Michael Baggesen Klitgaard and Gijs Schumacher, tests the hypothesis that ALMG reforms are driven by partisan politics, in combination with party-union linkages. The approach we use involves comparing the ALMG reforms carried out in Sweden, Denmark, Spain and the Netherlands from 1982 to 2011. Comparing these countries enables us to generate the required variation in terms of the main independent variable: government partisan composition. Swedish and Danish governments are minority coalitions, in Spain we have single party majorities, while Dutch governments are majority coalitions. Thus, selecting these particular countries makes it possible to test the argument across a range of different electoral institutions which have previously been shown to influence partisan effects (Blais et al. 1993; Jensen & Mortensen 2014; Schmidt 1996). Compared to majority coalitions, and especially one-party majority governments, minority coalition governments should experience severe difficulties in producing the outcomes they want. If similar trends are observed across such a wide range of institutional terrains, this would be a strong indication that partisanship is generally important. In this chapter, a variation of the comparative method known as a Most Different Systems Design (MDSD) is used. A qualitative comparison is also made of left-wing governments in Denmark and Spain, which operate in extremely different contexts. Electoral rules produce weak minority coalition governments in Denmark and much stronger, single-party majority governments in Spain. If similar indications of partisanship were to be found in such different contexts, this would provide a strong validation of the theory.

Chapter 3, co-authored with Timo J. Weishaupt, uses another variety of the comparative method (known as a Most Similar Systems Design, or MSSD) to test the hypothesis that transformations in ALMG are not only driven by partisan politics but that they are also dependent on the ability of the social partners to unite on reform positions. This chapter evaluates this proposition by comparing Austria and the Netherlands, two small, highly corporatist countries (Hemerijck, et al., 2000) with coordinated market economies (Hall &

Soskice 2001) and consensual democracies (Lijphart 1999). Despite their similarities, these countries have markedly different outcomes with regard to ALMG reform. Both introduced new Public Employment Services (PES) in the 1990s, in which the social partners became important co-decision makers. Yet the Austrian tripartite PES flourished over the ensuing years, and survived two populist, anti-corporatist coalition governments in the early 2000s. The Dutch experiment, by contrast, was short lived, resulting in a complete dismantling of corporatist structures – despite having a Social Democrat-led government – in the late 1990s. We can demonstrate the causal significance of our central hypothesis by revealing long-term correlations between two ‘highly similar’ systems, and by connecting the causal mechanisms involved to the relevant outcomes. In this chapter, we identify the most important elements in the causal chain and highlight regularly occurring features that enable us to explain different institutional processes in both Austria and the Netherlands.

In Part II, I apply a *within-case study* to assess the insider-outsider policy effects of ALMG. The specific purpose of a within-case study is to identify “causal mechanisms”, i.e. to determine how X leads to Y (Derek & Beach 2012). The goal of the case analysis is to determine whether a particular theory about how X produced Y holds in a given empirical instance. In part II, I assess the proposition that activation policies become more outsider-oriented (and less focused on insiders) in the absence of institutional involvement by the social partners. I test this proposition in the context of the Netherlands. Until the 1990s, this was a country in which the social partners were deeply involved in the governance of activation in unemployment insurance, and in disability and sickness insurance. In the 2000s, social partners were radically excluded from both governance arrangements. This development allows me to compare the effects of this governance change on outsiders on the labour market with the effects of the social partnership governance model, as derived from the literature. In other words, do we observe fewer insider-based policy effects in the new ALMG structures in the Netherlands? The advantage of analysing a single country diachronically is that it maximizes comparability, and may even offer a better solution to the control problem than comparisons of two or more cases (Lijphart 1971: 689). Here, a single longitudinal case is divided into two sub-cases, in which the theoretically relevant event occurs at some point in time. In this way, I approximate a quasi-experimental setting. This allows me to identify a “before and after” configuration within the sequential development of the case (George & Bennett 2005: 166). One challenging feature of this design is that, for the phenomena in question, more than one variable can change at a time. Thus, in my study, rather than being confined to the main variable of interest (the exclusion of social partners from ALMG), the analysis also includes other potential causal variables that changed during the same period of time. Chapter 3 also addresses the effects of New Public Management techniques on active labour market service delivery. In chapter 4, the effects of budget cuts on service delivery are included in the analysis. This can help to establish the extent to which the target variables (and others that changed in the same period) account for the observed outcome (George & Bennett 2005: 167). To assess insider-outsider effects, I combine a range of data sources. There is macro-level data on factors such as employment rates and development in benefit caseloads

(chapters 5 and 6), micro-level data on income development (chapter 5), and data derived from qualitative interviews (all three chapters).

Insider-outsider policy effects are assessed in three different governance contexts: unemployment insurance and social assistance (chapter 4), social assistance (chapter 5), and disability insurance (chapter 6). Although the three contexts are very different in terms of the types of actors involved, one feature that they have in common is that the social partners are not represented in the distributive governance structure. Below, I discuss the various distributive ALMG contexts in which insider-outsider effects are assessed.

The governance of unemployment insurance takes place in both public and quasi-market contexts. With the implementation of the Work and Income (Implementation Organization Structure) Act (SUWI or *Wet Structuur Uitvoeringsorganisatie Werk en Inkomen*) in 2002, independent benefit administration offices (partly governed by the social partners) were merged into a public social insurance agency (UWV) under the control of the ministry. The social partners were not represented in this public agency, which became the main principal for private re-integration companies competing for contracts to assist the unemployed. Since 2005, activation activities have also been organized in-house by UWV “re-integration coaches”, who have the same duties as case managers (Verveen, 2006: 37). Following the 2012-2015 budget cuts, the UWV’s activation duties were substantially eroded, and private contracting once again became the norm (UWV, 2014). What policy effects do we observe in this hybrid governance arrangement? With regard to social assistance, a contractual approach and greater local-authority responsibility were implemented in the 2004 Work and Social Assistance Act (WWB or *Wet Werk en Bijstand*) (Borghgi and Van Berkel 2007). Local authorities became responsible for activating benefit recipients by matching the supply and demand of labour. The main idea behind this reform was that local authorities are better equipped than anyone else to align support for the unemployed (and long-term unemployed) with other policy domains, such as health, education and local labour-market demand. Local authorities were given a central role in activating people who are at a large “distance from the labour market”. These were members of typical outsiders groups, such as single mothers, early school-leavers, people with inadequate initial qualifications, and older unemployed workers. To realize the goal of activating socially disadvantaged groups, Dutch local authorities were granted a large share of responsibility for implementation and policy matters. Under the WWB, local authorities receive financial resources for re-integration activities, and the incentives needed to use them effectively. To this end, local authorities receive two types of budget from central government. One is a fixed budget for the provision of social assistance benefits and the other is a re-integration budget to cover the costs of re-integration services. If a local authority spends less on benefits than the amount reserved for this purpose, then it is allowed to keep the remaining funds. However, local authorities also have to fund any deficits that occur in this connection. In the analysis, we examine the way in which case workers activate typical outsider clients through the provision of social assistance. With regard to disability insurance, the activation of those who encounter health problems is, in principle, devolved to employers, in accordance with the provisions of the 2002 Eligibility for Permanent

Incapacity Benefit (Restrictions) Act (*Wet Verbetering Poortwachter*). This Act establishes detailed obligations for employers. They are required to formulate a reintegration plan and to make every effort to get the affected employee back to work, either at the employer's company or elsewhere. Employers do have the option of outsourcing some activation tasks to private insurers (*inkomensverzekeraar*), who in turn contract private re-integration companies to provide the activation services. What are the policy effects (in terms of governing sickness and disability) of this increasing employer responsibility?

1.4 Outline and main findings

In this dissertation I address my research questions following a cumulative model. Each of the chapters represent the typical structure of a journal article. It has its own theory section, discussion of methodology and analysis¹. Below I summarize the results of the chapters for each part of the dissertation and describe for each chapter the underlying methodology.

Part I: The distributive politics of ALMG reform

The chapters in part I address the first research question: what factors are responsible for the distribution of responsibilities between the state, social partners and markets in ALMG?

In chapter 2 (co-authored with Michael Baggesen Klitgaard & Gijs Schumacher), we assess the effects of partisanship on the direction of ALMG reform. We propose theoretically that ALMG reforms redistribute institutional power resources between political actors, but are inconsequential for voters in the short run. Without clear electoral repercussions, partisan governments are relatively free to seek long term policy goals through institutional re-arrangements. Therefore we expect strong partisan effects on the direction of ALMG reform. We test our hypotheses on a sample of labour market reform. For the analysis we compiled a dataset consisting of 78 reforms executed in Sweden, Denmark, Spain and Netherlands between 1982 and 2011 of which 47 are coded as policy reforms and 31 as institutional reforms. Reforms were selected by surveying five key texts on labour market reforms in the four countries since the early 1980s. The data are analysed in three steps. In the *first* step we perform a statistical test of the theory, and confront it with plausible alternatives by applying an ordinary multinomial regression analysis. In the *second* step we research qualitatively how policy and institutional benefits are redistributed in detail on voters, or groups thereof, corporatist actors, public agencies, or the market. Besides from analysing the aggregate pattern we zoom in on the country level and examine the hypothesized institutional preferences of distinct political parties. *Third* and finally we take a step to inspect the causality of the argument in a comparative case study. We compare an institutional reform undertaken by the Danish centre-left government in the period 1998-1999 with an institutional reform by

¹ Parts of the research were conducted in collaboration with others. In the appendix an overview of the different contributions is presented.

the Spanish government of the Left 1993-1996. The analysis supports the expected pattern of strong partisan effects on ALMG. Governments dominated by liberal parties prefer ALMG arrangements based on market or quasi-market principles. Left wing governments prefer corporatist ALMG solutions if the party-union linkage is strong and state solutions if party-union linkage is weak. Governments dominated by Christian Democratic parties prefer corporatist ALMG arrangements.

Chapter 3 (co-authored with Timo J. Weishaupt) builds on and refines this argument of chapter 2. We propose theoretically that the choice for a type of ALMG arrangement is not only structured by the parties in government, but that also the linkages between the social partners (trade unions and employers organizations) matter: the ability of the social partners to unite on reform positions. We demonstrate that when the social partners are *divided*, their collective power is reduced and partisan-based policy outcomes become more pronounced. In turn, when the social partners *jointly* favour a particular outcome, their collective power increases and they can override governmental reform plans, even if the government holds a large legislative majority. We evaluate this proposition through a qualitative comparative case study of the Netherlands and Austria. The evidence put forward in this chapter is based on a thorough analysis of primary data sources, including official policy documents, parliamentary debates and newspaper articles, semi-structured interviews with key stakeholders. We conducted a total of 12 semi-structured interviews. In Austria, we interviewed three representatives of employer associations (WKÖ and IV), one worker representative (Chamber of Labour), one ministerial civil servant (Ministry for Employment and Social Affairs) and one member of the Austrian PES. In the Netherlands, we interviewed three representatives of employer associations (VNO-NCW, LTO, MKB-Nederland), two trade union representatives (CNV and FNV) and one member of the Dutch PES. We selected interviewees that were involved in PES reform processes and negotiations.

Part II: The distributive outcomes of ALMG

The chapters in part II address the second research question: how, and to what extent, does the involvement of the state and the market in ALMG affect employment opportunities for labour market outsiders? This question is answered in the context of the Netherlands by focusing on three ALMG domains: unemployment insurance (chapter 4), social assistance (chapter 4 and chapter 5) and disability insurance (chapter 6).

In chapter 4 (co-authored with Peter Mascini & Romke van der Veen), we evaluate how the basic principles of activation policies have been put into practice. More specifically, we want to determine if the unintended implementation mechanisms associated with the welfare state have continued to play a role since the activation state took over, or if they have been replaced by other mechanisms. We base this analysis on a comparative case study of the implementation styles of a public social security agency administering unemployment insurance (*Uitvoeringsinstituut Werknemersverzekeringen, UWV*), a municipal social assistance agency and a private reintegration company located in a large Dutch city. Based on eighteen

in-depth interviews with managers and case workers as well as document analysis and observations in each organization, our analysis points to a paradox. We find that selection and a focus on measurable outcomes are more salient in the public context than in the private context while the reverse is true with respect to bureaucratization. Principal-agent problems invoked by the outsourcing of activation policy to private companies have reinforced bureaucratic tendencies. These bureaucratic tendencies are the unintended consequence of the policy of public organizations to prevent opportunistic behaviour by private companies. This leads to the paradox that the public organization operate in a more business-like manner, while private organizations operate more bureaucratically. Our research furthermore confirms the earlier findings of the street-level bureaucracy literature that the unintended implementation mechanisms of selection and focusing on measurable outcomes, previously problematized in the welfare state, also play a role in the implementation of activation policies. In line with the paradox above, selection and focus on measurable outcomes were however mostly present in the public social security agency and less so in the private re-integration company.

Chapter 5 (co-authored with Franca van Hooren and Deborah Rice) extends the analysis to the implementation of activation by assessing the labour market position of two typical outsider groups: early school-leavers and lone parents. This chapter takes a broad perspective on the position of outsider groups in a post-industrial economy (extending the scope of research beyond ALMG). Have outsider groups seen their position deteriorate as a consequence of retrenchments in welfare policies, or are they endowed with capabilities that alleviate social disadvantages through changing governance of activation at the local level? For the analysis we collected information for each group on: a) policy changes on the macro-level, b) a simulation of household income development and c) employment service provision under the Dutch social assistance scheme. The income position of the two exemplary outsider groups is assessed through a 'at-risk household-type model'. Within both risk groups, we simulate different income situations including working full-time (at minimum wage), working part-time, and being unemployed. More specifically, we calculate the net disposable income of each risk group, defined here as the gross income from wages, social security benefits, tax credits, health care allowance, child benefits and childcare benefits (*minus* taxes, social security contributions, healthcare costs and childcare costs). Income data were gathered through a triangulation of sources including archival records, governmental websites and documents of municipalities. Information on the type of employment services offered is based on 21 semi-structured interviews conducted with managers and caseworkers responsible for implementing the Dutch social assistance act in seven municipal jobcentres in 2011. We find that policy changes have benefited the employment rates of both outsider groups. The income development shows on the other hand a growing divergence in income between those who manage to find employment and those who remain work-poor, pointing to the importance of finding work in the Dutch welfare state. Yet, labour market inclusion is stimulated for outsider groups through employment services offered at the local level. Our interviews show that capacitation and activation of outsider groups is an explicit aim of service delivery at the local

level. Within the social assistance scheme, clients are offered individually tailored and integrated services and work is geared towards higher qualifications and/or quality work rather than quick labour market entry. Yet, capacitation and activation is not a given and depends to a large extent on available budgets. Our interviews suggest that capacitation has brought in jeopardy by recent budget cuts in the Netherlands. Under this condition, municipalities have begun to invest their service budgets primarily in the most promising clients affecting the job opportunities of especially those groups with a large distance to the labour market. For these groups, less (or less qualitative) services were being offered. For example, wage subsidies were shortened or eliminated; the introduction of part-time activation trajectories was re-considered; and one of the seven municipalities in which interviews were conducted even stopped to grant personal reintegration budgets for which it had become renowned.

Finally, in chapter 6 I assess the effects of ALMG reforms in the Dutch disability scheme on the efforts of employers to retain people with disability in the labour market. I present two types of evidence. On the basis of time series data provided by the Dutch benefit administration, I show that benefit caseloads did not alter in the context of profound policy reform, but declined sharply when the disability governance system was reformed with increased employer responsibilities. On the basis of qualitative data I further evaluate the central role of employers. The theorized causal pathway is more directly tested in a focus group on the role of employers after the disability governance reforms in the Netherlands. The first half of the focus group consists of a plenary discussion about experiences of employers to keep people with disabilities in the workplace. The second half entails a discussion in small groups about best practices to further increase labour market participation of people with disability and barriers that employers encounter. Participants include HR-managers and occupational physicians (*bedrijfsartsen*) of large employers (Tata Steel, KLM, Philips, Siemens, Rabobank), a trade union representative (CNV), a representative of the employers' organization (VNO-NCW), civil servants of the ministry of Health and ministry of social affairs and representatives of the Dutch Association of Occupational Physicians (NVAB) and Dutch Association of Employment Experts (NVVA). The outcome of the focus groups is validated by 6 semi-structured interviews with key stakeholders and 6 semi-structured interviews with (former) employees with disabilities. Stakeholder respondents include a senior policy officer of the Dutch disability benefit administration (UWV), policy advisor health Dutch Association of Insurers (representing the interests of private insurance companies for work disability and occupational illness), senior advisor policy & quality the Netherlands Association of Occupational Medicine (NVAB), policy officer Dutch Association of occupational health services and re-integration companies (OVAL), senior policy advisor Dutch Association of General Practitioners (LHV) and Dutch Association of Mental Health (GGZ Nederland). The interviews confirm that employers have changed their internal processes and investment decisions concerning people with disability in the context of disability governance reforms. Before the 2000s, health of employees was not a core issue of firms. After the reforms respondents indicate that management of health has become a part

of the core strategy of firms, alongside for instance product development, innovation, market strategy and communication.

The results of both parts entail some further empirical and theoretical implications. These are discussed in the conclusion chapter of this dissertation. In a nutshell, this dissertation highlights the importance of a distributive logic to understand the politics and outcomes of ALMG. The results of part I show that instead of functionalist adaptation, ideational pressures or existing institutional constellations, the relative power of political actors, both within and between the corporatist and partisan arenas, is enormously important for understanding processes of (radical) institutional change. On the basis of this dissertation research, much more emphasis should be given to the distributional struggles between political actors to explain the direction of governance reforms. The results of Part II point out that ALMG can shape distributive outcomes. Labour market outsiders have, to some extent, benefitted from ALMG reform in the Netherlands. On the other hand, the results here also reveal some unintended effects on the implementation of activation policies. This involves a socially selective policy outcome where, in some cases, those facing fewer barriers to the labour market profit more than people who are at a relatively large distance from the labour market. The distributive outcomes of ALMG may thus reflect the interests of those who hold political power. The state may defend outsiders' interests in ALMG, but it can also take measures that, albeit unintentionally, reproduce and reinforce existing divides between insiders and outsiders. Under a series of centre-right governments from 2002 to 2012, substantial cuts were made in funding for activation measures, both in the public employment service (unemployment insurance) and at local authority level (social assistance). These budget cuts had a particularly large impact on service delivery to typical outsider groups. Both inside the public employment service and at local authority level, case workers channelled effort and support measures into individuals with relatively favourable employment opportunities. As a result, they unintentionally neglected the needs of the most disadvantaged. The extent to which the government is able to pursue its preferences is likely to be shaped by the structure of ALMG. Due to its powerful, central role in reformed ALMG structures, the Dutch government can unilaterally implement measures that would be much harder to achieve in a context where it is required to share power (as in Austria, see chapter 3). In other words, the matter of whether outsiders benefit from activation policies is inherently a partisan political question that may be especially reinforced in a state-led ALMG structure.

The distributive politics
of ALMG reform

PART

I

Introduction Part I

Concerning the distributive politics of ALMG reform, different exceptions can be deduced from the literature which are outlined below. I discuss to what extent the different perspectives can account for shifts in ALMG that are observed across European welfare states. I argue that the key (theoretical) puzzle of part I of this dissertation is how to account for the *divergence* in ALMG reform trajectories (something that cannot be explained by socio-economic adaptation, ideas and discourses and critical junctures) that in some instances occurred quite radically (something that is at odds with theories of path-dependency and gradual institutional change).

Socio-economic change and functional adaptation

A first body of literature considers shifts in governance as the result of functional adaptation of national states to the changing economic context. Jessop (1999), building on the French regulation approach of political economy, argues that the old Keynesian welfare national state fails as a mode of economic and social governance. The growing internationalization and complexity of the economy increases the range of stakeholders, whose cooperation is required for successful governance of the economy. Jessop argues that the coordination by the state is therefore not sufficient and needs to be replaced by more flexible forms of governance that includes other actors as partners of the state's new economic strategy. According to Jessop, a new regime emerges with increased importance of non-state actors in compensating for market failures in the delivery of state-sponsored economic and social policies. Public-private networks and new neo-corporatist arrangements would be part of the new mode of governance in social and economic policies (Jessop 2002, see also Falkner 1998). A similar argument is put forward by Rhodes (1994, 2007) who argues that the state has been 'hollowed out' from above (by internationalization) and below (by marketization). According to Rhodes (2001), this calls for 'negotiated adjustment' in which societal actors should become more influential in the governance of social policies. Katzenstein (2003) makes the argument that social partnership facilitates adaptability of small open economies to the tides of the world economy. Flexible adaptation occurs when the preferences of actors are not static but can shift according to new insights, when actors are willing to negotiate with each other over shared problem definitions, and when actors show the capacity to listen to and to understand the language of others, originating in the social partnership model (Katzenstein 2003: 18). Given the socio-economic pressures confronting national welfare states more emphasis should be given to new corporatist partnerships and flexible and non-state modes of coordination as expected by Jessop (1999) and Rhodes (1994, 2007). Processes of negotiated change in especially small welfare states have indeed been observed empirically (Hamann & Kelly 2007; Baccaro & Simioni 2008). These studies show that governments are willing to share their policy-making prerogatives when they are politically weak and when unions' position have

been declining. However, these approaches cannot fully account for the transformations in the involvement of social partners in ALMG that occurred in some countries since the 1990s. Why do governments discard social partners in some countries in the 2000s while there is ample evidence that legitimization for policies is still decreasing? Also the question when governments resort to a social partnership model remains puzzling. The example of the Netherlands shows that the political position of governments cannot explain when social partners get involved in ALMG. The Lubbers III cabinet (Sept. 1989- May 1994) is considered as having a fairly strong political position (Vis 2008: 205) but did still decided to involve social partners in ALMG in the early 1990s. The Balkenende II cabinet on the other hand is considered as having a fairly poor political position (Vis 2008: 206), but the position of social partners further deteriorated in this period. Moreover, while union strength continues to decline (due to membership loss), this is not a factor that induces governments to seek cooperation. Why do we observe the exclusion of social partners, and increasing presence of the state and market, in many welfare states? Especially the exclusion of the social partners in ALMG in the small open economies of Denmark, the Netherlands and Sweden of the Netherlands is puzzling. These countries should be typical cases to find new corporatist arrangements on the basis of the expectations of Katzenstein (2003). In short, the direction of ALMG cannot be explained by functional adaptation to changing socio-economic pressures.

Ideas and policy learning

A second body of literature emphasizes the role of ideas in generating reform (Béland 2005). The driving mechanism is policy diffusion involving a process in which knowledge about policies, administrative arrangements and institutions in one time/place is adopted in another time/place (Dolowitz & Marsh 1996: 344). This rests on ideas of what is legitimate, 'what is and what ought to be', communicated through discourses (Schmidt 2010) and policy paradigms (Hall 1993). In a discursive practice ideas are deliberated and exchanged. This creates the possibility for a shared understanding of ideas and in turn the prelude for change. The process of change can be influenced by different actors such as think tanks, committees, policy experts, advisory bodies and media. These actors make options about 'what is and what ought to be' explicit, opening up the possibility for reflexive thought of stakeholders directly involved in a particular policy making process. Evidence of policy learning and diffusion is indeed observed in the context of labour market policies and activation. Seeleib-Kaiser & Fleckstein (2007) show that German policy-makers have learnt extensively from the experiences in the UK in reforming their labour market policies. Armingeon (2007) presents evidence that the EU has successfully induced governments to increase the share of ALMP since the inauguration of the European Employment Strategy. Also van Vliet & Koster (2011) come to the conclusion, relying on pooled time series data, that the European Employment Strategy has contributed to shifts from passive to active labour market policies. They trace this influence through mechanisms of mutual learning through the peer review programme. With regard to reforming national welfare and employment systems, also the Open Method of

Coordination at the EU level has contributed to domestic reforms in EU member states through mutual, transnational learning and cognitive and discursive diffusion (Heidenreich & Zeitlin 2009). Not only ALMP ideas seem to be diffused through mutual learning, but ideas regarding ALMG as well. Weishaupt (2010) points out that the governance of public employment services (PESs) has been fundamentally transformed due to the introduction of New Public Management ideas. He traces the development of these ideas through diffusion processes emanating from the Organization of Economic Cooperation and Development and then internalized by critical epistemic communities such as the network of the heads of PESs and the World Association of PESs. Weishaupt concludes that through the acceptance, diffusion and internalization of new management ideas, common governance practices, including performance, quality and case management, have been widely adopted in Europe. Common NPM practices in ALMG are also observed in the context of the European employment strategy and “Europe 2020” program (van Berkel, de Graaf & Sirovátka 2012). Also the creation of integrated jobcentres, one-stop employment offices, mergers of employment and national insurance administration and other forms of inter-agency collaboration in ALMG are derived from ‘post-NPM’ ideas of joined up and whole of government approaches (Christensen & Læg Reid 2013), spreading through international policy diffusion (Torfing & Sørensen 2014).

Yet these ideas cannot explain which actors are involved in ALMG and why. The state can deploy NPM instruments such as performance measurement as the Dutch case shows (chapter 4). Or the social partners can manage the implementation of new ideas around inter-agency collaboration as the Austrian case shows (chapter 3). The large variation of ALMG arrangements across Europe also conflicts with the ‘persistent recommendation’ of the EU to involve social partners in ALMG (Damgaard & Torfing 2010: 249). The European Commission has emphasized an increased role of the social partners in implementing the labour market objectives of the Europe 2020 strategy (seminar on implementing the Europe 2020 strategy, 19-21 May 2011). There is also a broad and shared consensus among the Ministers for Employment and Social Affairs of the EU member states that social partners should play an important role in European employment policy to help implement necessary labour market reforms (Informal Meeting of Ministers for Employment and Social Affairs, 12-13 July 2012). The exclusion of social partners from ALMG in many countries is at odds with these EU ideas and discourses.

Institutions, path dependency and change

The final body of literature emphasizes the role of existing institutional repertoires of countries in explaining trajectories of change. The first explanatory mechanism is path-dependent lock in. Choices of decision makers are embedded in historically developed institutional arrangements that shape available policy options (Thelen 2004). Institutions constrain choice because they generate increasing returns to power. Institutional ‘founding fathers’ can shape institutions in such a way that it enhances the power position of a particular

group even further and thereby prevent radical dismantlement. Existing institutions also constrain choice because they generate 'policy feedbacks' that 'lock-in' a particular path course of action, because they increase the cost of adopting alternative policy options (Pierson 1993; Mahoney 2000). These costs may entail negative electoral feedbacks when the mass public feels affected, something not very likely however in the case of ALMG reforms that are highly technical and may not generate large public outcry. Other feedback effects are the creation of administrative capacities of government elites who have learned to deal with the existing mode of regulation and the creation of entrenched networks and organizing niches for organized interests (Pierson 1993). Following this explanation, ALMG reform should not change fundamentally and countries are expected to follow their existing institutional practice in the reproduction of ALMG. However, as noted above, ALMG reform follows a path-diverging logic in many countries and the reforms quite radically differ from the institutional arrangements of the past. Path-dependent mechanisms of increasing returns and feedback effects are thus unable to explain ALMG reform patterns.

The second explanatory mechanism emphasizes change instead of continuity in institutional reform. There are two varieties. On the one hand, scholars argue that change is driven by 'critical junctures' (Capoccia & Keleman 2007). Such critical junctures involves major external events such as an economic crisis or overhaul of the political system. In this context the existing constellation of rules and interests of stakeholders is more malleable and receptive for change. A critical juncture provides a 'window of opportunity' to make radical changes in the current system (Kingdon 1995). Indeed, since the offset of the economic crisis, Public Employment Services (PESs) have been repositioned in various ways such as expanding existing job-matching services, the introduction of intermediation services or labour market programmes, the implementation of mobile services (services delivered on-site at an enterprise), strengthened partnerships with private employment agencies, mergers with other government bodies such as benefit administration, enhanced coordination between PESs and changing organisational structures such as new models for public-private partnerships, innovative models for contracting-out of services and re-deployed human resources (ILO 2009; HoPES 2013; OECD 2012). Yet, these reforms, as with the NPM reforms discussed above, only marginally affect the distribution of responsibilities between state, social partners and market involved in ALMG. Critical junctures thus may explain *when* change in ALMG occurs, but not *how* in distributional terms, i.e. the actors involved. For instance, in Ireland following the economic crisis the state took a more central role in ALMG whereas in the Netherlands the social partners were brought back in. In many other countries the distribution of responsibilities between stakeholders in ALMG did not change fundamentally during the crisis (ILO 2009). The crisis as critical juncture may have changed the instruments deployed in ALMG to cope with the effects of the crisis, but did not affect the choice about which actors to equip with which tasks and responsibilities.

A second strand of scholarship that emphasises institutional change rather than stability is found in theories of gradual institutional change (Streeck & Thelen 2005). Rather than exogenous, change is driven endogenous by incremental processes (Streeck & Thelen 2005)

occurring not as a punctuated breakdown of the existing system but evolving gradually over time that add up to major historical discontinuities. For instance, Thelen (2004) shows that the German system of vocational education and training was initially geared against the Social Democratic labour movement. 100 years later the system functions in the opposite direction; as a pillar of organized labour, facilitating negotiated social partnership with business interests. The current system, Thelen argues, is not the outcome of a sudden shift in governance at a critical juncture, but rather the result of a process of incremental transformation through conversion. Hacker (2004) shows that change in the U.S healthcare system is the result of non-decisions as policymakers deliberately declined to close emerging gaps in coverage. This 'drift' did not just happened as a reaction to exogenous events, but occurred from the inside of the political system. While some transformations of ALMG may indeed be the result of incremental change over a long period of time, many are not. In the Netherlands, after a period of relative stability, ALMG changed quite radically in a short period of time (see chapter 3). In Sweden, labour organizations gained a prominent role in the governance of the labour market, especially when it came to active labour market policies (Lindvall & Sebering 2005). Yet, a swift and dramatic institutional change occurred in the early 1990s when the government excluded the unions from the governing boards of almost all government agencies, including the National Labour Market Board (Anthonsen et al. 2011). In Denmark, after decades of social partnership in the governance of the labour market, the government proposed in 2004 to dismantle the corporatist regulated national employment service. The unions opposed strongly because corporatist procedures provided them strong political control over labour market policy and regulation. Without any further warnings, however, the right-wing government completed its original plans for the national employment service and radically dismantled the corporatist national employment service in 2008 (see also chapter 2). These examples show that reform in distributive ALMG occurred in some contexts quite radically, something that cannot be explained by processes of incremental and gradual institutional change.

Given the discussion above, the key (theoretical) puzzle of part I of this dissertation is how to account for the *divergence* in distributive ALMG reform trajectories (something that cannot be explained by socio-economic adaptation, ideas and discourses and critical junctures) that in some instances occurred quite radically (something that is at odds with theories of path-dependency and gradual institutional change).

Chapter 2

The Partisan Politics of Welfare Governance Reform

This chapter is a minor revision of an article published as Klitgaard, M.B., Schumacher, G. & Soentken, M. (2015), The partisan politics of institutional welfare reform, *European Journal of Public Policy*, 22, 7: 948-966.

Abstract

We propose theoretically that the government partisan effect on welfare governance reforms is significantly stronger than on welfare policy reforms. Policy reforms impose losses or gains on electoral sub-constituencies and therefore are driven by an electoral logic. Governance reforms redistribute institutional power resources between political actors, but are inconsequential for voters in the short run. Without clear electoral repercussions, partisan governments are relatively free to seek long term policy goals through governance re-arrangements. We evaluate these propositions in a cross-country comparative analysis of all major labour market policy and governance reforms in Sweden, Denmark, Spain and the Netherlands in the period between 1982 and 2011. We find the expected pattern of especially strong partisan effects in welfare governance reforms.

2.1 Introduction

When and how do political parties matter for welfare reform (Häusermann, Picot, & Geering 2013; Schmidt 1996)? We shed light on this by applying a theoretical distinction between *policy* and *governance reforms*, and argue that partisanship have especially strong implications for welfare governance reform. Governance reforms alter decision-making authority over welfare programs or their administration (Moe 1990). They have little immediate impact on the voters' welfare but re-allocate power resources that may be used to shape the welfare state in the long term. Political parties have in consequence strong policy-seeking motivations in specific governance arrangements, and we expect such reforms to follow a strong partisan logic. Policy reforms alter on the other hand the generosity of social policy directly by changing the level of benefits or the eligibility criteria of welfare programs (Christiansen et al. 2004: 27-28; Elmelund-Præstekær & Klitgaard 2012). They often affect the welfare of voters immediately and are characterized by high degrees of saliency. In effect they are driven more by a median voter than a partisan logic.

We elaborate this proposition theoretically and formulate hypotheses about how governance reforms by left-wing, liberal or Christian-democratic parties re-distribute political authority over welfare state programs in distinct fashions. Our hypotheses are tested by means of quantitative and qualitative analysis of data from 78 significant reforms in Sweden, Denmark, the Netherlands and Spain executed in the period between 1982 and 2011. In addition we take a step to assess the suggested causal argument in a comparative case study of Danish and Spanish reforms. We demonstrate that distinguishing between types of reforms is important to understand when government partisanship makes a difference in contemporary welfare state politics, and reveals further that the politics of welfare governance reform largely continues to be determined in conflicts evolving along the traditional socio-economic cleavage.

2.2 The electoral logic of policy reforms

Policy reform – changes in benefit level and eligibility criteria of welfare programs – is the main dependent variable of quantitative welfare state research. There is an ongoing debate whether parties matter for policy reforms. Particularly, in a context characterized by fiscal strain it is difficult for parties to transmit policy preferences into policy outcomes (Pierson 2001). Economic hardship since the 1970s limits further welfare state expansion and even forced left-wing governments to execute austerity measures (Huber & Stephens 2001: 221; Kwon & Pontusson 2010). At the same time it was argued that due to welfare state popularity cutting back on welfare programs is electorally damaging (Pierson 1994). With the left being constrained by fiscal scarcity and the right by entrenched interests and welfare state popularity, the politics of welfare reforms was predicted beyond partisanship.

But empirical research continued to find left-right differences. Some found the counterintuitive effect that left-of-centre parties retrench the most (Ross 2000; Green-Pedersen 2001), while others, by studying net replacement rates from income compensating programs report the more expected finding that ‘major cuts have been significantly lower with left party representation in cabinets’ (Korpi & Palme 2003: 441; see also Allan & Scruggs 2004: 509). Two recent studies test the argument that partisan effects depend on the social risk distribution. Traditional left-right differences are found in programs covering against risks faced especially by groups in the lower social strata, whereas governments cater to the median voter in programs where risks are more equally distributed (Jensen 2012; Klitgaard & Elmelund-Præstekær 2013). Thus, the literature suggests that partisan politics continues to matter for welfare reform. Still, proposing policies of clear partisan design are risky because generally the median voter is in the middle of a left-right distribution. For that reason policy reforms conducted by partisan governments are not likely to differ radically, but are better explained by the economic or political context – which explains median voter shifts to the left or right (Erikson, Mackuen & Stimson 2002) – than by the party in government. In line with the literature we predict

(H1): governments to execute retrenchment policies irrespective of cabinet colour, and retrenchment policies to occur most frequently under right-wing incumbency.

2.3 The partisan logic of welfare governance reforms

The theoretical idea of welfare governance reform is not new. Pierson emphasized in 1994 that welfare states can be changed through the mechanisms of systemic change. We use the concept governance reform. While this may refer to similar reforms as systemic change, the former relates explicitly to concrete changes in the structures of welfare programs, whereas the latter also includes general changes in the broader political economy (Pierson 1994: 15).

The partisanship of welfare governance reform is, however, under-theorized and has not been researched on a comparative basis. Governance reforms shift decision-making authority and affect the power resources of political actors such as parties and interest groups (Christiansen et al. 2004; Elmelund-Præstekær & Klitgaard 2012: 1092; Hacker & Pierson 2010: 172). These are attracted because they provide opportunities to gain long-term control over welfare programs. Illustrating examples of welfare governance reforms are changes in the funding structures to stimulate the growth of private health care arrangements (Jensen 2011); application of specific decision rules in tax policy to curb the financial viability of the welfare state (Klitgaard & Elmelund-Præstekær 2014); outsourcing of welfare provision to private companies; and a reduced role of organized interest groups in decision making (Christiansen & Klitgaard 2010). Policy and governance reform are not always independent. In the decision making process governance benefits may for instance be traded for policy benefits (cf. Clegg & van Wijnbergen 2011). But governments may also explicitly choose to rely on governance

strategies to avoid the electoral spectacle typically associated with policy reforms, and/or circumvent other reform obstacles in the political system (Hacker 2004).

We propose that the partisan composition of governments strongly affect the content of governance reform. The argument is that governments engage ultimately in governance reform to achieve particular policy goals, and governance reform redistributes office benefits such as authority to change public policy in a preferred direction. They do not affect welfare generosity immediately, and are unlikely to win votes or generate public outcry. Thus, with little to win and little to lose electorally, governments are free to pursue other goals and in this case they can maximize authority to determine the future course of policy (cf. Müller & Strøm, 1999).² This is a consequence of the ‘quiet politics’ characteristics of governance reforms (Culpepper 2011: 4), drawing attention mainly from an exclusive group of political elites consisting of party-leaders, government officials and organized interest groups (Hacker & Pierson 2010: 172).

Interest groups are extremely important players in this domain (Culpepper 2011), but governance reforms also provoke partisan politics. Parties and governments are strongly aware that governance control provides weapons of coercion by which political winners have the capability to pursue long-term policy interests (Knight 1992; Moe 1990). If, for instance, the government boosts the power of an interest group with whom it shares policy preferences, it has institutionalized these interests which may bias the long term policy course, and also build in a shield of protection of these policies against the power holders of tomorrow (Moe 1990). In short, welfare governance reforms are largely decided out of the view of the voters. This leaves partisan governments with large degrees of freedom to pursue their ideal preferences and follow therefore a distinct partisan logic.³ We expect that in the quiet politics of governance reform

(H2): governments of different ideological bending produce distinct governance reforms.

But how does this play out? Left-wing parties traditionally seek to control the state apparatus to influence the policies desired by their constituencies in the lower income brackets (Esping-Andersen 1978). But this may be moderated by the relationship between left-wing parties and organized labour (Allern et al. 2007; Cameron 1984; Katzenstein 1985; Korpi 1981). By empowering organized labour in for example corporatist arrangements, the left protects its policies on the long term (Moe 1990: 227). Even though labour unions have lost ground, policy alignment between for example the centre-left and unions continue today (Klitgaard &

² One of the institutional reforms included to our dataset had for example significant effects on the strength of Danish unions and, in consequence, Danish labour market policy in the 2000s (Klitgaard & Nørgaard 2013).

³ We may find prominent examples of non-salient policy reforms and salient institutional reforms. Non-salient policy reforms may be found in areas such as cultural issues, defense policy, and third world development policies (Mortensen 2010). Salient institutional reforms may be found within the realm of welfare policy. Shutting down service providing units within health-care and education policy is likely to generate outcries from affected groups – even if the service production is taken over by other units.

Nørgaard 2014; Simoni 2013). Corporatist organized decision making bodies are of course based on equal representation of societal interests why labour power nominally is balanced by organized business. Still, corporatist institutions are controllable by resources of mobilization and capabilities of collective action on which labour normally thrives (Cameron 1978: 1257; Korpi & Palme 2003; Przeworski 1985). We expect

(H3): left wing governments to prefer corporatist governance solutions if the party-union linkage is strong and state solutions if party-union linkage is weak.

Liberal parties are committed to minimize the state, to individualize risks and to promote market solutions based on the principle of competition (Esping-Andersen 1999). Their relationship with business and employer organizations was never as strong as the Social Democratic – union nexus. However, they share preferences for similar governance designs with business and large corporations and reject typically state solutions and corporatist arrangements. Instead they seek governance reforms that bring about quasi-market arrangements and decentralization to accommodate the long-term governance preferences of for example business organizations (Crepaz 1998). As a consequence we expect

(H4): governments dominated by liberal parties to prefer governance arrangements based on market or quasi-market principles.

Christian Democratic parties seek welfare governance arrangements based on self-governance, strong civil society organizations, and the principle of subsidiarity. Christian Democratic parties have historically developed and maintained relationships with (Christian) unions to foster cooperation and resolve conflicts between various segments from society (Armingeon 2002). The correlation between electoral success of Christian Democratic parties and corporatism in for example Germany, Austria and the Netherlands illustrates this policy preference. Hence, for governance reforms we expect

(H5): governments dominated by Christian Democratic parties to prefer corporatist governance arrangements.

2.4 Empirical design

We test our hypotheses on a sample of welfare state reforms selected from the labour market policy domain. In practice we study all significant labour market reforms executed in Sweden, Denmark, Spain and Netherlands between 1982 and 2011. There are two advantages of focusing exclusively on labour market related reforms. First, reforms – policy and governance – are frequent in this domain, which gives us an acceptable amount of observations and data points, while domain specific dynamics can be kept constant. Second, it may in theory be difficult for governments to leave their imprint on governance reforms in this domain because labour market policy is vulnerable to the power of well-organized interest groups. Indeed,

aspects of labour market governance reforms may be classified as pure instances of interest group politics with little room for government partisanship (Wilson 1980). Hence, to the extent we observe strong partisan effects here, the theory have passed a strong test.

Reforms were selected from Sweden, Denmark, Spain and the Netherlands which enables us to create the required variation on the central independent variables; government partisan composition; the strength and character of party-union linkage; and type of reform. Table 1 demonstrates the variation in government colour during the period, ranging from the left to the right with centre-left and centre-right governments in between. Swedish and Danish governments are minority coalitions, in Spain we have single party majorities, while Dutch governments are majority coalitions. The country selection therefore enables a test of the argument across varying electoral institutions on which partisan effects previously are shown to depend (Blais et al. 1993; Jensen & Mortensen 2014; Schmidt 1996). Minority coalition governments should experience strong difficulties in producing desired outcomes compared to majority coalitions and especially one-party majority governments. The observation of similar trends across such different institutional terrains is therefore a strong indication that partisanship matters generally.

Table 2.1 Government composition and party-union linkage

	Government	Party-union linkage
Sweden	1982-1991: Left 1991-1994: Centre-right 1994-2006: Left 2006-2010: Centre-right	Very Strong
Denmark	1982-1993: Centre-right 1993-2001: Centre-left 2001-2010: Right	Strong
Spain	1982-1996: Left 1996-2004: Right 2004-2011: Left	Weak
Netherlands	1982-1989: Centre-right 1989-1994: Centre-left 1994-2002: Left-Right 2002-2006: Centre-right 2006-2010: Centre-Left	Very Weak

The linkage between the left and organized labour is strong in Sweden and Denmark, where national trade union confederations coordinates policy stances of the unions enabling them to

face governments as a unitary actor. Party-union linkages have weakened in both countries since the 1980s, but Swedish Social Democrats have retained organizational affiliation with the unions while such ties no longer exist in Denmark (Allern et al. 2007: 616). Moreover, decentralization of wage bargaining and competition from non-partisan unions has weakened the cohesion of Danish unions since the 1990s. Spanish unions are weak, but different than the Netherlands, they are cohesive ideologically. In terms of party-union linkage, the general union of workers UGT was historically affiliated with the labour party PSOE, but the policy influence of the UGT on PSOE dissolved gradually during the 1980s. Dutch unions are very weak. In terms of cohesiveness the Dutch unions are ideologically segmented along the political and religious cleavages that characterized the Dutch society up to the second half of the 1960s (Lijphart 1975). The fragmentation of the labour movement impedes a strong relationship between the labour party and the unions (Hyman & Gornick 2010) and enables the Christian Democrats to pursue a corporatist strategy, because the left has limited capacity to dominate politics.

Party-union linkages, and party-interest group relations in general, have changed since the early 1980s. However, the drift toward less institutionalized relationships can be observed across West European democracies generally (Allern & Bale 2012). Cross-country differences are thus as relevant today as in the beginning of the 1980s. In Sweden and Denmark we therefore expect that the Left strongly favours governance reforms to the benefit of unions. We expect this to be less so in Spain and in particular the Netherlands. In addition, by its distinctive cross-confessional and cross-class appeal (Kalyvas & van Kersbergen 2010) we expect that the Dutch Christian Democratic Party benefit the unions in governance reforms through broad corporatist arrangements, also including business interests.

Researching the dependent variable

For the analysis we compiled a dataset consisting of 78 reforms of which 47 are coded as policy reforms and 31 as governance reforms⁴. Reforms were selected by surveying five key texts on labour market reforms in the four countries since the early 1980s⁵. Our initial selection was sent to experts on welfare reform in the respective countries for cross-validation and adjustments. Distinguishing between policy and governance reform is not easily done as reforms are often enacted as packages including changes in the content *and* structure of the program. On basis of a reading of the literature we coded the different parts of reform packages, implying that some reforms are coded both as a policy and governance reform. Because we developed a method to analyse particularly governance reforms and compare them with policy reforms, our analysis of government partisanship in policy reform is admittedly not as advanced as what can be found in other contributions. But we find it crucial

⁴ An overview of the reforms and coding we applied can be found in the supplement of the article online <http://www.tandfonline.com/doi/abs/10.1080/13501763.2014.978355>, or available upon request.

⁵ See also the supplement of the article online or available upon request.

to compare the two types of reforms in order to discover and possibly highlight the proposed distinctiveness of governance reforms.

For each policy reform we coded whether it imposed losses or gains of *policy benefits* for one or more groups of recipients. Examples of losses in policy benefits are: direct reduction in compensation rate, stricter eligibility rules and shorter benefit periods⁶. For governance reforms we coded who gained or lost *governance benefits* in the form of political authority. Authority may be placed either in corporatist bodies, it may be delegated to market oriented arrangements, or be brought under the purview of public agencies. If a reform delegate decision making authority away from public agencies to corporatist bodies, corporatist actors have gained governance benefits and the state has lost. And if, for example, public service provision becomes exposed to outsourcing and competition from private actors, this is interpreted as a gain for the market⁷.

The data are analysed in three steps. In the *first* step we perform a statistical test of the theory, and confront it with plausible alternatives. For this purpose we use country year as the unit of analysis. We have four countries and a time frame covering 1982-2011, and thus 120 observations with some missing variables on the covariates. For the statistical analysis we developed four dependent variables: gains/losses in policy reforms, gains/losses in governance reforms inflicted on unions, gains/losses in governance reforms inflicted on the state and gains/losses in governance reforms inflicted on the market. This was done by counting the gains and losses in each domain for each year and then subtracting the gains from the losses. To facilitate interpretation we recoded the three cases in which values were larger than 1 or -1 to respectively 1 and -1. Thus, for all four dependent variables, a 0 reflects no change, or reforms that cancel each other out, a -1 reflects a loss and a 1 reflects a gain. Our key independent variable is government composition and we distinguish between 1) left, 2) left/right and 3) right. In our analysis of how governance reforms affect unions we also include (4) Christian-democratic cabinets. We do not further distinguish between cabinets because of a low number of observations and because we do not specify hypotheses about them.

The alternative explanations we control for are union strength and the economic climate. Union strength is a relevant control variable in labour market policy where strong unions may determines the course of government decisions. If we find a strong significant effect of this variable it would indicate that governance reforms are driven more by interest group politics than government partisanship (cf. Culpepper 2011). Strong party-union linkages may influence the content of governance reform but the independent strength of unions may leave

⁶ In some cases a loss is compensated with a gain, hence a reform may be coded as both a gain and a loss.

⁷ A specific governance example is the decision of the 2008 right-wing government in Denmark to dismantle the corporatist regulated national employment service and transfer the administrative control over labour market policy to public agencies. Labour unions and employer organizations lost as a consequence their positions in the decisive Danish labour market agencies, and experienced a serious drain of governance benefits. This reform appears in the dataset as a governance reform.

government partisanship as irrelevant. The economic climate is previously demonstrated to affect the government choice of either policy or governance reform. Under economic hardship governments may, independent of partisan composition, rely more on policy reforms due to their immediate economic effects (Elmelund-Præstekær & Klitgaard 2012). We use four variables to cover for this. First, we take centralization and union density scores (Visser 2013). Centralization combines measures of a union authority index and union concentration at various levels (Visser 1990; Iversen 1999). Union density is the net union membership as a proportion of wage and salary earners in employment. Second, we use World Bank measures of annual GDP growth and annual unemployment rates. These are generally used measures to evaluate a country's economic performance.

In the *second* step we research qualitatively how policy and governance benefits are redistributed in detail on voters, or groups thereof, corporatist actors, public agencies, or the market. Besides from analysing the aggregate pattern we zoom in on the country level and examine the hypothesized governance preferences of distinct political parties. *Third* and finally we take a step to inspect the causality of the argument in a comparative case study. We compare a governance reform undertaken by the Danish centre-left government in the period 1998-1999 with a governance reform by the Spanish government of the Left 1993-1996. Comparing a reform executed by a weak minority coalition government in Denmark with one produced by a single-party majority government in Spain also evaluates the confounder that partisanship in the politics of reforms depends strongly on electoral institutions and government strength.

2.5 Partisan effects on policy and governance reforms: statistical analysis

Our dependent variables are categorical. One could say that the three categories are ordered – retrenchment, stability, expansion – but it is common place to argue that retrenchment and expansion are driven by distinct logics. The dependent variables are therefore treated as multinomial data. Our observations are clustered within years and countries, and there is a potential for correlation between observations within a country and between countries. A common solution to this problem is to adopt a time-series cross-sectional setup, but to our knowledge there is no statistical package implementing a TSCS multinomial model. For that reason we run an ordinary multinomial regression, but control for country differences by clustering the standard errors by country. We also tried out a model with a lagged dependent variable. This variable was insignificant suggesting that serial correlation within a country is not a big issue.⁸

⁸ Our results hold against various alternative specifications which are available upon request.

Table 2.2 Estimates from multinomial regressions of policy and governance reforms

	Model 1 Policy reforms	Model 2 Inst. Corporatism	Model 3 Inst. Market	Model 4: Inst. State
Outcome = Loss				
Government (ref=left)				
Left-Right	-1.49* (.340)	3.51* (.813)		3.80* (1.60)
Right	.446 (.428)	1.18* (.239)		-.296 (1.17)
Christian-Dem.		-15.92* (.846)		
Union density	-.016* (.002)	-.007 (.013)		.036* (.017)
Union centralization	1.57 (3.15)	-11.06* (3.35)		-2.32 (7.07)
Unemployment	-.079 (.086)	-.166 (.037)		.194 (.204)
GDP Growth	.027 (.108)	-.413* (.122)		-.170* (.044)
Outcome = Gain				
Gov (ref=left)				
Left-Right	-15.73* (1.20)	-18.86* (1.12)	6.71* (1.54)	3.61* (.262)
Right	-1.28 (1.42)	-18.21* (.799)	1.50* (.388)	-.297 (.590)
Christian Dem.		-2.065* (.946)		
Union density	-.037* (.015)	-.013 (.009)	.010 (.013)	.009 (.010)
Union centralization	-8.02* (3.85)	-5.11 (9.22)	-23.58* (8.92)	-19.14* (5.82)
Unemployment	-.224* (.070)	-.126 (.108)	-.048 (.08)	-.243* (.108)
GDP Growth	-.184 (.14)	-.139 (.143)	-.502* (.304)	-.230* (.099)
N	110	110	110	110
Pseudo R2	.07	.29	.25	.16
Log likelihood	-68.58	-57.61	-28.31	-52.53

* p <.05, + p<.1

Model 1 analyses the losses and gains inflicted by policy reforms. Because we used multinomial regression, the output compares the effect of the estimate of losses and gains against a base category, which is 0 – status quo. In model 1 we find two estimates for the effect of left-right compared to left cabinet, respectively -1.49 for losses and -15.73 gains. These

estimates mean that in comparison to left cabinets, left-right cabinets impose fewer losses and fewer gains. In other words, in comparison to left cabinets, the two left-right cabinets in our sample (the Dutch Purple cabinets) are more likely to stick to the status quo. This is not because these cabinets do not undertake reforms, this is because – as one might expect from a left-right cabinet – in almost every year these cabinets implemented both policy gains and policy losses. Consistent with H1, model 1 demonstrates that there is no significant difference between the left and the right concerning policy reforms. The signs of the right government variable are positive in case of losses and negative in the case of gains. Hence, the finding from our analysis of policy reforms – admittedly less advanced compared to other studies – is consistent with the general literature: The right does cut more than it expands but the difference is not statistically significant. Furthermore our model suggests that GDP growth is negatively associated with gains. This means that the higher GDP growth the more likely it is that a government chooses the status quo over policy gains.

Models 2-4 analyse specifically governance reforms with respectively losses and gains for corporatist actors unions, markets and the state. We have no observations in our sample of losses imposed on the market. Therefore the top part of model 3 is empty. In contrast to the policy reforms, we find significant differences between the left and the right in most cases. To sum up, in comparison to the left the right imposes more losses and is less likely to reward gains to corporatist actors. The right is more likely to reward gains to the market. The left and right are equally likely to impose losses or gains on the state. Christian-democrats are less likely than the left to impose gains and losses on corporatist actors. We find, in conclusion, evidence for H2, claiming that partisanship matters strongly for governance reforms. Also, we find that the right prefers market arrangements (H4), Christian-democrats and the left to prefer corporatist arrangements (H3 and H5). For our covariates we find that union centralization is negatively associated with rewarding gains in all three types of governance reform. Unions may operate as a veto point and the stronger they are the stronger the status quo bias. High unemployment is associated with reforms that reward authority to the market and lower unemployment is associated with increases in benefits through policy reforms, reflecting the higher demand for benefits under high unemployment. In sum, we find evidence for our main hypotheses, while controlling for alternative explanations.

2.6 Partisan effects on policy and governance reforms: qualitative analysis

Table 3 presents our findings from the analysis on the 78 reforms in more detail. In each cell we report the difference between the number of times we code a gain or a loss. Hence, for our 47 policy reforms we found that the left imposed 15 losses and 8 gains, against 21 policy losses and 6 policy gains for the right. By subtracting this we get -7 for the left and -15 for the right. In total, and consistent with H1 and the general literature, both the left and the right engage in retrenchment, but the right does so more often than the left. Governance reforms are, as predicted by H2, driven strongly by partisan politics. For instance, governance reforms of the

left strengthen corporatism whereas this feature is weakened by the right. Also, governance reforms of the right benefit the market.

Table 2.3 **Distributional profile of policy and governance reforms**

	Policy Reforms	Governance Reforms		
	Gains-Losses	Gains-Losses		
		<i>Corporatism</i>	<i>Market</i>	<i>State</i>
Left (total)	-7	9	2	1
Sweden	-2	2	0	0
Denmark	-3	2	0	0
Spain	-1	4	2	0
NL (+CD)	-1	1	0	1
Right (total)	-15	-12	6	3
Sweden	-3	-5	2	1
Denmark	-5	-3	2	2
Spain	0	-3	2	0
NL (+CD)	-7	-1	0	0
NL (Left-Right)*	-1	-5	4	3

*Not included in the totals

In *Sweden* the left-wing and right-wing governments are similarly inclined to retrenchment in policy reforms, but produce different governance solutions. The left strengthen corporatism while the right consistently attacks corporatism to delegate power away from unions (-5) – mainly to the advantage of the market (2). Corporatism was weakened in one instance under the left but received gains in three out of four governance reforms executed by the left. The right imposed governance losses on corporatist actors while advantaging the market and the state. Market gains are consistent with H4, but gains to the state under right-wing governments are not. Our interpretation is that even if the long term preference of the right is to strengthen the market at the expense of corporatist institutions, state solutions may be used by the right to weaken corporatism institutionally.

In *Denmark* the left and right similarly impose losses in their policy reforms. Again, such losses occur more often under the right. As predicted in H2 they differ markedly in their distribution of governance gains and losses on corporatist structures. As in *Sweden* it may surprise that the right not only strengthened market-actors institutionally but also the state. The two times it happened (2004 and 2008) the intention was to dismantle the corporatist regulated national employment service and transfer administrative tasks to public agencies (Christiansen & Klitgaard 2010). When the right seeks to weaken corporatism and the unions it uses a state solution as an intermediate solution compared to a full-fledged market solution.

In *Spain* governments of the left and right impose almost an equal number of policy losses, but we also observe the left to retrench more often than the right. In contrast to the other

countries both left and right governments conducted a fairly high number of reforms that distributed policy gains. The reason may be that Spain as a welfare state laggard experienced a pressure also to expand welfare policies. Hence, policy reforms in Spain do not bear partisan imprints. Due to the relatively strong union cohesion we expect the PSOE to strengthen corporatism, but because of the weak party-union linkage we also expect the PSOE to seek state solutions. The left granted indeed corporatist institutions with more gains but contrary to our expectations, the left also distributed governance benefits to the market instead of the state. Rigid state monopolies inherited from the Franco regime, may have forced the left to accept more market-oriented measures. The right did impose more losses on corporatism than the left and did not grant such institutions any benefits.

In the *Netherlands*, the centre-right imposed more policy losses than centre-left and left-right coalitions. But the left does more often enact retrenchment than expansion measures, and the right – in the left-right or purple coalitions – also enacts expansionary measures. In matters of governance reforms the results are consistent with hypothesis 5. Corporatism gained strength only under the Christian Democrats-Labour coalition from 1989-1994. Under the Left-Right coalition between 1994 and 2002 the unions suffered governance losses to the benefit of both the state and market reflecting the governance preferences of a government composed by the liberal party and social democrats. This pattern is consistent with hypotheses 2 and 4.

The politics of governance reform in Denmark and Spain

So far our findings are largely consistent with the theoretical expectations, and we proceed to the case studies of governance reforms undertaken by left governments in Denmark and Spain operating in highly different contexts. Electoral rules produce weak minority coalition governments in Denmark and much stronger single party majority governments in Spain. Case study methodology is well suited to analyse suggested causal mechanisms, and the observation of similar signs of partisanship across these two countries exacerbates the findings from the previous analysis.

The Social Democratic led minority coalition government that came to power in Denmark in 1993 and stayed in office until 2001, initiated in 1999 a governance reform of the administration and funding of the plethora of Danish labour market educations. The reform consisted of a merger of programs for labour market training and a change of the principles of funding labour market educations (Ministry of Finance 1999). Funding had previously relied on yearly negotiated grants from the public budget. With the reform the Social Democratic minister of labour proposed to establish a board for financial funding within the ministry of labour with a fixed budget. The board would be corporatist organized and composed by employer and employee representatives and it reinforced, consequently, the power of corporatist actors in decision making about the type of education programs that should receive financial support. Furthermore, if the new board could obtain consensus they could decide to impose the costs associated with certain

educational activities on employers and companies supposed to benefit from them. In effect, and consistent with our argument, a Social Democratic led government in Denmark enacted a reform that strengthened corporatism and thus union influence on the flow of financial resources within this area. The minority coalition government achieved parliamentary support for the reform from the Socialist People's party and the far left Red-Green party, whereas the parties to the right strongly opposed. This indicates the strong partisan conflicts associated with governance reforms.

After the transition to democracy in 1975 in Spain, the Social Democratic party PSOE kept the administration of unemployment benefits, vocational training and employment services within the hands of the state with the institutionalization of the National Institute of Employment (Instituto Nacional de Empleo INEM). Considering the weak party linkages with the trade union movement in the 1980s this outcome is consistent with H4. However, in the labour market reform of 1993-4 the Social Democratic government decided upon a governance reform of the INEM consisting of two parts. First, employers and trade unions were dissatisfied with INEM's performance as being overly bureaucratic, irresponsive to local needs and ineffective in matching supply and demand on the labour market (Ruiz Álvarez, 1993 as cited in Cano & Iglesias, 2008). They pushed consequently for stronger involvement in the administration of welfare and labour market policies (Oliet Palá, 2004). In effect, PSOE legalized non-state organizations in the delivery of employment services such as non-profit private placement agencies and temporary employment agencies. While this measure clearly is market oriented, it also opened up for the involvement of corporatist actors that are strongly represented at the regional and local level (Mailand & Andersen, 2001). The breaking of the state monopoly of the INEM satisfied a union demand that had been made since 1980 (EIRO, 1997). Second, the training facilities of INEM were reallocated to a separate institution FORCEM (Fundación para la Formación Continua, Foundation for Continuing Training) jointly managed by the social partners and thus a corporatist institution. This reform granted a major governance benefit to the unions, since their involvement in continuous training was historically denied to them (Lucio, et al., 2007), and it was conducted in a period during which official contacts between the PSOE and trade union movement intensified (Hamann 1998: 433). Thus, while the PSOE government clearly clashed with unions in policy reform it produced union desired governance arrangements in the realm of "quiet politics".

2.7 Conclusion and discussion

Our empirical analysis indicates that governments independent of partisan composition retrench. Although retrenchment occurs more often under right wing incumbency. At the same time, however, partisan governments produce markedly different governance reforms. We find solid evidence for the claim that partisan governments seek long-term policy goals by altering the distribution of power resources among political elites in the subtle processes of

'quiet politics'. This is the main results from our analysis of nearly 80 significant labour market-*cum*-welfare reforms across four countries and three decades. It is particularly interesting to notice how left wing governments in Denmark and Spain, operating under different electoral rules, both produced welfare governance reforms with strong partisan imprints. This is not a claim that institutional features of the political system are irrelevant, but by engineering coalitions for the purpose even weak minority governments can pursue partisan preferences in the branch of 'quiet politics'. Opposition parties and hostile interest groups may disagree with the government, but their opportunities to mobilize electoral resistance against governance reform are limited.

Culpepper (2011) argues that the quiet politics is driven mainly by interest groups. Interest groups are indeed significant players in labour market governance reform. We add to this that also political parties pursue governance preferences, and our results are robust when they are checked for the independent political strength of labour unions and the economic conditions under which reforms occur. They are furthermore consistent with results from case-studies of other policy domains and relevant beyond the sphere of labour market policy. Others have shown how partisan preferences play a motor role in the enactment of health policy reforms, facilitating processes of privatization (Hacker 2004); in incomes and tax policy with enormous consequences for the distribution of wealth (Hacker & Pierson 2010); and how governments of the right deploy tax policy strategies, more or less efficiently, to undercut the long term financial viability of the welfare state (Klitgaard & Elmelund-Præstekær 2014; Romer & Romer 2009).

Our results, in combination with Culpepper's findings, lead us to point out an, important avenue for further research. The interaction between political parties and interest groups in the formation of governance preferences should be researched closer. Specialists in party-interest group relationships have only begun to examine this question (Allern & Bale 2012). We found strong empirical evidence for partisan effects independent of union strength. Unions have lost ground and the weakened reform alliance between Social Democratic parties and organized labour enabled the enactment of reforms in labour market policy and pension schemes against the preferences of unions (Häusermann 2010; Klitgaard & Nørgaard 2013). In governance reform parties of the left remain, however, keen to grant unions governance benefits. We were not able to identify any systematic difference between Sweden and Denmark on this aspect, even though Swedish Social Democrats and unions retained formal organizational connections. Substantial differences may though be revealed if we research policy-making processes in more detail, and seek to disentangle the processes of preference formation. We saw in the Spanish case study how intensified contacts between the PSOE and the labour movement influenced governance reform. Further research may benefit from focusing on the extent to which partisan governments are influenced by interest groups during this process, and whether interest groups that may have lost ground in policy reform still stand on solid rocks and are closely aligned with specific parties in the politics of governance reform.

Our analysis is an indication that this may very well be the case, which is also remarkable from a different angle. For more than a couple of decades social scientists from different

branches have predicted the decline of class politics and stressed the increased importance of alternative cleavages. Modern democratic politics is argued to be structured along the socio-cultural or post-industrial rather than the socio-economic line of divide. From this perspective it is a striking observation that under the surface, in the subtle processes of governance reform hidden away from the general public, partisan governments promote the interests of special groups that diverge along the socio-economic cleavage in a fairly well-known fashion.

Chapter 3

When Social Partners Unite. Explaining Continuity and Change in Austrian and Dutch Labour Market Governance

This chapter is a minor revision of an article published as Soentken, M. & Weishaupt, J. (2015), When social partners unite. Explaining continuity and change in Austrian and Dutch labour market governance, *Social Policy & Administration*, 49, 5: 593-611.

Abstract

Why do Austria and the Netherlands, two highly corporatist, coordinated, consensual countries diverge with respect to the involvement of social partners in their Public Employment Service (PES)? By comparing and contrasting the competing predictions of the power-resource, employer-centred and social partnership approaches, we identify a key omitted variable that can explain the observed variations: the ability of the social partners to unite on reform positions. We demonstrate that when the social partners are *divided*, their collective power is reduced and partisan-based policy outcomes become more pronounced. In turn, when the social partners *jointly* favour a particular outcome, their collective power increases and they can override governmental reform plans, even if the government holds a large legislative majority. These findings highlight the causal importance of power relations *between* and *within* the social partners for institutional continuity and change.

3.1 Introduction

This study is motivated by an empirical puzzle: Austria and the Netherlands, two small, highly corporatist countries (Hemerijck, et al. 2000) with coordinated market economies (Hall and Soskice 2001) and consensual democracies (Lijphart 1999) introduced new Public Employment Services (PES) in the 1990s, in which the social partners became important co-decision makers. Yet, the Austrian tripartite PES flourished over the years to come, surviving two populist, anti-corporatist coalition governments in the early 2000s. The Dutch experiment, by contrast, was short lived, resulting in a complete dismantling of corporatist structures – despite a Social Democratic-led government – in the late 1990s. In recent years, however, rapid political developments during the Great Recession suggest that a tripartite PES is back on the Dutch political agenda. *What explains this diverging and very unlike trajectory in these two small, coordinated, consensual, and corporatist countries?*

This article makes two contributions. Substantively, we provide an in-depth, contextualized discussion of PES changes over a period of 30 years. Thereby, we inform the agenda of those scholars interested in welfare governance and activation (e.g., Clasen & Clegg 2011; Van Berkel *et al.* 2011) since PES fulfil important matching functions in the labour market through the organization of job placement and counselling, occupational skills training and work experience programmes (OECD, 2001). Analytically, we advance the debate in the current literature about institutional change in welfare capitalism and the role of organized interests. More specifically, we juxtapose the predictions of the power resources approach (PRA), highlighting the pinnacle role of trade unions and Social Democratic parties against the predictions of employer-centred approaches (ECA), emphasizing the role of employers as protagonists in welfare advancements in coordinated market economies (CMEs). We complement these approaches with a third perspective that emphasizes the coordination attempts *between* the social partners and the effects of their (failed) joint actions on governments' policy choices. Hence, by comparing and contrasting the competing predictions of the PRA and ECA, we do not seek 'to refute a theory decisively, but rather to identify whether and how the scope conditions of competing theories should be expanded or narrowed' (George & Bennett 2005: 115). More specifically, we argue that when the social partners are *divided*, their collective power is reduced and governments do not seek the consent of both social partners. Instead, reforms are then driven by political parties and their (ideological) agenda, which leaves room for lobbying for *either* the trade unions *or* employers. However, when the social partners *unite*, they can override governmental reform plans, even if the government holds a large legislative majority. We demonstrate the causal significance of this 'social partnership thesis' by revealing correlations over a longer time period in two 'most similar' systems (Mahoney & Rueschemeyer 2003) and connecting the causal mechanisms to the relevant outcomes (Hall 2006: 26).

The evidence put forward in this chapter is based on a thorough analysis of primary data sources, including official policy documents, parliamentary debates and newspaper articles,

semi-structured interviews with key stakeholders⁹, and a review of the existing academic literature. By applying this triangulation of data, we maximize the validity of our empirical claims. The remainder of this chapter is structured as follows: In the first section, we elaborate the main rival approaches and derive competing predictions from each. Subsequently, we test these predictions in the two countries selected, covering a time period of roughly thirty years (1980s-2013). We identify the most important elements in the causal chain and highlight regularities with which we can explain different institutional trajectories in both Austria and the Netherlands. Finally, we discuss our empirical findings in light of the rival theories and point out analytical lessons for future research endeavours.

3.2 Competing explanations about social partner influence on PES reforms

Policymakers engaged in governance reforms of welfare bodies such as PES make critical choices about which actors to equip with which tasks and responsibilities (Van Berkel *et al.* 2011: 4). Thereby, they delimit the discretionary space in delivering social policies as they grant institutional benefits to particular actors, such as the ability to influence the budget, set policy priorities and influence the implementation process. To understand the direction of governance reforms, it is crucial to identify the involved actors' interests, the alliances they form, and the influence they yield on public policy, which can trigger, shape or circumvent reform processes (Mahoney & Thelen 2010). When it concerns labour market issues such as PES reforms, three theoretical approaches can inform us about the type of actors, their preference and their influence on the direction of reforms: the *power resource approach*, the *employer-centred approach* and the literature on *social pacts*.

The power resource approach and the PES as instrument of worker empowerment

The PRA emphasizes distributional class conflicts and the organizational power of the workers' movement – expressed both in the organization of trade unions and the formation of left-wing political parties (Korpi 1983). Following this approach, the central goal of trade

⁹ We conducted a total of 12 semi-structured interviews. We selected the interview partners on the basis of their expertise. In most cases, the interview partners were assigned to us after contacting the respective organization. In order to maximize validity of the claims, we interviewed at least one political representative (ministry and/or PES) as well as the social partners. In Austria, we interviewed three representatives of employer associations (WKÖ and IV), one worker representative (Chamber of Labour), one ministerial civil servant (Ministry for Employment and Social Affairs) and one member of the Austrian PES. In the Netherlands, we interviewed three representatives of employer associations (VNO-NCW, LTO, MKB-Nederland), two worker representatives (CNV and FNV) and one member of the Dutch PES. We selected interviewees that were involved in PES reform processes and negotiations. The Austrian interviews were conducted via phone in October 2010. The Dutch interviews were conducted face-to-face during the summer months of 2013. All errors in interpretation and omissions are, of course, the authors'.

unions and left parties is to ‘decommodify’ workers by protecting them from the vagaries of the market and correcting the imbalance of power between capital and labour. The Left is thus seen as the central agent in consolidating and expanding welfare state provisions (Huber & Stephens 2001). While trade unions historically prioritized the expansion of (un-)employment protection, more recently, they have also become protagonists in advancing those PES policies that can modify outcomes of, and conditions for, distributive processes on markets such as high quality training, job-creation schemes and job counselling (Tepe & Vanhuyse 2013). Hence, we can expect trade unions to seek involvement in PES governance to maximize their ability to (co-)decide over the content and implementation of these policies.

With regard to employers’ preferences, the PRA argues that they generally oppose decommodifying social policy (Esping-Andersen 1990: 22), and – at the very best – *consent* to an expansion of citizens’ rights such as unemployment benefits (UB) or active labour market policy (ALMP) (Korpi 2006: 198-201). In this view, employers certainly are *not* protagonists and their consent depends on ‘the extent to which political forces have constrained their range of options in market action’ (Korpi 2006: 175). As such, the expansion of UB and ALMP is only a second-best strategy and preferred only when the positions of the political opponents – presumably the labour union movement and the power of the Left in government – are insurmountable. This also suggests that employers are always waiting for a chance to alter the status quo, which seems most likely when the political opponents’ power weakens. Hence, if the PRA is true, we expect that the variations and fluctuations in ‘left’ power (coalition between unions and Social Democrats) can account for the continuity in tripartite PES structures in Austria, and the erratic reform trajectory in the Netherlands.

The employer-centred approach and the PES as market conforming instrument

While the PRA performed well to explain the expansion of post-war welfare states during the ‘golden age’, with the dawn of the post-industrial and post-Keynesian global economy, the PRA has become increasingly challenged. Since the 1990s, employer-centred approaches have gained currency, questioning not only the assumption of cross-class conflicts as the basic dividing lines over distributional gains, but also emphasizing the pro-active role of employers in supporting, if not initiating, social policy expansion (Hall and Soskice 2001; Mares 2003b; Swenson 2004; Paster 2013). In contrast to the assumption of orthodox economists, who postulate that social policy is costly (due to associated payroll and other taxes) and distorts free market allocations, scholars of the employer-centred approach (ECA) argue that employers may support social policy as it crowds out the need for (costly) provisions of occupational welfare, increases the productivity of the workforce, and sustains social peace (Huber and Stephens 2001). Welfare state arrangements thus reflect the ‘strength rather than the weakness of employers’ (Estévez-Abe *et al.* 2001: 183). Regarding the labour market, employers’ preferences for state-sponsored UB and ALMP stem mainly from their firms’ production profiles and the type of skills needed in their workers. In this view, high levels of UB provide incentives for employees to invest in non-transferable (firm- or industry-specific)

skills, while ALMP, especially training, increases the flexibility of the workforce and thus improves matching processes and reduces firms' needs to train jobseekers themselves. ECA thus expects employers to seek being part of a tripartite PES, enabling them to directly participate in ALMP programs and collect information about labour market supply (Martin and Swank, 2004). As both Austria and the Netherlands are considered to be coordinated market economies with a high demand for skilled workers (Trampusch & Eichenberger 2012), we should expect that Austrian and Dutch employers initiate and defend a social partnership PES. According to the ECA, decorporatization of the PES would not indicate a lack of interest on the part of employers, but rather the inability of business power to push through their preferences in the political arena (Martin and Swank, 2012). Hence, if the ECA is true, we expect that the variations and fluctuations in business power can account for the continuity in tripartite PES structures in Austria, and the 'ups-and-downs' in the Netherlands.

Social pacts, government choice and partisan politics

While the above approaches differ strongly in their explanatory mechanism, their commonality is the underlying assumption that organized interests (be it trade unions or employers) are indeed strong enough to influence decisions taken in the political arena individually. This assumption is challenged by a recent body of literature that also points at the primacy of partisan politics and government choice to involve social partners in decision making and implementation. These studies seek to reveal the conditions under which governments choose (not) to involve social partners, mostly in the context of social pacts. These scholars developed several hypotheses with analytic foci on strategic electoral, legislative or partisan considerations. Some scholars argue that governing parties seek to involve the social partners when they perceive them to be helpful in reducing potential electoral costs of economic adjustment, or they may forgo negotiations for electoral gains (Hamann & Kelly 2007). The electoral motivation was similarly stressed by Ahlquist (2010), who also finds that Social Democrats tend to engage in social pacts more often due to their ability to reign in union demands. Other studies argue that governments are more inclined to involve social partners when they are politically weak in order to gain legitimacy for unpopular reforms (Baccaro, 2008; Avdagic, 2010). Still others argue that if governing parties are in oversized coalitions, they are more prone to resort to corporatist concertation as a way to build compromises for potentially controversial or unpopular policies (Afonso & Papadopoulos 2013).

While this literature offers important insights to governments' choices why and when to seek the social partners' involvement, there is an apparent blind spot in all of the approaches outlined above. There is no discussion of the *interaction* between the social partners and their ability to form a coalition *against* the government. Building on the logic that *either* employers *or* unions are most powerful as a group when they are united (Regini 1984), we put forward a 'social partnership hypothesis' that contends that the cohesion *between* the social partners is critical in understanding reform outcomes. If the peak level organizations of the social partners join forces, they can effectively form a 'veto coalition', unsurmountable even for governments

with large legislative majorities¹⁰. This is the case, we argue, since politicians in 'democratic systems generally worry first and foremost about getting elected' (Pierson 1996). Hence, politicians would need to build electoral support against the collective voice of a country's most important economic actors. This is particularly difficult to achieve for non-populist people's parties in coordinated market economies for two reasons. First, in CMEs business and labour are well organised and their involvement in the political economy is deeply institutionalised (Hall & Soskice 2001); and second, non-populist people's parties such as Christian or Social Democrats typically share close ties with labour unions or business associations or both, which further leads to intra-party opposition to reform that goes against the will of the social partners (Allern & Bale, 2012). With regard to our country cases, the social partnership hypothesis leads us to expect that a tripartite PES in both countries is initiated and defended by coalition of united social partners, while the dissolution of the tripartite PES in the Netherlands is achieved only in the context of declining social partner consensus.

In what follows, we probe the relevance of the different hypotheses by taking the following steps. We first offer a brief historical overview of PES development up to the 1980s, which shows that the PES was institutionally embedded in the respective ministries in the two countries, and identify the core reasons why PES reform emerged on the political agenda. Second, we show which actors, trade unions, employer associations or political parties, became protagonists initiating the PES reforms of the 1990s. Finally, we explain why the cases have diverged since the late 1990s by highlighting the Austrian trade unions' and employers' *united* resistance to change, which contrasts starkly with a divided set of preferences *within* and *between* the employers and trade unions in the Netherlands. After going through each country case individually, we conclude with a comparison of the cases and a more general discussion of the findings for power-resource, employer-centred and social partnership driven explanations of welfare state change.

3.3 The Austrian case

A Brief History of the Austrian PES

Austria introduced a national unemployment insurance (UI) already in 1920. This new law included the institutionalization of local 'unemployment offices', governed by social partnership committees, handling both job placement and unemployment benefit payments. With the Nazi occupation prior to WWII, the PES was placed under the direct authority of the

¹⁰ While we forcefully put forward the argument that the social partners united power can effectively impede governments' legislative plans, the institutional anchorage of social partnership can also be a crucial element to explain institutional stability. For instance, the Austrian government curtailed social partnership in the association of social security providers in 2003 against the fierce resistance of the labour unions (and mild concerns from the employers). Upon the unions' appeal, the federal court of justice overturned the government's decision as unconstitutional.

Ministry for Social Administration in 1938 (Lechner *et al.* 1993: 212). After the war, an ‘oversized’ Grand Coalition between the Christian Democrats (ÖVP) and the Social Democrats (SPÖ) decided *not* to return to the previous PES structures. However, the government reintroduced advisory powers to the social partners, while gradually consolidating and expanding the unemployment insurance system (Danimann & Steinbach 1972: 7). The latter was seen as a compromise – or rather temporary settlement – between the government’s position that the PES needed to remain under the direct auspices of the ministry (to cope with the rebuilding of the Austrian economy and the reintegration of displaced soldiers), and the trade unions’ demands to return to the pre-war self-governed structures. During that time, the employers, given the rather quick return to full employment in the 1950s, remained generally less concerned about PES governance and UI questions. As such, PES governance was not a salient question since the unions’ first order preference for the expansion of unemployment benefits was granted, while the employers were unconcerned about associated costs given full employment.

The end of the post-war stalemate in Austria: The employers’ rise to PES-reform protagonists

When during the 1980s unemployment more than doubled – from 2.4 per cent in 1981 to over five per cent in 1986 with simultaneously arising shortages of qualified workers – employers increasingly criticized the PES as being slow and ineffective (Wallner 1991: 35; Lechner *et al.* 1993: 221), while demanding to put an end to the state-led administrative structure of the PES (Dokaupil 1994). With rising pressure, the in 1990 re-elected Grand Coalition government, in which the SPÖ retained its majority, quickly outlined a reform of the PES that included a separation of the PES from the ministry (Potmesil 1991). Despite a principal agreement to a PES reform, various questions proved to be difficult to reconcile in the reform process.

First, should the PES retain a monopoly for job placement (which the SPÖ and trade unions preferred) or should private, for-profit employment agencies be allowed to compete with the PES (the ÖVP and especially the employers’ preferred option) (Weixler 1991)? *Second*, should the benefits regime be tightened alongside the PES reform (a loud demand from employers, who threatened to agree to PES reform only as a ‘package deal’ (Tritremmel 1991; Maderthaner 1992)¹¹? *Third*, should the PES reform lead to hiring more staff and higher wages (which the trade unions, who also threatened with strikes, argued was necessary given the rising numbers of unemployment) (n.n. 1993)? And *fourth*, if PES reforms led to new financial costs, who would be responsible: the federal government (the SPÖ’s preference) or should it be the PES itself (the ÖVP’s preference) (Wallner 1992)?

These questions clearly illustrate that two fundamental changes had occurred, altering the political dynamics in the late 1980s and early 1990s. *First*, employers increasingly became ‘stakeholders’ in a policy area that used to be solely the unions’ domain. Indeed, while the

¹¹ Wolfgang Tritremmel was head of the section ‘employment and social affairs’ of the IV from 1991 to 2011; Leopold Maderthaner was President of the WKÖ from 1990 to 2000.

employers remained largely silent until the 1980s, by the late 1980s, employers openly joined the unions in their demands for a self-administered PES (even though they hoped to achieve very different goals) (Lechner *et al.* 1993: 222). And *second*, the ÖVP had embraced the ‘neoliberal’ tenants of the time by advocating for more ‘market dynamics’ through private competition, shifting responsibility to individual jobseekers by tightening the benefit regime, and replacing the governmental goal of full employment with fiscal discipline and price stability. This repositioning meant (a) that the status quo was no longer accepted by a majority of actors, and (b) that a new powerful alliance on the right emerged, challenging the policy space previously taken by the SPÖ. Analytically, this development demonstrates that neither the PRA nor the ECA prediction is fully supported: while employers do become protagonists for PES reform and social partner involvement (not expected by PRA), they also seek to dismantle and recalibrate the Austrian benefits regime, which should, by its very definition, be an asset to workers’ firm-specific skill investments (not expected by ECA).

The institutionalized compromise and Austria’s employers as defenders of the new status quo

After several months of intense struggle, the SPÖ finally had to give in and – albeit grudgingly – consented to a separation of the PES from the ministry. While a full description of the new PES structures cannot be given here, the main elements included a tri-partite governance structure, in which the social partners held a two-third majority (at federal, regional and local levels), a modernized management system aimed at maximizing effectiveness and efficiency, a ‘tighter’ benefits regime accompanied, however, by an expansion of ALMP, especially training, and a partial liberalization of private placement services, which act alongside the PES (for a detailed description, see Weishaupt 2011). As the social partnership hypothesis predicts, this compromise reflected the joint demands of both employers and trade unions, and formally institutionalized their full co-decision rights over almost the entire PES budget.

After the new PES structures had been put in place, the social partners quickly developed good working relations and became key supporters of the new set-up. Quite tellingly, both unions and employers alike became defenders of the new PES during the early 2000s, when the populist Freedom Party of Austria (FPÖ) under the leadership of Jörg Haider formed a centre-right coalition government with the ÖVP. The FPÖ openly disapproved of the Austrian corporatist traits and quickly sought to dismantle the social partners’ rights in the PES entirely. For that reason the FPÖ pressured the ÖVP to end subsidizing the PES with tax money and to turn the PES into a company with its own financial responsibilities. The ÖVP, in turn, intended to promote its party’s agenda and promoted a further liberalization of the use of private placement agencies, and a ‘modernization’ of the PES decision-making rules, which would have effectively limited the social partners’ role to that of a supervisory board (Friedinger 2001). These proposals did not go very far, however, since employers and trade unions alike interpreted the coalition’s reform plans as an attempt to weaken the social partners at the expense of more steering power for the ministry. When not only the trade unions, but also the

ÖVP's dearest allies, the Economic Chamber of Austria (WKÖ)¹² and the Federation of Austrian Industrialists (IV)¹³ rejected the reforms (e.g., Geyer 2001; Holley-Spiess 2001b), Economic and Labour Affairs Minister Martin Bartenstein (ÖVP) announced already in October 2001 that he no 'longer saw a need' for his far-reaching PES reform plans (Holley-Spiess 2001a). United on this issue, the social partners had effectively won this political struggle.

Since then, the PES has undergone a series of organizational and structural changes, without however compromising the social partners' rights and responsibilities. Of course, this is not to say that the social partners have always been in agreement on reform efforts as evident, for instance, in the marketization of training provision (opposed by the unions) and the increased collaboration of the PES with temp job agencies (also seen critically by the unions). At the same time, the trade unions – much to the dislike of employers – successfully defended a further tightening of the benefits system, while ensuring a gradual but significant increase in ALMP spending (Weishaupt 2013). These developments are indicative of the deeply embedded 'social partnership culture', which enables agreements on compromises that were seen beneficial to employers (concerned about labour market flexibility and cost efficiency) and trade unions (concerned about social protection and social mobility). In the words of the Chamber of Labour (AK)¹⁴ 'There is a real consensus that all labour market parties share responsibility, which minimizes the pursuit of particularistic interests'. Similarly, the IV representative argued that 'the Austrian social partners have an inclusive view on problems, not a sector-specific one that would lead to fragmentation'. Indeed, there is no evidence of open disagreement between different types of employers with respect to PES and labour market policy governance questions. Labour market policy design and implementation is perceived as a 'joint endeavour' between and among employers and unions and less as a zero-sum game in which one party's gains are the other's losses. Making decisions might take some time, but in the end the results are supported by all parties involved. The reaction to the Great Recession is a case in point. In Austria the social partners' joint commitment to tackle the crisis enabled the government to swiftly launch a 'training initiative' (*Qualifizierungsoffensive*), as well as the expansion and flexibilization of both short-term work (*Kurzarbeit*) and Austria's system of training leaves (*Bildungskarenz*), designed in such a way that workers can temporarily engage in full-time training (for between two and twelve months), while receiving compensation from the PES for wages forgone (Eichhorst and Weishaupt 2013).

From this review of the Austrian case, we reach two analytic conclusions. First, there is little evidence that employers in Austria merely consented to the new PES structures, as they had a 'window of opportunity' in the early 2000s to 'exit' the arrangements. Rather, they

¹² The WKÖ is the official social partner on the employers' side.

¹³ IV represents the interests of the Austrian (mostly manufacturing) industry and is considered an 'unofficial' social partner.

¹⁴ The AK represents all workers, including non-union members. The AK closely works with the ÖGB on all issues and is also an 'unofficial' social partner.

defended the status quo, which guarantees the institutionalization of their ‘voice’ in the labour market regime, while staying ‘loyal’ to a social partnership culture that is capable of solving problems in a non-conflictual way. And second, corroborating the social partnership hypothesis, if and when the social partners *jointly* defend an institutional status quo, a reform-eager government is unable to push through laws that run counter to the social partners’ interests.

3.4 The Dutch case

A brief history of the Dutch PES

Like in Austria, the Nazis enforced a decision for a state-led PES in 1940. After the war, the Social Democratic government not only upheld the Nazi enforced PES structure, but even expanded its tasks by including training and schooling and placing the service under direct responsibility of the Social Democratic-led ministry of Social Affairs. To appease the trade unions, the government allowed them to administer unemployment benefits in a separate tripartite structure, and subsequently agreed to make benefits more generous (Nijhuis 2013). In 1967, the OECD then initiated a broad discussion on the adequacy of the state-led PES (OECD 1967). The government responded by asking the multi-partite Social Economic Council (SER)¹⁵ for advice. In the SER, various trade unions could not reach agreement regarding their involvement in the PES, while employer organizations defied any reform that would entail new financial responsibilities (Sol 2000: 113). Moreover, employers considered the PES as ineffective, only directed to those unemployed with a very large distance to the labour market (Visser and Hemerijck 1997: 165). As a result, the divisions within the labour movement, coupled with a general distrust in the effectiveness of the PES among employers, prevented the emergence of a viable reform alliance to foster radical PES reforms as envisaged by the OECD.

The short-lived tripartite experiment

The economic crisis unfolding in the 1980s generally marked a new phase in Dutch social partnership. Unlike the contestation and lack of coordination in the decade preceding the crisis (Visser and Hemerijck), the social partners established a joint economic strategy that promised wage growth and the spreading of available jobs. Under the threat of a government-induced wage freeze, trade unions agreed to voluntary wage restraint while employers accepted a reduction of the 40-hour workweek. This bargain is known as the famous 1982 ‘Wassenaar

¹⁵ The SER (*Sociaal-Economische Raad*) is the main advisory body to the Dutch government and parliament on national and international social and economic policy. It represents the interests of trade unions and industry and independent crown members.

Agreement'. It is in this context of social partnership consensus that the trade unions and employers acknowledged that priority should be given to a policy of industrial recovery, which led them to negotiate not only over wage policy, but also over employment and training policies (Trampusch 2000: 263-276). This brought the PES, in contrast to the 1970s, at the centre of the labour market reform debate. Yet, the question of social partner involvement in the PES was not settled as several views collided.

First, in the partisan arena, the Conservative Liberals (VVD), who formed a centre-right coalition with the Christian Democrats (CDA) in 1982, sought to embed labour market reforms in a broader policy strategy of scaling down the public sector and pushed for a privatized PES, without the involvement of the social partners (Kam & de Haan 1991). Also in the opposition, the Social Democrats (PvdA) objected to the PES reforms and did not want to give up the state's central role in steering and controlling the PES (van Gestel *et al.* 2009: 63). Second, large cities, the Dutch Association of Municipalities (VNG), and the Ministry of Interior pushed for a decentralized PES on the municipal level, not a tripartite PES (Bekke & van Gestel 1994). Third, the unions did not align on a common position towards PES reforms. The Christian union CNV was most clearly in favour of self-administration through a tripartite PES. The largest union FNV, however, did not want to extend the responsibilities of social partners beyond a mere advisory role. Representatives of the industrial sectors within the FNV voiced the idea of a 'sectoralization' of PES tasks (Trampusch 2000: 294), which suggested that decisions about labour market policy should be integrated in collective bargaining. The employers supported this position and hoped that greater flexibility and efficiency could be achieved by linking labour market policies and industrial relations (Visser and Hemerijck 1997: 168).

Despite these competing views and considerable pressure against PES reform, a new PES was nevertheless established on January 1st 1991, governed by the social partners on a tripartite basis. This unlikely outcome became possible due to an agreement on a tripartite PES by the social partners in the SER (SER 1985), which in turn was motivated by their *joint interest* to prevent a more radical decentralization of PES tasks to the municipalities. When the PvdA took office in 1989, they reluctantly gave up their strong resistance against reforms in the stated PES and supported the agreement between the social partners to safeguard the regained consensus over broader labour market issues. While this result is difficult to explain by either the PRA or ECA alone, it is fully in line with the social partnership hypothesis. After years of political struggle, the emerging social partner consensus eventually trumped the competing interests of political parties around PES issues and paved the way for a tripartite PES.

The bounded marketization of the PES and the exclusion of social partners

The PES reforms of the early 1990s were hardly implemented when the 1994 elections caused a political earthquake. The Christian Democrats lost 20 seats and were left out of the cabinet for the first time since 1919. The first so-called purple government was formed, a coalition between the Conservative Liberal VVD, Social Liberal D66, and Social Democratic PvdA. This

coalition started a gradual process of what has been called ‘managed liberalization’ (Van der Veen & Trommel 1999) that strengthened both the *state* and the *market* in the governance of the PES, at the expense of the social partners. On the one hand, market mechanisms were introduced in the Employment Service Act of 1996 that enabled municipalities and social insurance companies to buy re-integration services from the PES. At the same time, however, the ministry of Social Affairs gained the right to interfere and to veto PES decisions (Sol 2000: 288), which ultimately strengthened central state’s role. With the labour market reform of 2001 (SUWI Act), re-integration and activation tasks of the PES were partly devolved to private re-integration companies, an issue long voiced by the VVD. The administrative intake, the organization of job vacancies and case management tasks remained in public hands. Yet, the social partners were granted no more than an advisory role in a ‘Council for Work and Income’ (RWI). The reforms thus gradually institutionalized both Conservative Liberal and Social Democratic partisan preferences at the expense of the social partners. How did this radical departure become possible?

Crucial to explain this shift in PES governance is the gradual erosion of the social partners’, especially employers’, support for the existing PES structures. This erosion of support resulted from several political decisions regarding budget lines, PES tasks and associated benefit reforms. First, the employers opposed the decision of the Minister of Social Affairs (Ad Melkert, PvdA) to cut the budget of the PES by 25 per cent and to allocate this money to municipalities to fund (shielded) job schemes for the long-term unemployed. According to employers, these schemes were unacceptable since there were still labour shortages in some industries (interview policy advisor VNO-NCW). Second, the government started a process to transfer the ‘Centres for Vocational Training’ (the educational and training facilities of the PES) to the educational sector. By decoupling training facilities, the PES became less interesting for employers. Third, the PvdA did not accept any further retrenchment in the level and duration of social benefits (Hemerijck & Visser 2000), which prevented the formation of a policy compromise between unions and employers.

In sum, the ECA can explain the shift in PES governance in so far as employers initially opposed the dismantlement of the PES and only conceded to governance reforms when the broader labour market tasks of the PES were already hollowed out. The PRA seems less applicable in this case, since the unions failed to gain support from the Social Democrats. Yet, the driving mechanism for PES reform is not to be found in either the single influence of employers or unions, but in the changing preferences of employers that undermined their alliance with the unions. This enabled the government to impose reforms unilaterally (Grunell 1999). Analytically, this finding is in line with the social partner hypothesis that a lack of social partner consensus provides more room for political parties and their agenda.

The financial crisis and the search for a viable policy compromise

Amidst the financial crisis, the social partners and the government concluded a social pact in April 2013 (STAR 2013). They agreed on the social partners’ involvement in the organization

and implementation of PES tasks such as job matching, counselling and activation at the regional level. What explains this surprising shift in PES governance – union or employer demands, or partisan politics? Contrary to the expectation of the PRA, the unions had to accept quite drastic reforms of employment protection legislation (EPL) and unemployment insurance, which the PvdA supported. The announced EPL reforms entailed a simplified procedure to dismiss employees and the restriction of eligibility criteria and reduction of severance pay.

On the part of the employers, the PES reforms are clearly *not* their first order preference as expected by the ECA. Employers did not unanimously agree on the new PES structure as proposed in the central accord since there were ‘critical voices’ in the various social committees of the employer representatives (interview representative MKB-Nederland). There still is a lack of trust by employers: *‘This sounds like the structure we tried in the ‘90s and that failed. Is it not more important to involve the private employment agencies?’* (interview representative LTO). Instead of a tripartite PES, employers want to keep the implementation of activation policies in the hands of private reintegration companies (VNO-NCW 2008).

Regarding partisan interests, a new cabinet was formed in 2012, re-uniting two old partners of the 1990s: the Social Democrats and the Conservative Liberals (without the Social Liberal D66). While this coalition vehemently opposed social partner involvement in the PES in the 1990s, they agreed upon a tripartite PES as part of the post-crisis reform agenda. Instead of partisan motives, the proposed PES reforms are embedded in a broader social partner consensus around pressing labour market issues. The unions are united on gaining more governance responsibilities in the PES. In the context of a declining membership base (Visser, 2011), unions regard institutional involvement in the PES as an instrument for attracting additional members through the provision of extra services such as career coaches and job application services (interview policy advisor CNV and FNV). Employers on the other hand are more in favour of reforming labour market institutions such as EPL that they consider a ‘lingering issue’ (interview representative MKB-Nederland). Employers consider the proposed labour market reforms in the central accord as a major achievement that settles the discussion (VNO-NCW 2013). The evidence thus suggests that, rather than being protagonists, employers joined the unions in supporting PES reforms to yield benefits in other areas more dear to them. In sum, the joint position of employers and unions in support of a new PES governance structure is not fully consistent with either PRA or ECA predictions. The new proposed social partnership-based PES is not the outcome of first-order preferences of employers or the power position of the left (unions had to accept retrenchments in other areas). Rather, the driving mechanisms behind the most recent PES developments mirror those of the early 1990s. Both unions and employers recognize their conflicting interests, and also seize a window of opportunity to reach a win-win outcome based on compromise and package deals. In line with the social partnership hypothesis, this joint position motivated the government to accept the PES reforms to safeguard the broader social partner consensus in times of crisis.

3.5 Conclusion and discussion

Tracing the developments of PES reform in Austria and the Netherlands, we identified three episodes of stability and change. First, after the end of WWII and during the Nazi occupation, governments in both countries chose to maintain a PES integrated within a state ministry. With rapid economic and employment growth during the 1950s and 1960s, politicians and employers were little concerned about further PES reforms, while the trade unions prioritized an expansion of unemployment benefits. After a turbulent decade in the 1970s, the 1980s were characterized by rising (long-term) unemployment, deindustrialization, and mounting critique of the allegedly 'passive' welfare benefits in an increasingly neoliberal era. Employers became ardent proponents of PES reforms, to which governments in both countries conceded after long and broad consultations, deliberations, and negotiations. A divergence of developments began to occur in the 1990s. Against the plans of a centre-right government, the Austrian social partners *united* and defended the tripartite PES, which was attractive to both employers, who benefited from efficient placement services and effective ALMP, and to trade unions, who were able to shape policy content and take part in programme implementation at the local level. In the Netherlands, in turn, a purple government was able to push through a stepwise dissolution of the PES. In contrast to Austria, the Dutch employers did not oppose the government's plans, since they perceived the PES as ineffective and primarily targeted to the lower-skilled spectrum of the workforce. With the fallout of the Great Recession, however, the tide of the unions' fortunes turned as the government, remembering the accords of the 1980s, sought a broad-based compromise to an overwhelming challenge, which included the formation of a new tripartite PES.

Analytically, the review of the two cases shows that neither the assumptions of the PRA nor ECA are fully consistent with the observed PES reform trajectories. As expected by the ECA, but in contrast to the PRA, the Austrian employers not only acted as *protagonists* of PES reform, they subsequently became stark proponents of preservation of the status quo despite an organizationally weakening labour movement and a right-wing government. However, employers also sought to introduce a stricter benefits regime, which the ECA did not expect, especially in what is presumably the most coordinated economy in the world (Hall & Gingerich 2009). In the Netherlands, employers generally opposed PES reforms in two periods (early 1990s and during the recent crisis) and acted as *consenters* of corporatist arrangements only in the context of large package deals and in times of great uncertainty. While employers' behaviour conformed to the expectation of the PRA, the Dutch 'Left' did not: trade unions were internally divided and failed to unite at critical moments, while the Social Democrats were key proponents of the dismantling of the tripartite PES. Rather than ECA or PRA, our case studies lend support to the social partnership hypothesis. Stability and change in tripartite PES structures are a function of the social partners' ability to form a consensual position. When they *unite* on a joint, favourable position, a tripartite PES can be set up (the Austrian and the Dutch cases in the early 1990s and potentially the Dutch case post the Great Recession) or the

dissolution of the PES can be prevented (the Austrian case in the early 2000s). When they *fail* to agree, the government can take the lead and partisan-based policy outcomes become more pronounced (the Dutch case in the late 1990s/early 2000s). This conclusion brings us back to the roots of a power-relational explanation of welfare state change as proposed by Esping-Andersen in his early work (Esping-Andersen 1985), but places the analytical focus on the strategic *inter-relation between trade unions and employer organizations* rather than the coalitions between the labour movement and other political parties or societal groups such as the middle class or farmers.

From these findings, we can hypothesize that the social partners' inability to find a common position in defence of a tripartite PES is a *sufficient condition* for its dissolution, while a joint position in favour is a *necessary condition* of the formation of a tripartite PES. Several studies to test these two theses in other corporatist countries come to mind, including for instance the governance changes, but not dissolution of the German Federal Employment Agency (BA) during the so-called Hartz reforms in the early 2000s and the 'decorporatization' of the Swedish and Danish PES since the mid-1990s and 2000s, respectively. Subsequently, further research is needed to specify the extent to which the social partnership hypothesis also holds for PES reforms in weaker corporatist countries such as the formation and subsequent dissolution of the tripartite Manpower Service Commission (MSC) in Britain, the formation and subsequent dissolution of the Irish National Training and Employment Authority (FAS), and the creation of the tripartite Pôle Emploi in France in the late 2000s.

Another finding of this study is that, while the literature stresses the possible conflict of interests among employer associations (Thelen 2002, Mares 2003a, Paster 2013), a united position on the part of the trade unions can also not be taken for granted. The erratic reform trajectory in the Netherlands (back and forth between social partner involvement and exclusion) is, at least in part, also a reflection of the trade unions' inability to unite forces and thus present themselves as a powerful and reliable actor. This latter finding reiterates earlier work on the dynamics of Dutch corporatism (Visser & Hemerijck 1997). In sum, this chapter has not only offered novel substantive insights into the study of labour market policy regime change, but also identified a key omitted variable in the study of institutional change. By highlighting the causal importance of power relations *between* and *within* the social partners for institutional evolution, we have identified a new promising avenue for future studies in the spirit of historical institutionalist scholarship, not only of PES reform but in the realm of welfare capitalism more generally.

The distributive
outcomes of ALMG

PART

II

Introduction Part II

While part I has focused on the distributional politics of ALMG reform, Part II addresses the distributional outcomes of ALMG for typical client groups of the welfare state. As a consequence of socio-economic transformations, the clients of the welfare state have changed in the past two decades. Deindustrialization and tertiarization of the labour market have caused the waning of stable (well paid) employment (Piore & Sable 1984). Service sector jobs at the low end of the labour market that replaced industrial employment have been subjected to low productivity growth and hence low wage growth (Iversen & Wren 1998). These jobs are also characterized by precarious labour relations such as atypical, part-time and short tenured work, not providing stable lifelong employment (Visser 2002). The service jobs that emerged in the high end of the labour market demand concomitantly a high skill-level (Gottschalk & Smeeding 1997). Besides the labour market, also the role and positions of families changed. Single parenthood becomes much more common, with accompanying problems of reconciling work and family life. As a result of these developments a very diverse group of ‘outsiders’ emerged who have become exposed to the risk of having an unstable employment relation or being long-term unemployed with the result of prolonged poverty and social exclusion. In line with the conceptualization of Schwander & Häusermann (2013), I define the outsiders in today’s welfare state as those individuals that are most vulnerable at the labour market either because they lack employment experience or because their skill level don’t match the requirements of the labour market. In other words, because they have a large distance to the labour market in terms of employability. This is a somewhat different conception of outsiders as applied by for instance Rueda (2007) who classifies outsiders and insiders on the basis of employment status, with those being unemployed or having a-typical employment contracts as belonging to the outsiders. The disadvantage of such a categorization is that it may lead to problems of misclassification. For instance, a high-skilled individual who becomes unemployed after a temporary contract may acquire rather quickly a new job in fluid and mobile sectors of the labour market such as consultancy or academia. This situation is markedly different for a low-skilled manufacturer worker whose job is displaced by advanced electronic machinery in the factory. For such an individual, finding a similar job is much harder and consequently he or she faces risks of becoming long-term unemployed. Whether someone is considered an outsider is based on the opportunities and constraints in finding new employment. In other words, the degree of ‘outsiderness’ depends on the labour market risks of a person. In such a risk-based conception, typical outsiders groups are those making the transition from school to work, single mothers, low skilled workers and migrants (Taylor-Gooby 2004; Bonoli 2006).

Welfare states have not remained resilient to these changes. Various active labour market policies (ALMPs) have been introduced that aim to include outsider groups in the labour market. ALMPs have the potential to lessen the degree of “outsiderness” (Rovny 2014). ALMPs, can increase the employment prospects of outsider groups by increasing their

employability and facilitating matching (Anderson 2009). Does it matter how these policies are governed? In other words, whether state, market or social partners are involved in administrating and delivering those policies? There is a substantive body of literature that assesses the linkage between the development and implementation of ALMPs and the role of unions. A first argument that can be deduced from the literature is that including unions in the governance of ALMPs might not be conducive to the scope and content of ALMP devoted to labour market outsiders. The underlying argument is that trade unions and employer organizations not adequately represent the interests of outsider groups who have a weak attachment with the labour market. Unions are likely to particularly defend the vested interest of workers who are more (permanently) embedded in the labour market, and also more unionized (Ebbinghaus & Hassel 2000). Consequently interest groups defending the interest of core workers might be inclined to externalize the costs of their actions onto non-participating groups, such as the outsiders, or the public at large. Hence, a shift towards activation aimed at helping the outsiders back into possibly permanent employment will not likely receive the support of insiders and their representative organizations since they do not benefit directly from these services and might perceive it as a threat for their own employment security through enhanced competition (Rueda 2006). Recent studies do refine this argument by pointing out that the position of unions towards outsiders is context dependent. Nelson (2009) adds that support for ALMPs of trade union members decrease when unemployment is high and tend to increase when job protection is low. Palier & Thelen (2010) suggest that trade unions only protect the interests of insiders as a second-best solution, when their preferred option, inclusive protection for all worker groups, is not attainable because of a loss of power. Also the study of Tepe and Vanhuyse (2013), shows that unions consider ALMPs as a second-best goal and employment protection their first priority. Unions push more strongly for ALMP spending mainly when and where regular workers are not yet well protected. In this context ALMPs offer an alternative way to some measure of labour market security through state investment in re-employability. Clegg & van Wijnbergen (2011) argue that the choices and strategies of governments and other policy actors is the main determinant of union positions on activation. When the government guarantees unions' continuing administrative involvement in the governance of social policies (such as in France), unions are willing to support activation policies as a price that they are willing to pay. When the government reduces the governing role of social partners (such as in the Netherlands), they are more likely to oppose the further development of activation. Yet, the study of Tepe and Vanhuyse (2013) also point out that it matters which activation policies unions are supporting. They argue and empirically show that union leaders seek to increase ALMP spending particularly on those dimensions that are most likely to help their own members. Thus, they are less interested in promoting job creation programmes, which benefit mainly labour market outsiders and more prone to support labour market training. A qualitative example supports this thesis. In the Netherlands in the early 1990s the social partners, involved in the tripartite public employment service, favoured services targeted to a broad segment of the labour market, including the social partners' own clienteles, whereas the government

wished to focus PES activities on labour market outsiders (Mosely, 1998: 21). There are indications that the social partners indeed defined the labour market tasks of the PES according to their own sectoral interests at the expense of the outsiders on the labour market who were not able to institutionalize their interests in a tripartite PES (Sol, 1998): case management of vacancies was applied much broader (benefitting the insiders on the labour market that could more easily find their way back into the labour market themselves), the role of placement subsidies in PES policies was diminished (countering potential displacement of labour for insiders), hard to place clients were redirected to the municipalities (categorisation by disqualifying these groups for the labour market) and regional measures for schooling of employees were increased (benefitting those already in a job). Committed to a comprehensive activation strategy, also for outsiders on the labour market, the Social Democratic minister of Social Affairs Ad Melkert sought to reorient the activities of the PES. This was only possible by diminishing the role of the unions in the administrative structures of the PES with a growing involvement of the central state (Chapter 3 this dissertation). With a decreasing role of the unions, the budget of the PES was cut by 25% and this part of the budget was used for issuing a public work creation scheme known as the so called 'Melkert jobs' for those unemployed with a considerable distance to the labour market. The core tasks of the PES were redefined so that public money could only be used for the difficult cases (outsiders). If the PES wanted to extend their service to people with a short distance to the labour market as well, they should generate their own resources for this.

This example is in line with the context dependent union hypothesis. In the 1990s, the Netherlands had some of the most strict employment protection legislation of regular employment contracts (OECD, 1999). This might explain why unions in the Netherlands focused the content and implementation of policies mainly to insiders on the labour market through their involvement in the governance of ALMPs. The Social Democratic government sought to reorient activation policies to outsiders by taking control over the implementation and excluding the social partners. Yet, less is known about the effects of such governance change for the outsiders on the labour market. Are they indeed better served as is expected in the policy theory underlying the shift in governance in the Netherlands? The key question of part II of this dissertation is how the increasing role of the state and private actors (at the expense of social partner involvement) in ALMG affect the employment opportunities of labour market outsiders. The results of part II show that distributive outcomes of ALMG may reflect the interests of those who hold political power. The state may defend outsiders' interests in ALMG, but it can also take measures that, albeit unintentionally, reproduce and reinforce existing divides between insiders and outsiders. The extent to which the government is able to pursue its preferences is likely to be shaped by the structure of ALMG. Due to its powerful, central role in reformed ALMG structures, the Dutch government can unilaterally implement measures that would be much harder to achieve in a context where it is required to share power (as in Austria, see chapter 3). In other words, the extent to which outsiders benefit from activation policies is inherently a partisan political question that may be especially reinforced in a state-led ALMG structure.

Chapter 4

From Welfare to Activation. The Implementation of Active Labour Market Policies

This chapter is a minor revision of a book chapter published as Mascini, P., Soentken, M. & van der Veen, R.J. (2011), From welfare to workfare: The implementation of workfare policies. In R.J. Van der Veen, M.A. Yerkes & P. Achterberg (eds), *The Transformation of Solidarity: Changing Risks and the Future of the Welfare State*, Amsterdam, Amsterdam University Press, pp. 165-189.

Abstract

In chapter 4 (co-authored with Peter Mascini & Romke van der Veen), we evaluate how the basic principles of activation policies have been put into practice and whether activation policies are an effective investment in human capital and individual opportunities. We base this analysis on a comparative case study of the implementation styles of a public social security agency administering unemployment insurance (*Uitvoeringsinstituut Werknemersverzekeringen*, UWV), a municipal social assistance office and a private reintegration company located in a large Dutch city. Based on eighteen in-depth interviews with managers and case workers as well as document analysis and observations in each organization, our analysis points to the paradox that the public organization operate in a more business-like manner, while private organizations operate more bureaucratically.

4.1 Introduction: from welfare to activation

In the last few decades unemployment policy has shifted from income protection (through social security) to activation (through labour market policy) in most European countries. This shift from income protection towards activation and participation is part of a broader transition from a welfare state towards an activation state. In contrast to a welfare state, an activation state is oriented towards recommodifying rather than decommodifying social policies. Decommodifying social policies reduce people's dependency on the labour market. Social insurance and social provisions provided as a social right have this effect: they make people less dependent on their market value and are therefore decommodifying. Recommodifying social policies, on the other hand, strengthen the bond between social policies and the labour market, by helping people in need find a way to return to the labour market. Social policies in an activation state promote work rather than social protection. They do this by increasing the selectivity and the conditionality of social policies, and by providing services that help people return to employment (Gilbert 2002). Taylor-Gooby discerns a paradigmatic shift in the transition from welfare to activation, a new ideology of the welfare state which he describes as 'new welfarism'. This new ideology is the product of socio-economic developments towards a post-Fordist economy. The ideology of new welfarism,

'suggests that economic globalization, labour market flexibility, more complex patterns of family life and the dissolution of traditional class structures require a new welfare settlement. Since full employment, redistribution and expensive services are no longer seen as feasible, the new welfarism can only justify social spending as investment in human capital and the enhancement of individual opportunities' (Taylor-Gooby 1997: 171).

According to Taylor-Gooby, this new ideology affects all welfare states, because they are all driven in the same direction due to imperatives of international competition. Jessop (1993) provides a useful summary of the essential changes in social policies that are associated with a turn towards new welfarism. Whereas welfare policies in a traditional welfare system are redistributive, activation policies are oriented at integration and productivity. Welfare policies are based upon a safety net metaphor, whereas active provision in activation policies is based upon a trampoline metaphor. Welfare as a safety net results in unconditional rights and few obligations in welfare policies as opposed to activation and a trampoline effect, where conditional rights are linked to obligations. Activation policies are, finally, expected to contribute to a future reduction of expenditures whereas welfare policies are expected to cause an increase in expenditures. In this chapter we will investigate the everyday reality of activation policies. Activation policies intend to contribute to the general willingness to share risks by emphasizing individual responsibility and the obligations of welfare recipients as well as by providing services to welfare recipients in order to activate and reintegrate them into the labour market. Our goal in this chapter is to establish how these basic principles of activation policies have been put into practice and whether activation policies are an effective investment

in human capital and individual opportunities. We do this by adopting a policy implementation perspective. Attention to the mechanisms of policy implementation is important because gaps between formal policies and their execution in practice are quite common (Pressman and Wildavsky 1984). This is particularly true in the case of welfare reform because of its complex and controversial nature (Lurie 2006). According to Lipksy (1980), policy is made during the process of implementation by officials who are in direct contact with welfare clients. This implies that in order to understand the effectiveness of policies it is necessary to pay attention to their implementation. As we will see, the implementation of social policies is known to follow specific mechanisms that can and often do produce unintended and unwanted effects. The first question we address in this chapter is *how are the basic principles of activation policy implemented in practice?* More specifically, we want to determine if the unintended implementation mechanisms associated with the welfare state have continued to play a role since the activation state took over, or if they have been replaced by other mechanisms.

Activation policies were introduced in the Netherlands during the 1990s. After the introduction of the Work and Social Benefit Act (Wwb) in 2004, welfare agencies were obliged to outsource the implementation of activation policies to private companies. Since 2006, however, this obligation to outsource their total share of activation services has been abolished. Since then welfare agencies in the Netherlands can choose between outsourcing their services and providing them in-house. This policy change was made because of perceived problems connected to the mandatory outsourcing of activation policies. This leads to a second research question, which pertains to the implementation of activation policies in the Netherlands by public and private agencies. The second question of this chapter then is *what effect did the abolishment of the mandatory outsourcing of activation policies to private companies have on the unintended implementation mechanisms connected to the welfare and activation state?*

In the next section we start with a general description of the implementation mechanisms associated with both the welfare and activation state. In the subsequent section we answer the question whether and how these mechanisms have also occurred during the implementation of activation policies. In the fourth section we analyse the implementation practice of activation policies following the above mentioned policy change. We base this analysis on a comparative case study of the implementation styles of a social security agency (*Uitvoeringsinstituut Werknemersverzekeringen, UWV*), municipal social assistance agency and a private company located in a large Dutch city. We compare the implementation styles of these three offices and study the workings of the unintended implementation mechanisms in public and private agencies. In the concluding section we shed light on the question of why unintended implementation mechanisms are so pervasive and how they affect the implementation of activation policies. In this final section we will also analyse to what extent activation policies are effective in emphasizing individual responsibility and the obligations of welfare recipients and in activating and reintegrating them into the labour market.

4.2 The implementation of social policy

Social policy implementation in the welfare state

From WWII until the 1980s, public policy was predominantly implemented by centralised public administrations in the Netherlands. These centralised bureaucracies were deemed a solution to the vicissitudes and amateurism attributed to private, local social assistance offices that had played an important role in the implementation of social services during the previous period (Terpstra and Havinga 2001). These centralised public administrations particularly strived for strict adherence to the law: enabling citizens to claim welfare services when they were entitled to receive them and excluding all others. The bureaucratic ideal of equal treatment and strict adherence to the law implies that discretion was deemed problematic: officials were not supposed to interpret bureaucratic rules according to their personal views.

However, street-level bureaucrats working in welfare administrations did, in fact, have ample discretion (Lipsky 1980). They used this discretion to cope with unfavourable working conditions, a coping strategy which resulted in a selection of clients. The selection of clients by street-level bureaucrats was not necessarily in compliance with the administrative rules, but was based on informal notions of effectiveness and deservingness. This mechanism of selection is also known as 'creaming', which implies a selection of 'the best' clients. Who 'the best' clients are, is dependent on contextually defined notions of deservingness and effectiveness (Blau 1960).

Moreover, street-level bureaucrats were also known to focus on measurable outcomes (Hasenfeld 1983). Work which produces measurable outcomes tends to drive out work which produces immeasurable output (Wilson 1989: 161). Hence, when the number and accuracy of claims processed in a welfare office are readily observable, a less easily observed output – e.g. being helpful to clients – will be neglected. The tendency to focus on measurable outcomes results in a selective distribution of time and attention by street-level workers with regard to the different activities they are meant to undertake. Not only does it lead to a selection of clients, it also affects what workers do and do not do. Selection and focus on measurable outcomes are the two most important unintended implementation mechanisms connected to the (regulatory) welfare state. They threaten its basic principles because they result in the unequal treatment of clients and in departures from the law.

Social policy implementation in the activation state

Ideas on implementation shifted in many Western countries during the 1980s. Ideals associated with the welfare state such as equal treatment and strict adherence to the law were increasingly seen as inefficient, limiting freedom of choice and causing administrative organizations to become unresponsive (LeGrand and Bartlett 1993). Discretion in the practice of policy implementation was no longer deemed problematic. Rather, it was now perceived as

a necessary condition for improved results: efficiency, responsiveness and entrepreneurship (Brodkin 2006: 6, 8). Furthermore, client selection was considered desirable because it would encourage the efficient spending of scarce public resources. Additionally, the outsourcing of policy implementation to private agencies was deemed to solve the perceived inefficiency and inflexibility of public welfare agencies.

However, the outsourcing of the implementation of public policy has been accompanied by a new unintended implementation mechanism related to the public control of private implementation agencies. It results from asymmetric information when a principal (in this case a public agency) hires an agent (in this case a private company). Information asymmetry renders it difficult for the principal to control the agent and gives the agent the possibility to let his or her own interests prevail. Information asymmetry is a fundamental problem because market parties are profit seeking, which can lead to divergence from the public interest that principals are expected to serve. Principals respond to this problem by drafting detailed contracts in an attempt to prevent market parties from following their own course (Sol and Westerveld 2005: 392). However, contracts cannot guarantee continued compliance, which means that public principals have to monitor the 'good behaviour' of private agents as well. These control measures stimulate bureaucratization. According to Farrell and Morris (2003), bureaucracy therefore has not disappeared with the transformation from the welfare state to the activation state, rather, it has shifted. Farrell and Morris term the bureaucratization resulting from an outsourcing of public services to private companies a shift to a 'neobureaucratic state'.

In short: selection practices and the focus on measurable outcomes are perceived to be particularly problematic in the welfare state because these implementation mechanisms threaten its ideals of equal treatment and strict adherence to the law, whereas bureaucratization is perceived to be particularly problematic in the activation state because it threatens its focus on efficiency, freedom of choice, and responsiveness. Hence, both the welfare state and the activation state wrestle with specific unintended implementation mechanisms because each kind of state aspires to different ideals. Our goal in this chapter is to investigate to what extent these mechanisms determine the implementation of activation policies – activation being the new and dominant policy to manage social risks – and how these mechanisms affect the results of activation policies.

4.3 Comparing implementation styles by public and private agencies

In this section, we focus specifically on the Dutch case, comparing the implementation of activation policies by public and private agencies. In 2006, the policy with respect to the outsourcing of activation policy in the Netherlands was changed in one important respect: municipalities are no longer obliged to outsource their total share of activation services, meaning they are now free to choose between outsourcing implementation to a private agency or providing direct delivery of activation services themselves. In other words: municipal social

benefit services are no longer fully dependent upon private companies in the Netherlands (for a comparable change in the United States see Warner and Hefetz 2008). Since then, municipalities have increasingly chosen to deliver services themselves because they want more control over their clients, they want to deliver more made-to-measure services and because they were dissatisfied with the price and results of private activation services (Verveen and Van der Aalst 2006). Hence, this policy change can be seen as a reaction to the unintended consequences created by the obligation to outsource services, which had been in place until 2006.

We have investigated whether this policy change has affected the three implementation mechanisms of selection, a focus on measurable outcomes and bureaucratization. We did so by comparing the implementation of activation policies by two public welfare agencies – a social security agency (UWV) and a municipal social service agency – with a private company in a large Dutch city. This comparative case study is based on eighteen in-depth interviews with managers and case workers as well as document analysis and observations in each organization (Soentken, 2009)¹⁶. We concentrate on the implementation practices of case workers and managers. The implementation and enforcement of activation policies is done by so-called job coaches in the social security agency, by case workers in the municipal social assistance agency and by work consultants in the private company. These street-level workers are all involved with the intake of clients, the formulation of activation plans with them, monitoring the progress of these plans, and the provision of personal assistance to clients¹⁷. In other words, we compare the salience of the three implementation mechanisms between the three agencies that execute more or less identical tasks.

Selection and a focus on measurable outcomes

There is a stronger focus on measurable outcomes in both the social security agency and the social assistance agency than in the private company. In the so-called ‘grow and learn model for activation practices’ maintained by the social security agency, a focus on outcomes is described as one of the most important competencies of the activation coach. Three core concepts are discussed in the work manual: ‘cost-benefit analysis, the quickest, shortest way to work and the cheapest, most adequate process.’ Job coaches working in the social security agency are supervised by a mentor who concentrates in particular on the extent to which coaches focus on measurable outcomes. In both the municipal social assistance agency and the social security agency, targets and listings of individual performances are regularly disseminated. Furthermore, case workers are addressed by management when they do not

¹⁶ For an overview of selection of respondents and topic list of the interviews see Soentken (2009).

¹⁷ Case workers are responsible for numerous tasks related to the implementation of workfare policy. Two of these tasks are excluded here in order to enhance the comparability of the case studies: tasks associated with the outsourcing of services and tasks associated with the judicial aspects of benefits. These tasks are therefore excluded from comparison because they only take place within the public organisations, in this case the social security agency and municipal social service agency.

reach their target. Consequently, employees of both agencies focus strongly on measurable outcomes in their work:

“Every week I pay attention to my results. I look at how many placements I make each week. If I don’t manage to reach the set target, I make sure that I fix it. You constantly have to adjust what you’re doing in order to reach your goals.” Job coach

“Every two weeks we have to show what our targets are or the number of clients we have activated. If those numbers don’t match the target, then our manager will inquire about it.” Case worker

Consultants working for the private company are less outcome-oriented. Managers do not focus on the number of job placements and do not quantify the results of individual consultants. Managers and consultants catalogue results in lists, but only to make sure that reports are written on time. These lists do not serve as an instrument to control the number of clients placed back into the labour market by individual front-line workers:

“... the reason why we keep those lists has solely to do with the reports that have to be produced on time. If you serve a client and I don’t know who you’ve served, I’m not able to check if the report went out on time. From those lists, consultants can see who served how many clients, but that has nothing to do with competition. Far from it. For instance, I can be the one who has placed a client in a job, but then this result can be placed by someone else’s name. We’re not competitive about it.” Manager private re-integration company

The social security agency and the social assistance agency not only focus strongly on outcomes, they also select clients. Employees emphasize that they want to use the available means as efficiently as possible. They tend to offer more opportunities to younger clients or clients with a relatively short distance to the labour market because these clients are believed to be the easiest to activate and, hence, will deliver the best results in terms of performance measures:

“The managers want numbers and I certainly take them into account. So I focus on clients who have recently entered social assistance and clients younger than thirty instead of older people. Employers are not always excited about hiring older people, certainly not if they have been receiving social assistance for a long time. When you start with a group of clients and you have to make a choice, it’s logical to start with younger people who have better job opportunities. People who have been on social assistance for years stay in my caseload a bit longer than the rest. I will try to reach them by phone, but I won’t focus on them.” Case worker

Employees also spend more time, energy and available means on clients whom they consider to be motivated:

“For me, it’s important that somebody is motivated. That’s the most important thing. I make a selection on the basis of motivation, because it is not possible to serve 99 clients at the same time.”

I just pay more attention to motivated people. I engage in conversations and exert myself more when it comes to them.” Job coach

These citations illustrate that in both the social security agency and the social assistance agency, creaming of the most promising clients takes place. Creaming also takes place in the private company, but in a different manner. Consultants exclude difficult clients from the outset. They rely on the public agencies only to supply clients who are ready to be activated. If consultants think there are too many barriers preventing a client’s return to work, they send the client back to the public principal:

“If I am certain that somebody is unable to work because, for instance, he or she speaks too little Dutch, he or she won’t enter my caseload. Impossible. Then I can’t do anything. [...] We have someone who checks out the paperwork of all clients entering this company. That has to be done because case workers can make mistakes too. For example, a person who enters the caseload and can hardly speak Dutch is unacceptable. Hence, we send him back – it’s the wrong registration, we can’t help him. Clients like that first have to be sent to the naturalization service by the case worker of the municipality or social security agency.” Work consultant

This exclusionary practice does not alter the fact that the tendency to cream is less present in the private company than in both public agencies. Within the private company, services meant to be applied to clients are specified contractually:

“We don’t have much to do with efficiency. The tendering procedure for activation services specifies which means we can use for which groups of clients. The municipality is in control: ‘You will get this group of people.’ The municipality specifies the target for this group and what has to be done. It’s up to us to decide whether we want to work with these clients and whether we want to register for the tender. We calculate: ‘What will we get paid for them, can we make a profit from them? Then we know: ‘X clients are registered and it is such or such a kind of group’. It is not always possible to use instruments such as education in a tendering process. So you have to activate them as it is.” Manager, private re-integration company

Management within the private company explicitly states that consultants are not required to focus on outcomes. Rather, they consider timely reporting to be the core task of consultants:

“Consultants don’t deal with cost considerations. He or she is responsible solely for deadlines. They have to mind the client and nothing else.” Manager, private re-integration company

In short: mechanisms of a focus on measurable outcomes and selection are highly salient in both public agencies, while they are subordinate to timely reporting in the private company. Hence, although the private company operates on the private market, its implementation style is less outcome-oriented than both public agencies.

Bureaucratization

Employees in both public agencies now have more freedom than before in terms of how they execute their work. Prior to 2006 and the abandonment of mandatory outsourcing, case workers primarily had to account for complying with the rules. Nowadays, procedural accountability is subordinate to accountability for results. This shift is illustrated by the recently introduced management philosophy in the municipal social assistance agency:

“There is a new management philosophy. [...] The essence of it is that we steer on the basis of results and not on the basis of process. We evaluate results in the sense that: ‘the final results have to be this or that,’ but how you get there, left or right, doesn’t matter.” Manager, social assistance agency

Management in the social security agency also emphasizes the importance of outcomes in service delivery:

“They can do anything they want as long as they keep in mind: ‘What’s the added value of what I do?’ In order to activate clients, they can go to temporary employment agencies or other activation companies. If they think they can do something in Groningen [a major city in the north of the Netherlands], to help ten people, I will say: ‘Go!’ The only thing I expect is that they are critical of their actions and ask themselves: ‘What did I do and what did it lead to?’ And if the answer is: ‘Actually, nothing’ then they have to skip that activity the next time.” Manager, social security agency

This attitude implies that employees in both public agencies have the discretion to determine when they treat clients, which services they employ and how much time they spend on each client, as long as the choices they make have a positive effect on the outcome:

“How they fulfil the question of ‘how to reintegrate clients’ is left to their own discretion and then the results will show whether or not they did this appropriately. This is how things work; if you manage your targets, then freedom comes naturally. But if you claim a lot of freedom and don’t achieve anything ...” Manager, social security agency

In contrast, consultants working in the private company have little opportunity to act based on their own discretion. Clients must be treated in order of arrival and which service they employ is determined by the specific stage a client is in. For example, during the third week of the activation process, clients are required to attend competency training whereas someone who is in the second month of this process is required to do an internship. The choice between services is made on the basis of fixed criteria. The same holds true for the amount of time consultants are allowed to spend on a client and the moment upon which a client has to be outplaced.

The emphasis placed by management on rule compliance does not follow primarily from a preoccupation with justice, but has to do predominantly with the manner in which the

company generates income. Income is generated by charging a fee for the various stages of activation trajectories. Each stage – from signing the contract to an eventual job placement – is invoiced to the social security agency or the municipal social assistance agency. Although the company receives a bonus for the final phase of job placement, this bonus is not the main source of income for private companies. Furthermore, management in the private company continually stresses the timely processing of reports because it thinks timely reports are expected from them by their public principals:

“There are many kinds of reports. It differs per contract what the principal demands from us. You have to draw up an initial report; there are reports on premature endings, reports on endings based on a lack of motivation, and reports on job placements. There are numerous reports to keep your principal up-to-date on the latest developments, the latest events. If you have dismissed a client due to a lack of motivation, then you have to inform your principal and therefore, you have to hand in your reports on time.” Manager, private re-integration company

The application of sanctions is a final indication that the implementation style is more bureaucratic in the private company than in both public agencies. Sanctions can only be imposed by employees of the public agencies. However, private companies provide information which is used by public agencies to determine whether or not to apply a sanction. The management in the private company encourages consultants to report ‘non-cooperative’ clients as quickly as possible. This strict enforcement of the rules concerning the reporting of ‘non-cooperative’ clients is financially motivated. The time span within which clients must be outplaced is formalized contractually. When clients are not motivated, the risk of missing deadlines increases. If deadlines are not met, the company loses its fee. Hence, the private company uses sanction procedures as an incentive to change the behaviour of unmotivated clients so that they are ready to proceed to the next stage of the activation process:

“We have six months...within those six months we have to prepare the client, and then, if the client is motivated, the process of activation starts. If the client is not motivated, then the sanction procedure starts in order to make sure certain behaviour is changed, which allows us to start direct mediation again.” Manager, private re-integration company

However, in both public agencies, the rules sanctioning ‘non-cooperative behaviour’ and the ‘refusal of suitable jobs’ are applied flexibly. Employees forego sanctions if they are convinced that sanctions go against their attempts to focus on job placement and motivating clients:

“Legislation is often rather rigid and we, as job coaches, have to deal with the reality that people are in when they lose their job. If I always applied the law as strictly as possible, many clients would not feel as if they were being helped. Therefore, I have to balance enforcing the law and meeting the client’s needs. For instance, I know for sure that if I would rigidly enforce the rules regarding suitable work, many clients would feel disrespected when they have to apply for jobs beneath the level they are used to.” Job coach

In sum, in both public agencies, bureaucratic control is subordinate to focusing on the outcomes of activation policies, while in the private company, the focus is primarily on the steering of the activation process and a strict enforcement of rules concerning non-cooperative clients. The bureaucratic implementation style is not chosen freely by the private company but is imposed by its public principals. Public agencies require private companies to account for their actions in detail in order to prevent the company from shirking the public interest, which the principals are meant to serve. This need for accountability means that a bureaucratic implementation style is prevalent in the private company not despite its operating on a private market, but precisely because of it. In other words, the tendency of the public principal to impose detailed accountability practices is reinforced because the private company operates on a market governed by profit-seeking norms rather than public interest. This conclusion contradicts the empirically grounded, common sense idea that managers in public agencies believe they deal with more red tape than managers in private companies (Feeney and Bozeman 2009). However, it corroborates Brodtkin's (2006: 14) assumption that private agencies that lack strong countervailing constituencies or the powers of resistance available to public bureaucrats, risk being transformed from an alternative to government into an arm of government.

4.4 Interpreting the differences in implementation styles

The latter conclusion explains our finding that the private company operates more bureaucratically than both public agencies. But how can we understand why both public organizations are more outcome-oriented and that their implementation style induces more selectivity than the private company? A possible answer to this question can be derived from institutional theory (Meyer and Rowan 1977; Meyer, Scott, and Deal 1983). The starting point of this theory is that organizations are not closed systems. Rather, their survival is dependent upon their conformity to the normative expectations of their social environment. This mechanism is assumed to be of less importance for organizations operating in a technical environment than for organizations operating in an institutional environment.

The survival of the former mainly depends on efficient production within a market, while survival of the latter mainly depends on congruence between their functioning and the normative expectations imposed on them by the state. The transformation of the welfare state is connected to the expectation that the state mirrors the market; the ideology of the 'welfare state' is replaced by the ideology of an 'entrepreneurial state' (Smit and Van Thiel 2002). In this respect, it is understandable that both public agencies attempt to place their market-oriented implementation style in the foreground more so than the private company. After all, the public agencies operate, to a larger extent, in an institutional environment characterized by a market ideology. Unlike the private company, the social security agency is not dependent upon the sales of their services on the private market, but is dependent upon the allocation of means by the state. Moreover, although the municipal social assistance agency is financially

accountable for its results, it cannot go bankrupt. The frequent use of business-like terminology indicates that both the social security agency and the social assistance agency have implemented business-like principles. For instance, the quality control employee of the social assistance agency emphasizes the importance of entrepreneurship:

“As a case worker, you are in fact an entrepreneur. You have your product, which is that you reach your target. How do you handle that? That’s the job of a case worker, his entrepreneurship, like running a shop.” Quality control employee social assistance agency

In another interview, a case worker observes that the mentality in the social assistance agency has become more business-like:

“How you approach things has become more business-like. In 2000, the culture was softer in the sense of: ‘Well, I feel pity for that person and hence I won’t take harsh measures’. What you see too is that a new type of colleague has entered the organization. The old generation has either picked up the new culture or has left the organization. By 2001 and 2002, many workers had left: they’ve gone to other municipalities or have gone on to social work, to debt recovery. Job selection is increasingly centred on service provision rather than social work. This attracts a different kind of people. Not the social work type but the more business-like, service type, like you find in a bank. It is no longer feasible to focus on impediments and say: ‘Oh dear, oh dear, what a pity.’ It is now more an attitude of: ‘We recognize your impediments, but we ignore them and look at what you can do’. That shift, I mean.” Case worker

In the social security agency, employees have to draw up business plans. The manager checks the progress of these plans and discusses it with his subordinates:

“The business plan is what matters. That determines the actions of job coaches and they have to see it as such. That’s how you evaluate the actions of the job coaches. They have specified what they are going to do in their business plans. The expected results are also specified in the plan. I look at them and evaluate to what extent targets are met and discuss that with them. If a coach takes action, he continuously has to think: ‘What does that mean for my business plan?’ or: ‘I see an opportunity, do I have to adjust something in my plan?’” Manager, social security agency

This business-like terminology contrasts strongly with that of the private company, where people speak of ‘procedures’, ‘timely processing’, ‘reports’, ‘enforcement’ and ‘accountability’. In this organization, individual listings of results are not passed around and management does not mention ‘entrepreneurship’, ‘holding a business-like attitude’, ‘cost-benefit analyses’ or ‘business plans’.

In short: the reason why we have observed a stronger business-like orientation – with a focus on measurable outcomes and selection – in both public agencies than in the private company may be the larger extent to which public organizations operate in an institutional environment. Hence, these public agencies are under more normative pressure to conform to

business-like practices than the private company, which operates in a more technical environment. The private company is under more pressure to adopt a bureaucratic implementation style given the market they operate on.

4.5 Conclusion and discussion

Our first conclusion is that the unintended implementation mechanisms of selection and focusing on measurable outcomes, previously problematized in the welfare state, play an even greater role in the implementation of welfare policy in the activation state because of the greater emphasis being placed on accountability. The focus on accountability induces creaming of the most promising clients and a focus on activities for which street-level bureaucrats are held accountable. However, seen from the policy perspective of the activation state, these implementation mechanisms are not really problematic because they do not hamper its valued efficiency. However, what is problematic in the light of the activation ideology is that the transition from welfare to activation does not automatically decrease bureaucracy and hence impedes the flexibility and responsiveness valued in the activation state as well. On the contrary, principal-agent problems invoked by the outsourcing of activation policy to private companies have reinforced bureaucratic tendencies. These bureaucratic tendencies are the unintended consequence of the policy of public organizations to prevent opportunistic behaviour by private companies. Partially contracting back in does not seem to terminate this mechanism: the implementation style of the private company in our study is still mainly bureaucratic.

Our second conclusion is that selection and a focus on measurable outcomes are even more salient in both public service organizations than in the private company, while the reverse is true with respect to bureaucratization. The former may occur because public organizations operate in a more institutional environment, while private companies operate in a more technical environment. Hence, public agencies are under more normative pressure to conform to business-like practices than a private company, while private companies are under more pressure to adopt a bureaucratic implementation style because the principals they depend on for work demand this from them. This leads to the paradox that public organizations operate in a more business-like manner, while private organizations operate more bureaucratically.

The final question to be answered is how the workings of the mechanisms of selection, a focus on measurable outcomes and bureaucratization affect the results of activation policies. In this respect, our first conclusion is that, as is also observed by Handler (2008) and Brodtkin (2006), the increased role of the mechanism of selection and a focus on measurable outcomes will lead to a socially selective implementation of the normative ideals of activation policies. Social investment, or the provision of activation and reintegration services, will be concentrated on the most promising clients. The disciplinary working of activation policies – the conditionality of rights and associated obligations – will be concentrated on the least promising clients (see also Jewell 2007). Our second conclusion regarding the effectiveness of

activation policies is that the workings of these mechanisms, particularly the mechanism of bureaucratization, limit the responsiveness of the implementation of activation policies. Made-to-measure services, important in the implementation of result-oriented activation policies, will hardly be developed either because of a neglect of the needs and interests of the most deprived clients or because of a focus on contract compliance.

In sum: the welfare state has supposedly been transformed into what is alternately designated as activation, enabling or investment state. All these terms suggest the management of social risks boils down to facilitating the unemployed to find jobs themselves and, hence, increase their agency. However, when one takes the implementation of activation policy into account, the image of a facilitating, enabling or activating state is not as bright and shiny as it sounds. It basically applies to the unemployed who need it the least, while privatization puts pressure on the promised flexibility and responsiveness of service delivery because efforts directed at profit making need to be curtailed by continuous monitoring.

Chapter 15

A Welfare State for Whom? The Impact of Social Investment Reforms on Income and Activation in the Netherlands

This chapter is an extended version of a book chapter that will be published as Soentken, M., van Hooren, F. & Rice, D. (forthcoming), The ambivalent social investment path in the Netherlands. In A. Hemerijck, *Social Investment and its Critics*, Oxford: Oxford University Press.

Abstract

There is an ongoing debate about the impact of social investment policies on the income and opportunities of new social risk groups (NSR) in society. We engage with this debate through an in-depth analysis of two NSR groups in the Netherlands; early-school leavers and single parents. We apply a multi-method approach by assessing for each risk group macro level policy changes, income simulations and the impact of employment services. We find that policy changes have benefited the employment rates of both NSR groups. The income development shows on the other hand a growing divergence in income between those who manage to find employment and those who remain work-poor, pointing to the importance of finding work in the Dutch welfare state. Yet, labour market inclusion is stimulated for work-poor groups by social investment oriented employment services at the local level. Recent budget cuts brings this social investment approach however in jeopardy.

5.1 Introduction

As a consequence of socio-economic transformations such as de-industrialization and women's emancipation, the clients of the welfare state have changed in the past two decades. Those making the transition from school to work, lone parents and low-skilled workers have been confronted with *new social risks* (NSR) of labour market exclusion and hence welfare losses (Taylor-Gooby 2004). Do welfare states endow these groups with the same means to secure their living standards as they did in the past for the male industrial worker? Some studies suggest they have at least taken a fair attempt, since many welfare states have emphasized the provision of capacitating services, also referred to as *social investment*, both in discourse (Jenson & Saint Martin, 2003) and in policy output (Morel et al. 2012; Hemerijck 2013). The aim of such social investment policies is to prevent labour market exclusion of these new social risk groups. Yet, research also shows that the generosity of traditional transfer-based welfare programs has been curtailed due to tightened eligibility, increased conditionality and sanctioning, declining benefit levels and shortened duration (Gilbert 2002; Starke 2006; Vis 2010). Have these changes to the key programs of the welfare state offset the positive effects of capacitating service provision? This is an important question because new social risk groups are also prone to fall back on these traditional arrangements. For example, someone losing his or her job in the manufacturing sector and lacking the general skills to quickly take up a job in another sector may on the one hand benefit from capacitating services such as training and job counselling, but is on the other hand still reliant on benefits to maintain a decent standard of living. This study engages in the debate about the impact of social investment policies through an in-depth, case analysis of the impact of Dutch welfare state reforms. The Netherlands is an exemplary case of a welfare state that has retrenched expenditure on compensatory traditional welfare programs and at the same time increased spending on capacitating social investment policies such as active labour market policy (ALMP), childcare and education (Nikolai 2012; van Oorschot 2004). Therefore, the Netherlands provide ideal ground for testing the social investment prerogatives. Have new social risk groups seen their position deteriorate as a consequence of retrenchments, or are they endowed with capabilities that alleviate social disadvantages?

In the first section, we describe the emergence of NSR groups and discuss the ambivalent effects of social investment policy changes as documented in the literature. Secondly, we address the conceptual and methodological underpinnings of our research. Third, composing the core of our chapter, we assess the opportunities and constraints of precarious new social risk groups by analysing for each risk group: a) policy changes on the macro-level, b) a simulation of household income development and c) employment opportunities made available under the Dutch social assistance scheme¹⁸ and the effects of ongoing budget cuts for the type of employment services offered to new social risk groups. By studying the impact of social investment reforms at these different levels through a mixed-method research design,

¹⁸ (*Wet werk en bijstand*, abbr. WWB).

we aim to establish a comprehensive picture of how those most at risk fare in a post-industrial economy. This picture contributes to existing studies of changing welfare states by shifting the focus from separate institutions (unemployment insurance, healthcare insurance, pensions system) to an integral assessment of the effects of different programs (such as social insurance, social assistance, taxation, and activation measures) on the living standard and labour market opportunities of households confronted with specific social risks. In the fourth section we link the social investment reforms to the most recent policy developments. Finally, we conclude by linking our findings to a broader debate on dualization and the future of social investment.

5.2 New Social Risks and the social investment policy response

Welfare states are founded on the notion of collective strategies of risk management (Van der Veen 2011). Traditional programs of social protection covered the risks encountered in the life-course of an industrial worker: unemployment, disability, and old age. As a result of socio-economic transformations, however, individuals today are confronted with new social risks in their life-course that cannot be alleviated through traditional social protection arrangements, such as the emergence of lone parenthood, reconciling work and family life in dual-earner families, and possessing low or obsolete skills. These risks are new for most Continental welfare states including the Netherlands, since they occurred only marginally during the *trente glorieuses* of the welfare state. Work and family used to be reconciled via a gendered division of labour in the household (Crompton 2006). A male ‘breadwinner’ provided an income that was sufficient for upholding the well-being of the whole family while the woman provided informal care to children or frail elderly. Families were stable entities and lone parenthood uncommon. An abundance of industrial work and high and stable levels of growth and employment prevented skill mismatches in the labour market and secured a sufficient income for all workers.

While the occurrence of NSR cuts through social classes (after all, reconciling work and family life can be a problem of both high and low-income families), we assume that these risks have more detrimental effects on some groups than on others. For instance, while a dual-earner high-income family may experience income loss as a consequence of caretaking for children, this will not bring such a family close to poverty whereas this situation is considerably different for an early-school leaver with insufficient starting qualifications to enter the labour market. Possessing low or obsolete skills is also less problematic for a worker with a long work-history who can fall back on (fairly) generous social insurance in the case of unemployment than for a school-leaver with insufficient coverage. In this study, we focus on two typical groups of beneficiaries of the ‘new welfare state’ who are prone to experiencing new social risks *and* finding themselves in a precarious income position: early school-leavers and lone parents.

Early school-leavers are (by definition) low-skilled and not well prepared for finding durable employment in the knowledge-based economy and typically do not have sufficient

social insurance coverage. The latter also applies to lone parents, who also have a high risk of welfare loss due to difficulties with reconciling work and family life. This classification resembles the distinction made in the literature between labour market insiders and outsiders based on different degrees of labour market vulnerability. Those most vulnerable in the labour market tend to be low-skilled service sector employees, women and young labour market participants (Schwander & Häusermann 2013). The central question in this chapter is if these groups have seen their position improve or deteriorate over time, both in terms of income and in terms of employment chances.

The question of how welfare reforms impact the lives of those most at risk addresses contradicting arguments in the literature. Since the main idea behind the social investment perspective is to incorporate the excluded and marginalized into the labour market through complementary state investments in services, thereby ending the intergenerational transmission of disadvantage (Jenson, 2009), we would expect a positive effect of capacitating services on NSR groups. Positive effects are indeed noted in the literature. In a recent study on the drivers and effects of welfare state recalibration, Hemerijck (2013) concludes that investments in childcare, education and employment services redress the marginal position of socially disadvantaged groups while at the same time benefiting the economy. In other words, social investment policies combine high efficiency with high equity (Sapir 2006, in: Hemerijck 2013: 379). These conclusions echo the central argument of an older but no less relevant publication by Esping-Andersen et al. (2002) that social investment policies can offset the emerging welfare polarization between resource-strong, double-earner households and vulnerable, lone-parent and work-poor households. Also Nelson & Stephens (2012) conclude that policies associated with the social investment perspective lead to the expansion of employment, particularly employment in quality jobs.

Others point out, however that although social investment policies may have positive effects in theory, they are less propitious in practice. First, reforms implemented with the goal of employment growth have often taken the form of *recommodification* such as increased conditionality and decreased replacement rates, without the introduction of comprehensive, individually tailored and good-quality services (De la Porte & Jacobsson 2012). In addition, Cantillon (2011) notes that social investment policies have not benefitted work-poor households. While work-related investments have increased, the declining generosity of social protection may undermine redistribution and aggravate poverty trends among the working-age population. These ambiguous outcomes are not only related to the diverse settings and instruments through which states implement investment policies (Knijn & Smit 2009), but might even be inherent in the social investment policy approach, as argued by Cantillon & Van Lancker (2013). Instead of increasing the social inclusion of disadvantaged groups, social investment has thus been accused of creating a risk of *dualization* between work-rich and work-poor households. We engage in this debate between what we could call the proponents and the sceptics of social investment, by combining a macro-level policy analysis with micro-level data on the income position and service options of new social risk groups.

5.3 Methodology and conceptual considerations

To assess the impact of new welfare and social investment-oriented policies on the position of early school leavers and single parents, we analyse three empirical components for each group. First, we identify relevant policy changes on the macro level by examining changes in legislation and the introduction of new welfare programs in the case of the Netherlands. These policy changes can indicate the extent to which the Dutch welfare state has been shifting away from passive income protection and compensation towards the promotion of employment. We distinguish two different types of reform approaches: work-first oriented and social investment-oriented (Lindsay et al. 2007; Bonoli 2010). Work-first approaches refer to curtailing existing rights and increasing individual responsibility in order to increase labour market participation. Social investment aims to improve the employability and social inclusion of NSR groups by providing human-capital development services (education, lifelong learning) and policies that help to make efficient use of human capital, for instance by active labour market policies supporting women's and lone parents' employment (Morel et al. 2012: 2). Increasing the labour market participation of NSR groups can be achieved by both such 'demanding' and 'enabling' strategies of welfare reform. Capturing the existing variety of welfare reform trajectories is important for interpreting the changing social position of NSR groups and the possible effects of social policy instruments. By using a more qualitative perspective on reform, we approach reform more broadly than by only capturing the expansion or retrenchment of existing benefits.

After mapping the relevant policy changes, we assess the income position of the two exemplary new social risk groups by applying an 'at-risk household-type model'¹⁹. Within both risk groups, we simulate different income situations including working full-time (at minimum wage), working part-time, and being unemployed. More specifically, we calculate the net disposable income of each risk group, defined here as the gross income from wages, social security benefits, tax credits, health care allowance, child benefits and childcare benefits (minus taxes, social security contributions, healthcare costs and childcare costs). We selected three years for which we conducted the calculations: 1995, 2007, and 2012. The period between 1995 and 2007 can illustrate changes that occurred during the years that for many countries marked the heyday of social investment and activation. The period between 2007 and 2012 allows us to isolate the impact of the economic crisis.

Since having paid work is of importance for decreasing the risk of poverty, what are the opportunities and constraints encountered by 'work-poor' groups seeking to enter the labour

¹⁹ See van Mechelen et al. 2013 for a further discussion of this approach and its application. Income data were gathered through a triangulation of sources including archival records, governmental websites and documents of municipalities (sources available on request). We have chosen not to include housing costs, housing benefits and mortgage interest tax deductibility in the calculations, since there is a large dispersion of housing costs depending on geographical location as well as a large dispersion of benefits and tax deductions depending on the type of housing arrangement. The data sources, general assumptions and calculations of the income simulations are available upon request.

market? As the third empirical component, we analyse the employment services offered to beneficiaries of the Dutch social assistance scheme. We focus in this section on social assistance recipients because our risk groups are not likely to have acquired a sufficient work history to qualify for unemployment insurance.²⁰ By analysing the available services, we also distinguish between 'workfare' and 'social investment' orientations as defined above. If the social investment state provided equal opportunities for all citizens to acquire paid work and become socially included, we would expect that services are implemented in a targeted fashion to increase the chances of the two risk groups to engage in paid work. At least the presumption of social investment is that the provision of good-quality, tailored services may help people to (re) enter the labour market. Information on the type of services offered is based on 21 semi-structured interviews conducted with managers and caseworkers responsible for implementing the Dutch social assistance scheme in seven municipal jobcentres in 2011²¹.

5.4 Early-school leavers

Policy changes

According to the Eurostat definition, an early-school leaver is a person aged 18 to 24 with no more than a lower secondary education who is not involved in further education or training. Since the early 1990s, specific policy interventions have been introduced in the Netherlands to target the risk group of early-school leavers (Herweijer 2008; OCW 1999). Supporting continuous educational paths through the Regional Training Centres associated with lower secondary schools (VMBOs) serves as one of the key pillars in the Dutch approach towards early-school leaving (Van der Steeg & Webbink 2006). In these educational facilities, learning and work-based training is combined from the start. The risk of early-school leaving is minimized by intensive cooperation between the different layers within the educational system and also by alliances with employers.

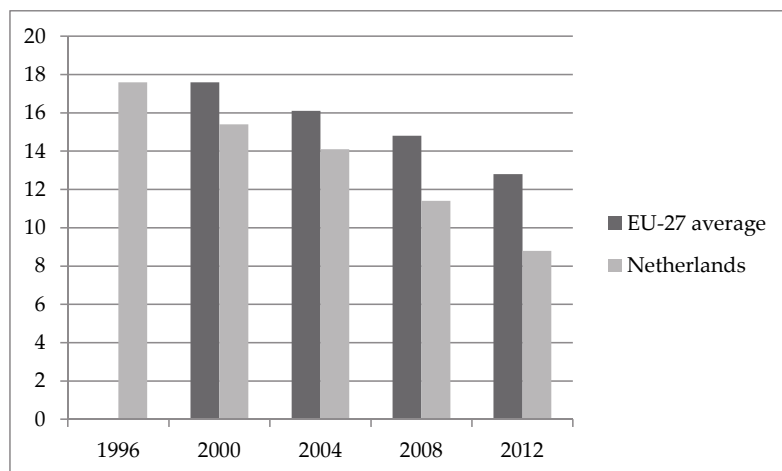
In addition, more preventive measures have been taken, such as intensive counselling and support at school for risk-groups, increased attention to career planning, job placement and targeted assessments, and rebound services for students with behavioural problems. Other measures are aimed at changing the organizational structure of schools such as widening work-learning trajectories and strengthening practice-based education in lower secondary education (VMBO). Also more curative measures have been implemented such as more possibilities to negotiate educational contracts with employers, schooling vouchers, and one-stop shops where different organizations make an integrative effort to guide early-school

²⁰ In the Netherlands, one must have had paid work for 26 out of the preceding 36 weeks in order to qualify for three months of social insurance benefits. Furthermore, a work history of at least four years makes one eligible for one month of social insurance benefits for each working year (maximum duration: 38 months).

²¹ The interviews are conducted by Rice (2014).

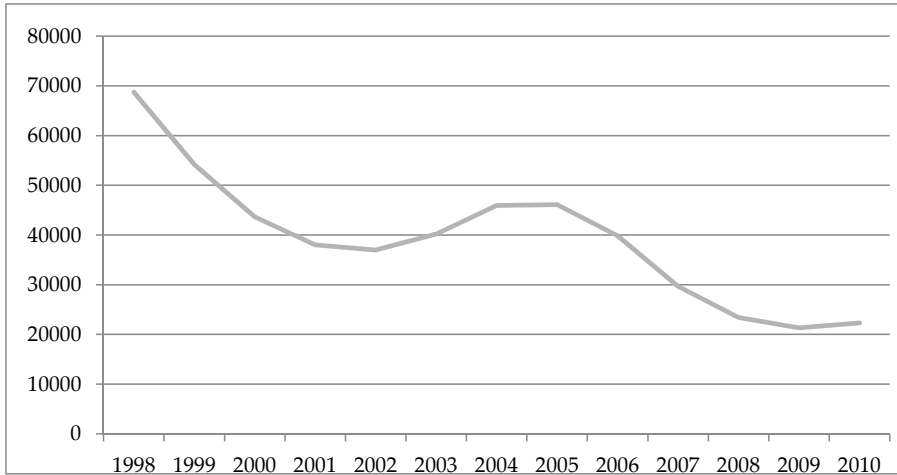
leavers back to work or education. The increased policy attention to different measures aimed at curtailing early-school leave and additional investments in prevention seem to be reflected in a drop in early-school leavers from 2000 onwards. A clear downward trend is visible, even more so when considering that the percentage of early-school leavers was as high as 17.5% in 1996.

Figure 5.1 Early-school leavers from education and training (% of all people aged 18-24), 1996-2012



Source: Eurostat (2014)

While the above policies are generally social investment-oriented, more work-first measures for this risk group have been included in the social assistance scheme. In the first social assistance reform of 1996, benefit levels of claimants aged 18-21 were substantially lowered and the municipalities were enabled to further curtail the benefits of early school leavers below the age of 25. Eligibility for the social assistance benefit for young people was further restricted by the 2004 Act on Work and Social Assistance (*Wet Werk en Bijstand*, WWB) and subsequent changes to the WWB. Thus, a waiting period of 4 weeks was introduced in which young claimants must actively search for work or education, accompanied by work-first programs in many municipalities. As of 2009, a young person between 18 and 27 who is able to follow education is no longer entitled to any benefits at all but is assisted by the municipalities to either engage in education or work. In addition, the benefit height for claimants aged 18-21 has been substantially lowered between 1995 and 2012. While such a person received €589 (adjusted for 2012 prices) in 1995, in 2012 this became €213. Figure 5.2 shows that there has been a dramatic fall in the number of young social assistance beneficiaries from the 2000s onwards. This is most likely related to the strong decrease in benefit levels and tightened eligibility criteria.

Figure 5.2 Number of social assistance claimants (persons aged <27), 1998-2010

Source: Statistics Netherlands (CBS) (2014)

Meanwhile, municipalities have been made fully responsible for providing work or training to young people applying for social assistance. People aged 18 to 27 who claim a social assistance benefit must receive either a work offer, schooling, or a combination of both from the municipality.

Income development

As can be elicited from Table 5.1, the net disposable income of an unemployed early school-leaver aged 18 who has left the elderly home and depends on social assistance has decreased dramatically. This fall is related to the lower rate of social assistance benefits for younger people discussed above. The net disposable income of the described person is below the poverty threshold in all years, but most strongly in 2007 and 2012. In these years, the person would not be able to live on his or her own.

Table 5.1 Net disposable income of a young single person aged 18; post-tax, post-transfer, in 2012 prices

Income situation	Net disposable income in Euros per month			Percentage change	
	1995	2007	2012	1995-2007	2007-2012
Depending on social assistance benefits	551	141	155	-74	+10
Working 50% at minimum wage	580	613	645	+6	+5
Working 100% at minimum wage	1065	1195	1247	+12	+4

Source: Own calculations

Employment and social services

As we saw above, eligibility for passive compensating social assistance benefits has been curtailed while at the same time, the municipalities have become responsible for organising work or training for young social assistance claimants. Does this policy devolution translate into more social investment type measures or does it increase the tendency towards a work-first approach?

The results from our interviews with professionals corroborate the shift from passive compensation to stimulating active participation of young claimants in the labour market. Interestingly, the stimulation of work entry is generally not approached from a work-first perspective, but from a more social investment-oriented perspective in practice. Our respondents indicate that when meeting a young client applying for a social assistance benefit for the first time, an individually tailored trajectory is started. This trajectory begins with assessing the claimant's capabilities and skills to engage in work, often coupled with a personality test and job profession test. According to case managers from different municipalities, the goal of the first intake is to motivate the young person to find suitable work or opt for further education instead of pushing young clients into just any kind of work. As expressed by one caseworker:

"We must listen to what they want, but also keep an eye on reality: What are the person's capacities, which jobs are there in the region, how long will such an investment take?"

For young people already on a social assistance benefit, sanctions are only applied when a person does not want to be available for work or education. However, the use of sanctioning (i.e. benefit cuts) is generally reconsidered when it does not contribute to the motivation of the client and when benefit cuts run the risk of further solidifying a young person's marginalization and social exclusion:

"One the one hand, we must coach them, motivate them, stimulate them. But when they don't do what is agreed on, we must also cut their benefits. Always taking into account: Will it have an effect? Sometimes, there is simply no effect. Then we have to think of something else to get them going".

Interestingly, Dutch caseworkers state that social investment-oriented support for young people is highly dependent on municipal service budgets and the political climate. For instance, one caseworker laments that new laws for special target groups (such as the Act Investing in Young People [WIJ] that was in place from 2009 to 2011) are frequently and paradoxically accompanied by further budget cuts:

"Also with the WIJ, when they devised it at the Ministry they were so enthusiastic that they said, 'So many young people are going to flow off that you need only half of the money'. (...) Whereas the intention behind the WIJ is in fact to establish better rapport with the young people and give them better support, so that is very much in contradiction".

As a result of budget cuts, our interviews suggest that municipalities increasingly seek funding from the European Social Fund in order to cater to the needs of special target groups such as young people. However, this means not only that specialized support is likely to become more geographically dispersed – reinforced by the fact that small municipalities often lack the expertise and manpower to master the very complex and lengthy application process for ESF funds – but also that employment measures can no longer be used as flexibly as the policy devolution of the Dutch MIS would suggest due to a relatively narrow targeting of ESF projects.

To conclude, it appears that caseworkers in the municipal social assistance system generally pursue a supportive path when assisting young claimants, focusing on ‘enabling’ employment measures that are geared towards higher qualifications and/or quality work rather than quick labour market entry. Furthermore, our interviews with social assistance caseworkers and managers suggest that ‘demanding’ measures such as sanctions are used pedagogically vis-à-vis young claimants, intended to serve as a wake-up call rather than subjecting young people to further marginalization pressures. However, the interviews also show that social investment-oriented service provision for young people is under high cost-pressure in the Netherlands which municipalities try to partly circumvent via ESF funding – which however runs the risk of a reinforced geographic fragmentation of service quality alongside a more restrictive targeting of service measures.

5.5 Lone parents

Policy changes

The economic situation of working parents with young children in general and of lone parents in particular has changed significantly in the Netherlands in the past 20 years. What has not changed is the main form of child benefits (*kinderbijslag*), which is a universal benefit paid to all families with children. However, this child support used to be supplemented by a tax credit for parents (*kinderkorting*). Since only families with a substantial taxable income could actually benefit from this tax credit whereas it was intended for all low-income families, the tax credit was replaced by an additional layer of child benefits in 2009: child allowance (*kindgebonden budget*). Contrary to child support (*kinderbijslag*), this child allowance is income-dependent and paid only to low-income families. In 2008, the tax credit for working parents (*combinatiekorting*) was increased substantially.

Another factor that has contributed to making work pay for parents is the introduction of a new Childcare Act in 2005 that made childcare subsidy income-dependent. Up to 2005, local governments offered some subsidized childcare places, but there was no systematic entitlement to such facilities. The Childcare Act of 2005 privatized the provision of childcare entirely. From then on, parents have received income-dependent childcare subsidies with which they can purchase a place in a childcare facility. While at first, employers were still

expected to contribute to the costs of childcare, the subsidy has been paid directly and entirely by the state since 2007. Initially, the subsidies were very generous, with parents on average paying for only 17 per cent of total childcare costs. Because of the enormous and unexpected popularity of childcare subsidies, the generosity of the subsidy was reduced in subsequent years (van Hooren 2012). This reduction affected all income groups, but has been larger for middle and high-income families than for low-income families (Rijksbegroting 2013). As Table 5.2 shows, the increased options to reconcile work and family life have been accompanied by a strong increase in the employment rate of mothers.

Table 5.2 Employment participation of mothers according to household composition

Household type	Employment rate			Unemployment rate			Percentage of all employed working full-time (35 hours or more)		
	1996	2007	2011	1996	2007	2011	1996	2007	2011
Single mother	37.7	59.6	64.6	22.7	9.9	8.9	41.7	28.9	29.6
Mother in couple	40.3	65.6	70.5	12.1	4.9	4.6	17.2	14.7	15.3

Source: Statistics Netherlands (CBS), 2013

In addition to these general social investment-type measures to stimulate parents' labour market participation, also policy reforms more specifically targeted towards lone parents have been enacted. Lone parents with children below 16 can request an additional tax credit of €947 per year. This amount can be supplemented by 4.3% of any income earned from paid labour (with a maximum of €1,319). As with the tax reforms for low-income families, this tax credit also benefits especially those engaged in paid labour. Beside these tax reforms, the activation criteria for lone parents receiving a social assistance benefit have also been overhauled completely, to which we will return below.

Income development

As Table 5.3 shows, it paid off much more to work for a lone parent with children below school age in 2012 than in 1995. In 1995, the costs of childcare were much higher than the income gained from working full-time at minimum wage. As a consequence, a lone parent working full-time was much worse off than a single parent receiving a social assistance benefit in 1995. By 2007, this situation was turned around and a full-time working lone parent earned considerably more than a parent receiving social assistance, also after deducting childcare costs. Here, it should be remarked that a lone parent might have been eligible for a childcare place subsidized by a local government in 1995; however, since there was no guaranteed entitlement to such a subsidized place, we did not take it into account in the described income simulations. An additional factor explaining the large improvement of income over the past two decades is the height of payable taxes and social security contributions, which decreased from a total of over €700 Euros in 1995 to around €160 in 2007 and 2012. This decrease is related

to the introduction of the various tax credits described above. It should be noted that working half-time at minimum wage still did not pay off in 2007 and 2012 compared to receiving a social assistance benefit. This signifies the importance of finding full-time or near full-time for lone parents, and could possibly explain why more single mothers now work full-time compared to mothers who live in couples (see Table 2).

Table 5.3 Net disposable income of a lone parent with children aged 2 and 7; post-tax, post-transfer and post-childcare expenditure, in 2012 prices

Income situation	Net disposable income in Euros per month			Percentage change	
	1995	2007	2012	1995-2007	2007-2012
100% employed at minimum wage, children attend full-time day care	667	1523	1600	+128	+5
50% employed at minimum wage, children attend half-time day care	905	978	1066	+8	+9
Dependent on social assistance benefits, children do not attend day care	1220	999	1120	-18	+12

Source: Own calculations

Employment and social services

Although single households without children form the largest part of social assistance recipients (36.5%), the share of lone parents is still considerable (26%) (CBS, 2011). Up to 1995, lone parents could receive social assistance benefits without being obliged to actively look for work. In the reform of the old Social Assistance Act in 1996, lone parents became obliged to look for work when their youngest child turned five years old. The idea behind this policy change was to encourage women's emancipation by enabling them to work and be financially independent. As of 2009, lone parents on social assistance with children under five, while still exempted from job-search, have had to follow some form of education or training to prepare for re-entering the labour market. In 2012, the exemption from job-searching for lone parents with children under five was abolished altogether, meaning that lone parents with children now face the same activation duties as any other social assistance recipient.

Yet, as becomes evident from the interviews with social assistance case workers, the focus is often not work-first only. Instead, the interviews show that the well-being of children is of central importance. Activation requirements are adapted and loosened when it becomes apparent that children cannot attend day-care because of health issues or personality problems. Part-time work, even if it requires a social assistance top-up²², is seen as legitimate if more care for children is needed. When clients are confronted with multiple problems

²² Those who work but still earn an income below the minimum income threshold are entitled to a top-up benefit.

(especially physical or mental health issues), caseworkers even have the option to issue a ‘temporary waiver’ from job-search obligations:

“The basics needs to be secured, otherwise a re-integration trajectory will not be successful. Sometimes you need to give the client some time and support. This may cost the municipality money, but I’m convinced that in the long run it gets a client out of social assistance”.

Secondly, the interviews show that at the municipal level, caseworkers are generally willing and able to approach single-parent households from an integrated perspective. If needed, caseworkers try to organize debt counselling, home visits and contact with other institutions to help parents reconcile work and care for their children. Interestingly and running contrary to a work-first perspective, the primary goal of caseworkers is often not to increase the labour market participation of lone parents, but to stabilize the family situation:

“I get the most satisfaction if people can stand on their own feet, which means not only work. That things are organized well at home, that children are going to the day care, that people progress in life, become independent and that debts are take care off”.

Caseworkers also fulfil a mediating role to support the employment of single parents. For instance, if a parent cannot work more hours because children need to be picked up from school, the caseworker might arrange suitable day-care. Alternatively, several caseworkers report to be willing to consult with an employer if increasing the number of working hours would be possible. Some caseworkers also organize debt-counselling or give advice regarding taxation and supplementary benefits, with the reported goal of preventing poverty traps and stimulating more durable employment.

Yet, in the interviews, caseworkers also expressed concerns about being able to retain a realistic focus on the capabilities, well-being and social inclusion of their clients in the context of budgetary constraints. Several respondents reported in 2011 that due to the ongoing budget cuts, local benefit regimes were made stricter, such as by introducing tighter sanctions or a waiting period before the commencement of benefit payments. Another consequence of the budget cuts has been that less (or less qualitative) services were being offered to social assistance clients. For example, “social integration” trajectories or trajectories preparing clients for work reportedly became less frequent after the budget cuts of 2010 set in; wage subsidies were shortened or eliminated; the introduction of part-time activation trajectories was re-considered; and one of the seven municipalities even stopped to grant personal reintegration budgets for which it had become renowned. These changes at the level of implementation may considerably hamper the opportunities for lone-parents to engage in (part-time) work. Finally, many municipalities have begun to invest their service budgets primarily in clients where a return on such an investment (in the form of a job-entry) can be expected, as one manager explains:

“We really used to be able to offer tailor-made services. Now that we have to cut back, our board said that we must make a deliberate choice in the groups that we will service and those that we

won't. (...) And they also said: We will only spend money on promising clients. (...) We are now actively involved with about 400 out of our 1,300 clients, those are promising ones. The rest is so far away from the labour market that we no longer can or want to spend money on them".

Further research should report to what extent the focus on the most promising clients affect the job opportunities of lone parents (who typically have a considerable distance to the labour market in terms of work history).

In a nutshell, although our interviewees profess to put much emphasis on bringing lone parents back into the labour market, family problems such as divorce, care for vulnerable children or debt problems are also taken into account as legitimate reasons for working less hours, or for taking more time to find work. However the interviews further suggest that once budget cuts in the area of service delivery cross a critical threshold, the balance between social investment and workfare tips towards the workfare side at the policy-implementation level. As Dutch managers and caseworkers report unanimously, the budget cuts before 2010 did not seriously impede on the social-investment ambitions of municipal employment and social services under the social assistance scheme, whereas the budget cuts from 2010 have pushed active labour market services towards a more workfarist minimum standard.

5.6 Conclusion and discussion

In short, in the past two decades, many – though certainly not all – Dutch social policy reforms can be characterised as social investment policies. Clear examples are an enormous increase in childcare subsidies and changes in taxation that favour working parents. On the other hand, work-first type reforms were prevalent in the reform of the Dutch MIS, for instance via the restriction of eligibility criteria. As Figures 1 and 2 indicated, the combination of social investment-type and work-first type reforms have clearly contributed to growing employment rates among NSR groups. Yet to what extent have these groups also benefited from lower at-risk-of-poverty rates? Our income simulations suggested that NSR groups have seen their risk of income loss and social exclusion reduced as their labour market participation has risen. While this could be related to social investment policies, there is also a clear trend towards stricter work requirements, increased sanctioning, job-search monitoring and the curtailment of benefit eligibility, which may in principle lead to a ‘recommodification’ of social protection, compelling people to participate in the labour market at almost any cost. However, our analysis of caseworker approaches to the delivery of employment and social services also suggests that a social investment approach is clearly followed at the municipal level in practice, in spite of a strong political rhetoric of ‘work first’ in the Netherlands (Kuipers 2006).

The focus on well-being, capabilities and social inclusion instead of pushing NSR groups into any kind of work as quickly as possible might reduce the at-poverty-risk of these groups when they become unemployed. Indeed, our income simulations show that the income

position of young people and lone parents who engage in paid work have improved over the past decade. Simultaneously and related to that, there is a growing gap in the disposable income of those who are employed and those who are not. Further research should clarify if this finding is indicative of a deeper process of dualization between work-rich and work-poor households (Emmenegger et al. 2012) occurring in the Dutch welfare state. The evidence presented in this chapter does not point towards an emerging differentiation of rights, entitlements, services and labour market opportunities between so-called insiders and outsiders. The above overview of policy changes and household income developments has shown that various effective policy instruments have been implemented to cater to the group of potential outsiders. The activities of caseworkers at the street-level also indicate that administrators are receptive towards the needs of individuals in precarious positions who seek to engage in paid work.

However, especially the interview data discussed in our chapter further reveal that social investment-type reforms have recently stagnated and are even brought in jeopardy by recent budget cuts in the Netherlands. Further research should therefore pay attention to the impact of politics on the implementation of social investment policies. What are the conditions under which governments are prone to implement social investment policies, and when are they more likely to retrench such welfare arrangements? Especially in times of crisis, social investment policies that enable new social risk groups to engage in training, combine work and family life, or find work in different sectors of the economy may diminish the risk of long-term social exclusion (Vandenbroucke, Hemerijck & Palier 2011). On the other hand, recommodification in a context of economic downturn (with few available jobs) may in fact increase the risk of welfare loss for those with obsolete skills, care responsibilities or limited work experience.

Chapter 9

The Institutional Embeddedness of Work Disability

This chapter is an extended version of a book chapter published as Soentken, M. (2015), The role of employers in implementing social investment reforms: The case of disability. In R. Bazillier, G. Cozzi, A. Crespy, F. De Ville, A. Wigger, M. Claassens, E.M. Schneider & B. Saenen (eds), *Progressive Structural Reforms. European reforms to reduce inequalities and promote jobs, growth, and social investment*, Brussels: SOLIDAR, pp. 151-165.

Abstract

The high number of disability benefit recipients entails significant social and economic costs among OECD countries. I argue that a policy logic of increasing activation efforts and curtailing generosity cannot explain the development in disability benefit caseloads. Rather I theorize that employers, embedded within the disability governance system, have a key role in shaping the development in disability benefit caseloads. The Netherlands is a crucial case to test this argument. I present two types of evidence. On the basis of time series data provided by the Dutch benefit administration, I show that caseloads did not alter in the context of profound policy reform, but declined sharply when the disability governance system was reformed with increased employer responsibilities. On the basis of qualitative interviews I further evaluate the central role of employers in the development of disability benefit caseloads in the Netherlands. The Dutch case describes how policy outcomes are embedded within institutional governance arrangements.

6.1 Introduction

Why is labour market activation of people with disability so hard to achieve across developed welfare states, despite the evident (policy) need to tackle this problem? The share of the working age population that do not return to work as a result of work disability, such as low back pain, depression or burn-out, and end up receiving disability benefits is high among EU-member states. The number of disability benefit recipients is close to and in some countries even larger than the rate of unemployment benefit recipients (OECD, 2010: 67). OECD countries spend on average 2% of GDP on sickness and disability benefits, with some countries exceeding the 3 % (Sweden, the Netherlands, Denmark) or even approaching the 5% (Norway) (OECD, 2010). The high share of people receiving disability benefits is puzzling from a social investment perspective. The central goal of the social investment state is to increase labour market participation and prevent benefit dependency among vulnerable groups in society in order to promote social inclusion, make optimal use of human capital and stimulate productivity (Morel et al. 2012; Hemerijck 2013). These goals are clearly not achieved for those out of work with health problems, composing a large share of the working age population. In typical 'social investment states' such as Sweden and Norway (van Kersbergen & Hemerijck 2012) the share of disability recipients in the total working age population is above 10% and in the Netherlands, Finland and Denmark around the 8%; the highest of all OECD countries. Given the policy emphasis on activation and labour market inclusion of people out of work in these countries, policy implementation is clearly lagging behind policy intentions. How to explain this discrepancy?

In this chapter I first discuss the social investment policy logic. By presenting cross-national data on labour market indicators of people with disability I argue that the high benefit dependency of people with disability poses a puzzle for a social investment policy approach. In the second section I introduce an employer-centred perspective that can resolve this puzzle. I argue that the extent of collectivization in disability and sickness insurance shapes the opportunities and constraints of employers to invest in people with a disability. In the third section this argument is tested through a single case study of the Netherlands. Based on time series data provided by the Dutch benefit administration, I show that policy reforms did not have a substantial effect on the development of disability benefit caseloads. Yet, the change in disability governance with increasing employer responsibilities in the second period did bring down the number of people claiming disability benefits. The theorized causal pathway is tested through a focus group and semi-structured interviews with key stakeholders. The main argument of this chapter is that social investment should not only be approached from a policy perspective, but should include the governance and the behaviour of key actors that are involved in the implementation as well. Finally, I discuss possible institutional rearrangements that may position employers better in making social investment policies effective.

6.2 A social investment policy logic

In the welfare state literature, a common understanding is that welfare *policies* affect the operation of labour markets by shaping 'entry' to and 'exit' from the labour market. In the current debate about changing welfare states, the productive potential of social policies is emphasized (Goodwin 2001). The central notion is that social investment policies can underpin long-run economic growth by targeting the supply side of the economy. By providing education, employment and training services long-term investments are made in individual skills that help develop human capital, make efficient use of human capital and fostering greater social inclusion while preventing benefit dependency (Morel et al. 2012). By providing education, employment and training services long-term investments are made in individual skills that can prevent benefit dependency and promoting social inclusion. There indeed seems to be a positive relationship between spending on social investment policies and overall employment (Nelson & Stephens 2012). Can we extend this policy logic to people with disability as well? This group can be considered as a typical risk group that should benefit from social investment reforms.

Bouget et al. (2015) identify three clusters of countries that differ in the extent to which they have pursued a social investment approach. The first cluster includes countries with an already well-established social investment approach (AT, BE, CH, DE, DK, FI, FR, IS, LI, NL, NO, SE, SI). How do people with disability fare in these typical social investment countries? By making such an assessment, also the benefit regime should be taken into account. Features such as eligibility criteria, conditionality, duration and benefit level is likely to impact the inflow in disability benefits. From this cluster of social investment countries, Denmark, the Netherlands and Switzerland, stand out as most likely cases (Gerring 2007) to find a favourable employment position of people with disability. The social investment policy package in these countries is relatively broad and equally accessible, with particularly strong focus on vocational rehabilitation. It provides good support for those who can and want to work. At the same time, their benefit policies are less generous than in the other countries of this cluster and provide more strict work-incentives. They also have a strong sickness absence monitoring and/or sick-pay eligibility control compared to other countries (OECD 2010). Through these policies there are strong incentives and supportive measures for disability benefit recipients to re-enter a job and strong barriers to receive a benefit in the first place. If social investment measures, with the benefit regime taken into account, would prove to be successful in boosting activation among people with disability it should be in these countries. A number of observations can be made.

First, disability benefit caseloads differ markedly between the three countries (OECD 2010: 60). In the Netherlands recipient rates have fallen from around 10% of the working age population in the mid-1990s to around 8% in 2008. In Denmark rates have remained stagnant in this period at about 7%. In Switzerland recipient rates have risen from just below 4% to approaching the 6%. Given the fact that these countries share a similar disability benefit

arrangement and social investment strategy, this variance is difficult to explain by the policy arrangement of these countries.

Second, if we compare the benefit caseloads of this cluster with other countries we see that in countries with a less developed social investment component and much less tighter eligibility criteria such as Austria, Belgium and France, disability caseloads are lower than in our most likely cases. Apparently, increasing the social investment dimension and tightening the compensation component of disability policies does not have the envisioned effect on disability benefit caseloads.

Third, also employment rates of people with disability differ markedly between the three countries. In line with the expectations, employment rates in Switzerland and Denmark belong to one of the highest among European countries, slightly above 50%. Yet these rates differ considerably from the employment rate of those that are not disabled, above 80% in both countries. Moreover, in Denmark the relative employment rates of people with disability have fallen since the mid-1990s, despite an increasing focus on activation and social inclusion of those that face barriers at the labour market. In the Netherlands, despite a strong activation turn in the mid-1990s (Cox 1998), employment rates of people with disability are around the OECD average of 40%. This is quite striking, since the employment rate of those without disabilities is about 80%. The inability of typical social investment countries to increase labour market participation of people with a disability and bring down benefit dependency poses a (policy) puzzle in the context of the EU social investment strategy and national policy recalibrations. The central goal of the social investment approach to promote social inclusion, making optimal use of human capital and stimulate productivity are clearly not achieved for those out of work with health problems, composing a large share of the working age population. How can we explain this? Below I theorize that the implementation of disability policies is influenced by employers and their interaction with the disability governance system.

6.3 An employer-centred explanation

Employers as key actors

Employers have a crucial position in retaining people with disability in the workplace and thereby prevent the inflow in disability benefits. They ultimately decide (not) to hire people with disability and make decisions about workplace adaptations that are necessary for workers to reconcile their disability with participating in their job. I hypothesize that the preference formation and ensuing purposeful actions of employers are crucial in determining the success and failure of curbing disability benefit caseloads. By becoming sensitive to the *micro logic* of firm behaviour we can account for the high disability benefit caseloads, even in those welfare states that make large (public) investments in activation or have curtailed generosity. This micro logic consists of investment decisions that employers have to make. For instance, the

possibilities for people with chronic low back pain to engage in employment is dependent on support on the job such as a graded activity program and participatory ergonomics, involving an occupational therapist and a physiotherapist (Lambeek et al. 2010). Another example is the return-to-work of people with common mental disorders such as burn-out and depression. Studies show that reduction of working hours is not enough to facilitate return-to-work of this group, but should involve more intensive work accommodations such as adaption of the job content, peer support of colleagues and improvement of communication at the workplace (Andersen et al. 2012). In addition, management and staff should be trained how to cope with specific disabilities and how to support employees in the return-to-work process (Noordik et al. 2010). In short, employers not only need to decide to hire people with a disability, but also need to make considerable human capital investments to make activation effective. Under which conditions are employers likely to make these investments?

Employers and investments in skills

Employer investments in human capital are addressed in studies to vocational education and training (VET). These studies point out that employers do make deliberate choices to invest in the human capital skills of their workforce under specific *institutional conditions* (Finegold and Soskice 1988). The existence of strong employment protection legislation and fairly generous unemployment insurance persuade employees to invest in firm specific skills. The reason is that these arrangements tie employees to the company for a long enough period to reap the returns on such investments. Without these arrangements, employers are less likely to invest and will offer less training (Estavez-Abe et al. 2001). These institutional mechanisms are less relevant when it concerns investments of employers in health. The primary reason is that health may be considered as the most basic general skill. As an employee, you are perfectly capable of transporting your status as 'healthy worker' to another company, while this is less easy with transporting very specific skills. Investment decisions of employers concerning people with disability are more likely to be structured by another institutional condition; the mode of collectivization of sickness and disability insurance.

Collectivization of sickness and disability insurance

Most developed welfare states today have some kind of compulsory insurance scheme that provides security against risks of (long-term) sickness and disability (OECD 2003). The common denominator of these schemes is the existence of an, implicit, 'social contract' between employers and the state (Mares, 2003). Individual liability of employers for sick and disabled workers is replaced by a pooling of risks among all employers of an industrial sector or even the nation as such. Meaning that employers became less responsible and the risk more *collectivized*. In exchange, employers accepted to contribute to the costs of disability in this common risk pool through a fixed premium to national disability insurance and give up some of their control over the implementation of disability benefits. The effect of this institutional

arrangement is a de-alignment between individual (firm) responsibilities and incentives for health investments. The reason is that investments of employers in health do not pay-off in lower statutory contribution to national disability and sickness insurance. As a consequence, employers who invest are confronted with double costs; the fixed contribution and the costs for investments. On the other hand, employers who decide not to invest in health will eventually benefit from lower fixed contributions in the long run and save the additional costs of investments²³. In addition, each employer that invests in the health of its employees runs the risk that these investments will 'leave' the firm and that competitors can profit without making the accompanied costs. This situation suggests that employer's investment in occupational health will be systematically undersupplied to the extent that workers are expected to leave the firm (Greer & Fannion 2014). The opportunities for free-riding in a system with a high collectivization of risks (instead of individualization) is therefore high. This creates an unfavourable condition for employer's investments in workplace (health) adaptations that should support people with health problems to stay in their job. Some countries, such as The Netherlands and Finland, have recently made changes in mode of collectivization of sickness and disability insurance by increasing responsibilities of employers. For instance by making employers responsible for sickness benefit payment for a period of varying length. In the Netherlands employers now have to pay sickness benefit for up to two years and even a third year in the case they cannot prove to have done everything to help the sick worker back into work. Another example is *experience-rating* of premiums, meaning that employers' contributions to sickness and disability are increasingly related to the actual number of benefit cases they produce. This *recoupling* between contributions and risks, can have propitious effects on the efforts of employers to retain people with health problems in the workplace and thereby curb the inflow in disability benefits. In the empirical section, I assess the effects of such system change on the behaviour of employers more closely in the context of the Netherlands.

6.4 Case selection and methodology

The Netherlands can be considered as a *crucial-case* to put the micro-logic of firm behaviour to the test. A case is crucial if the facts of that case are central to the confirmation or disconfirmation of a theory (Gerring 2007). The crucial case is a most difficult test for an argument and provides a strong sort of evidence in a non-experimental, single-case setting (Eckstein 1975). The Netherlands is a crucial case, since the empirical properties of this case are suited for a strong falsification of the theory. In a first period, the Netherlands enacted several *policy reforms* by curtailing generosity and making disability policies more activating. Yet, the governance of disability remained untouched. In a second period, the disability policy

²³ In a situation where other employers decide to invest. As a result of this investment, the overall health of the workforce will improve and statutory contributions will be lower on the long run (because fewer people will claim sickness and disability benefits).

arrangement was not altered fundamentally, while radical reforms were implemented in the *governance of disability*. As the main dependent variable I use the development in disability benefit caseloads. This captures the extent to which people with disability return to the labour market (outflow from disability) and the number of people that leave the labour market as a consequence of disabilities and thus are not retained by employers (inflow in disability). Following the theory, I hypothesize that in the absence of governance reforms and despite the major policy reforms, no change in disability caseloads is likely to occur in the first period. In the absence of policy reforms, but in the context of profound governance reform I hypothesize that more people with disability are retained in the workplace, hence resulting in less people that will receive disability benefits in the second period.

I test these hypotheses by describing the policy reforms in the first period and governance reforms in the second period and relating this information to time-series data on the development of caseloads from the Dutch benefit administration. The theorized causal pathway between the purposeful action of employers (X) and the development in benefit caseloads (Y) is more directly tested in a focus group²⁴ on the role of employers after the disability governance reforms in the Netherlands. The first half of the focus group consists of a plenary discussion about experiences of employers to keep people with disabilities in the workplace. The second half entails a discussion in small groups about best practices to further increase labour market participation of people with disability and barriers that employers encounter. The whole session is audio recorded of which participants are informed. A summary of the session, with the main points and conclusions is send to participants afterwards for validation. Participants included HR-managers and occupational physicians (*bedrijfsartsen*) of large employers (Tata Steel, KLM, Philips, Siemens, Rabobank), a trade union representative (CNV), a representative of the employers' organization (VNO-NCW), civil servants of the ministry of Health and ministry of social affairs and representatives of the Dutch Association of Occupational Physicians (NVAB) and Dutch Association of Employment Experts (NVVA). The total number of participants is 15, which falls in the ideal range for a focus group (Merton et al. 1990: 137). This number enables adequate participation by all participants and is large enough to have greater coverage than that of an interview with one individual. The benefit of a focus group is that through interaction between the participants, new information can be collected that cannot be obtained through single interviews (Morgan 1996). The outcomes of the focus groups are validated by 6 semi-structured interviews with key stakeholders and 6 semi-structured interviews with (former) employees with disabilities²⁵. Stakeholder respondents included a senior policy officer of the Dutch disability benefit administration (UWV), policy advisor health of the Dutch Association of Insurers (representing the interests of private insurance companies for work disability and occupational illness), senior advisor policy & quality of the Netherlands Association of Occupational Medicine (NVAB), a policy officer of the Dutch Association of occupational

²⁴ The focus group was held on 15 October 2013 at VU University Amsterdam.

²⁵ For an overview of selection of respondents and topic list of the interviews see Soentken et al. (2014).

health services and re-integration companies (OVAL), a senior policy advisor of the Dutch Association of General Practitioners (LHV) and a senior policy advisor of the Dutch Association of Mental Health (GGZ Nederland)²⁶. These respondents have extensive contacts with employers and are able to reflect on the role of employers in the disability governance system. Employees are selected through a health & safety organization (arbodienst) that have direct contact with employees that encounter disabilities. Clients are selected on the basis of type of employment contract, type of sector and age.

6.5 The Dutch case of disability

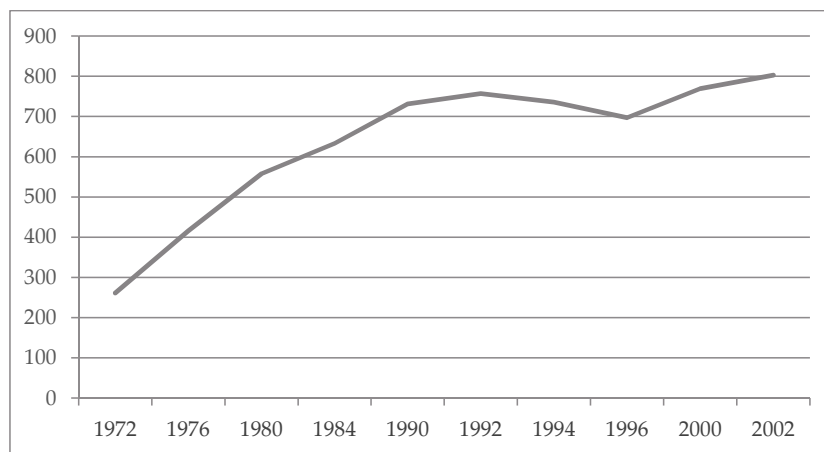
The disability crisis 1980-2002: changing policies, failing outcomes

In the context of sharply rising number of people receiving disability benefits, the Dutch government initiated a series of policy reforms in the 1980s. Eligibility criteria were tightened and benefit levels and benefit duration were considerably reduced in this period (van der Veen & Trommel 1999; Kuipers 2006; van Gerven 2008; Yerkes 2011; Yerkes & van der Veen 2011). A coalition between the conservative liberal VVD and Christian-Democratic CDA (1982-1989) suspended disability benefits from indexation four years in a row, cut benefit levels by 6 percent and lowered the maximum payment from 80 to 70 percent of previously earned income. Yet, the number of beneficiaries they did not fundamentally altered. When the still raising number of benefit claimants approached the 800,000 (on a working population of seven million), the government proposed in July 1991 wide scale reforms which became known as the “disability-crisis”. The reforms not only contained a further retrenchment in benefit levels and shortening of duration, but also included new medical re-assessments of all recipients between 18 and 50 on the basis of stricter rules. The disabled were obligated to accept offered work if the medical test allowed so. Non-compliance was sanctioned with cuts in benefits. The return of benefit recipients to work was set as the norm rather than the exception (van Gerven 2008: 149). Despite these huge political risks, the coalition continued the reform and in 1993 yet another round of re-assessments and reduction of benefit levels and duration was announced. Despite the major policy changes, no stark drop in the number of claimants occurred after the mid-1990s, although the numbers stabilized somewhat. Yet, from 1996 onwards, the number of disability recipients steadily rose again, reaching a historical high of

²⁶ These interviews were conducted in the period March-May 2014 in the context of a policy report on labour market participation of people with common mental disorders for the Dutch ministry of Social Affairs. The results are published in Soentken, et al. 2014. Stakeholders were asked if and to what extent work place health intervention were implemented, the barriers and facilitators for implementation and how they perceived the effect of different governance reforms on the opportunities of people with disability to engage in the labour market. Employees were asked how they experienced their contact with the employer, occupational physician and general practitioner during the period of sickness.

more than 800,000 WAO claimants in 2002 as is visible in figure 3. In sum, increasing policy focus on activation and curtailing generosity of benefits did not have the envisioned effect.

Figure 6.1 Number of disability claimants x1000 in the disability scheme 1972-2002



Note: WAO is the general disability insurance act implemented in 1967. This covers all employees who have been sick for one year or more (as of 2005 this is 2 years).

Source: UWV statistical time-series, 2012

New employer responsibilities 2002-2006: (de) collectivization in sickness and disability insurance

The situation started to change as of 2002. The Dutch government introduced a series of new measures (starting already before 2002, but extending it in this period) aimed at reducing sickness absenteeism and stimulating sick people getting back to work. The core idea was that by shortening the length of sickness absenteeism of employees, this would also prevent them by end up receiving disability benefits. The reason is that the most common route towards receiving disability benefits is via long-term sick leave, showing an intimate link between sickness and disability. The main difference with the previous period is that the new measures clearly targeted employers by improving incentives to reduce sickness absenteeism in their firm. These measures entailed a process of *de-collectivization* by making employers more responsible for return-to-work activities and financial compensation of sick and disabled workers (Van Oorschot 2006).

The first set of measures consisted of the *privatization* of the Sickness Benefit Act that increased employers' responsibility to compensate (from day one) at least 70 percent of an employee's salary. In 1996, employers became responsible for the sick pay of their employees for one year, this was extended in 2004 to two years (*Wet Verlenging Loondoorbetalingsverplichting bij Ziekte, VLZ*).

The second set of measures were introduced in 1998 and consisted of differentiated contributions paid by employers for the sickness and disability benefit schemes. Employers could buy insurance against the disability of their employees. The contributions employers

paid were differentiated according to the disability risk of their firm. Employers could also choose to bear the risk of a disabled employee on their own (opting out). The premium differentiation was designed such that employers had to pay higher contributions the more of their employees ended up in disability. This holds for employees up until the fifth year after they entered the disability scheme. However, the premium small firms needed to pay was not based on the disability risk of an individual company, but on the disability risk of the sector of which the company was part.

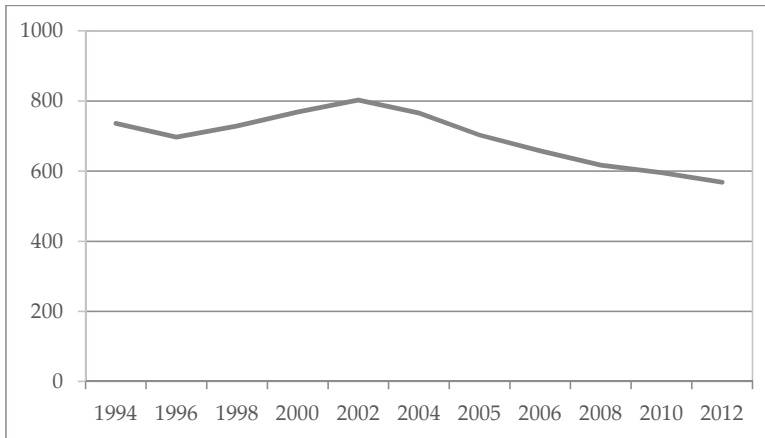
The third set of measures focused on smoothening the re-integration process with detailed legal obligations for employers. In 2002 the Gatekeeper Improvement Act (*Wet Verbetering Poortwachter*) was introduced. The aim of this act is to improve the reintegration process during the period of sickness (Groothoff, Krol, and Post, 2006: 109). New obligations are imposed on employers to put the sick employee back to work, be it at the employer's company or at another company. The employer is also required to use the services of a health and safety organization (*arbodienst*) when it comes to putting together the file of the sick employee, making and evaluating the reintegration plan and writing the reintegration report. The employer is required to report all sickness absenteeism to the *arbodienst*. This organization judges whether or not the employee is at risk of being long-term absent. In the latter case, the *arbodienst* provides a problem analysis about the sick employee six weeks after an employee has reported sick. The *arbodienst* should report in this analysis what the capabilities and restrictions of the employee are. Also, it should pay attention to what extent the employee will be able to resume his work or perhaps even other suitable work. Then the *arbodienst* should provide an estimation regarding the duration of absenteeism and an advice how to bring the employee back to the workplace. Two weeks after the finalization of the problem analysis, the problem analysis needs to be followed by a reintegration plan, which includes both the goal and the means by which this goal is to be realized. Although much of the action towards reintegration must be taken by the employer, there are also important obligations for the employee. For one, he or she has to cooperate with the employer to reintegrate. During the reintegration process, the different parties need to document all steps taken towards reintegration. This file then serves as the basis for the reintegration report that the employee needs to hand in to the Disability Benefits Administration (UWV) after one year when becoming sick (*eerstejaars evaluatie*). After 87 weeks, the employee can apply for a disability benefit. The UWV determines whether or not both employer and employee have put in enough effort in the reintegration process. Would the UWV consider the employer to be negligent in this respect, the consequence could be that the employer is obliged to continue to pay the salary of the employee up until one year extra.

A fourth set of measures consisted of changing the administration of sickness and disability. Before 1996, the administration of sickness and disability benefits was run by the social partners; employer organizations and trade unions. The legitimacy of social partner involvement declined due to acquisitions of mismanagement in delivering disability benefits. According to the Parliamentary Committee Buurmeijer (1993), social partners used these schemes as a labour-market exit route for older workers (Visser & Hemerijck 1997). The

committee advised to diminish their role in the administration. This led to the 1995 and 1997 Act on social insurance administration (OSV). In these Acts sectoral organizations were abolished and merged in a tri-partite governed 'national institute for unemployment insurance' (Lisv). The administration of social insurance was subsequently subcontracted to independent administration offices (uvi's), formally recognized by the Ministry of Social Affairs. In this structure, social partners were no longer directly involved in the administration, but still had control as principles of the independent offices. Rather than diminished, this structure reinforced the position of social partners in disability insurance (Bannink 2014). Eventually, after intense political struggle (Soentken & Weishaupt 2015), the government implemented a far-reaching labour market reform in 2001 (SUWI Act) that further reduced the role of social partners. The independent benefit administration offices were merged in an administrative agency for social insurance (UWV) under the control of the ministry and without representation of the social partners. This meant that social partners had no further say in the collection of contributions, assessment of claims and disbursement of benefits (TK 27588, no.3 p-3-4 In: Bannink 2014: 295).

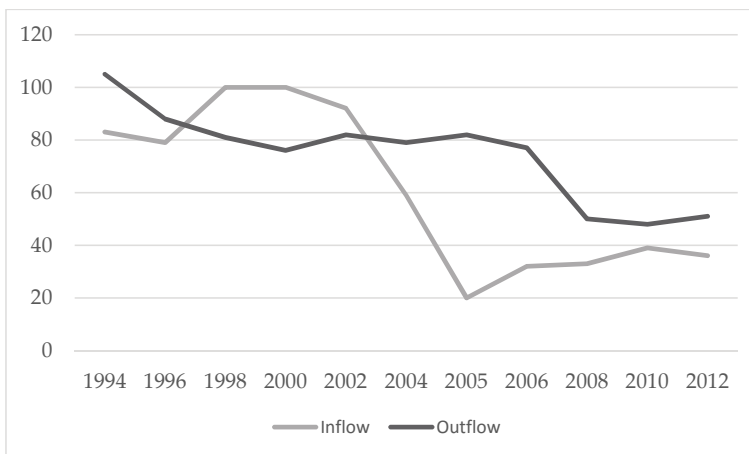
Finally, in 2006 the disability act that was in place since 1967 was replaced by the Work and Income according to Labour Capacity Act (WIA). This act distinguishes between partially disabled (called WGA) and the permanent disabled (called IVA). The minimum degree of 'disability' was raised from 15 to 35 percent. Those considered disabled between 35 and 80 percent are classified partially disabled and those disabled 80 percent or more as full disabled. The goal of this act is to focus more on what a disabled person *can* do in terms of labour market participation. For employers, this implies that more persons will be 'capable' of work and employers are obliged to take care of the return to work of employees with a remaining work capacity of more than 65 percent after two years of sickness absence. All five measures implied a decreasing collectivization of sickness and disability risks and a growing role of employers in the governance and implementation.

This process of de-collectivization had a considerable impact on the development of disability benefit caseloads in the Netherlands. Since the introduction of the Gatekeeper improvement Act the total number of disability claimants dropped steadily (see figure 6.2).

Figure 6.2 Number of disability claimants x1000 in the WAO/WIA 1994-2012

Note: From 2006, the total number of disability claimants are a combination of the former disability scheme WAO and the new disability scheme WIA.

Source: UWV statistical time-series, 2012

Figure 6.3 Number of disability claimants x1000 entering (inflow) and leaving (outflow) the WAO/WIA 1994-2012

Note: From 2006, the total inflow and outflow are a combination of the former disability scheme WAO and the new disability scheme WIA.

Source: UWV statistical time-series, 2012

While the cut in benefit levels, shortening of benefit duration, medical re-assessments and activation measures in a period over more than two decades (1980-2002) did not have a substantial effect on the number of disability claimants, the change in disability governance with far stronger employer responsibilities signals a clear break with the past. Particularly the

number of people entering the disability scheme (inflow) has changed considerably since the introduction of strong employer responsibilities and obligations in the 2002 Gatekeeper Law, while the people leaving (outflow) remained more or less stable, and even declines in the mid-2000s (see figure 6.3).

Alternative explanations

There are three alternative arguments that could explain the decline in the total number of disability recipients. First, it could be the round of reassessments in the period 2004-2009 that explains the declining number of disability recipients. Between 2004-2009, 275,285 WAO-recipients were re-examined and 22% of them lost their right to a disability benefit (UWV 2009a). Yet, this affects the outflow rate, and not the inflow rate. Despite these reassessments the total outflow rate further declined after 2005. Hence, the overall decline in disability benefit recipients is the result of declining inflow rates, not outflow. Secondly, in 2004 the norms to receive a disability benefit became stricter (*aangepast Schattingsbesluit*). Insurance physicians assess any incoming claim on the level of disability. Parallel to a change in the governance structure, also the norms these insurance physicians had to use became stricter. The result is that under these new norm, people have a higher chance to hold a 'remaining earnings potential' and thus not being classified as fully disabled. This might explain the large reduction in inflow since 2002. Research to the effects of these changing norms show that these have led to 5 to 7% more rejections of disability benefits compared with the old rules (UWV 2009b). Yet, inflow rates before the governance reforms (2000) were about 100,000 on a yearly basis, while after the governance reforms and after the changing norms (2005), inflow (WAO and WIA combined) was only around 20,000, a reduction of 20%. In short, the changing norms only explain part of the large drop. Finally, the sharp drop in inflow numbers occurred already before the introduction of the new disability scheme (WIA) in 2006 that changed the 'minimum degree' of disability from 15 to 35%. In other words, not eligibility criteria to enter the disability scheme seem to have the largest effect on development of caseloads, but the changing 'gatekeeping' function of employers.

In sum, the governance reforms that targeted employers have kept more people with health problems in the labour market, while the benefit policy measures in the period before did not had this effect. Changing the incentive structure for employers thus seems a crucial factor in understanding the labour market participation of people with disability. The changing governance of disability in the Netherlands, particularly after 2002, in part solved collective action and free-riding problems by *recoupling* contribution, obligations and risks.

2006-present: stagnating activation and unintended effects

Despite these positive outcomes, the decline in disability benefit caseloads stagnates. Still 8% of the Dutch working age population receives a disability benefit, which is far above the OECD average of 5.7% (Euwals et al. 2014). On top, the outflow of people to paid employment

reached a historical low of 8% in 2010 (UWV 2011). Interesting to note is that 5% of this outflow is ascribed to those reaching the pension age or death, meaning that the actual outflow to work is even more modest. A first explanation is that by decreasing the inflow, more people with severe health problems that are unable to work are left in the disability scheme. This is indeed part of the explanation, but not the only indication of stagnating activation. More problematic, from a policy perspective, is that some people with health problems that are considered to find work, don't enter the labour market. One group is the increasing share of young disabled that hardly find work. For this group the outflow to paid labour is only 0.2% to 0.3% (UWV 2014). This is striking, since 34% of this group is considered to have 'possibilities to engage in paid labour' but are currently out of work (IWI 2007). In addition, the return to work of people that experience a disability but are not entitled to a disability benefit is very low. In the new Dutch disability insurance legislation of 2005 (WIA), people that are considered less than 35% disabled have no entitlement to a disability benefit. Those persons are expected to find work and are thus considered 'employable' with the necessary workplace adaptations. Yet, while around 60% of people without health problems that lose their job find another employer within a year (CBS 2012), this is only 30% for ex-workers with a disability that are not 'disabled' enough to qualify for a disability benefit (UWV 2014). This situation is even bleaker for those people with health problems without employer attachment such as those people at their end of their (temporary) contract or when already receiving unemployment insurance. For this group only 25% find another job within one year. People with health problems without employer attachment make up the largest share of inflow in the disability scheme. In 2008, 45% of the inflow in the disability scheme consisted of this group of former employees, in 2013, this grew to 59% (UWV 2014). This illustrates again the central position of employers and the micro logic of firm behaviour in the labour market activation of people with health problems. While employers did have increased their effort to keep people with health problems in the labour market this seems only the case for those with a permanent employment position, the main group for which employers are responsible. For those people experiencing health problems without work experience, the young disabled, or those without permanent employment contract, the possibilities to engage in the labour market are much harder. The low labour market participation of these groups and the stagnating outflow rates in general might thus be an unintended effect of increasing employer responsibilities. Precisely because of increased responsibilities, employers might be more unwilling to hire workers with an increased risk at disability that would incur future costs on employers. This should explain why unemployed people with health problems encounter much more difficulties in finding work than unemployed people without disabilities. The Dutch government does have implemented in 2013 legislation that aims to increase labour market participation of people with disability without employer attachment. The responsibility for sick pay of those on temporary contracts is increased. Small employers have to pay an additional premium based on the sickness level of temporary employees in their sector, the additional premium for mid-sized employers is based on the actual level of sickness of temporary employees in their firm and large employers are fully responsible for the sick pay of every individual employee. To

what extent these increased responsibilities lead to a decreasing inflow of workers with temporary contracts in the disability scheme, cannot be assessed on the basis of current data.

Finally, it is questionable if the new employer responsibilities have actually increased overall labour market participation of people with disability through lower inflow in disability benefits. Self-reported data on people with disabilities reveals that since the 2002 (when the new employer responsibilities were implemented), overall labour market participation of this group has declined. From 44 % in 2002 to 40% in 2006 (CBS 2007) and further to 33% in 2013 (ROA 2015). The crisis undoubtedly had a profound effect on the labour market chances of people with a disability in the period 2010-2013. However, the decline in labour market participation of this group already occurred in the period before the crisis (2002-2008) while the general labour market participation grew from 67% to 71% in the same period²⁷. In other words, people with disabilities have not benefited to the same extent from economic prosperity as people without disability. Declining labour market participation poses a puzzle in the context of the large reduction in inflow in disability benefits. This suggests that people with disability are not included better in the labour market, but may end up in different benefit regimes such as unemployment benefit or social assistance. This can negatively affect the income position of this group. Unemployment benefits have a shorter duration than disability benefits and benefit levels of social assistance are considerably lower (and means tested) than disability benefits. Future research should assess to what extent these displacement effects have occurred alongside increased employer responsibilities.

6.6 Micro-logic of firm behaviour

The results of the macro analysis are corroborated by the discussion in the focus group. Both HR-managers and occupational physicians of the participating companies expressed that their firm had changed their internal processes concerning people with disability. Both the new financial risks and the obligations regarding the re-integration trajectory that are part of the governance reforms have altered the perception of firms. Whereas before the 2000s, health of employees was not a core issue, after the reforms both HR-managers and occupational physicians have gained new tasks relating to prevention of disabilities by their employees and early return-to-work of those that encounter health problems. Management of health has become a part of the core strategy of firms, alongside for instance product development, innovation, market strategy and communication:

“We see that firms increasingly use ‘integral health management to systematically enhance the health of their employees in order to achieve company ambitions....employers bear more responsibilities for the health of employees and keeping them on the job, so yes health

²⁷ Source: CBS statline, statline.cbs.nl. This includes a definition of labour market participation when working 12 hours or more per week. This same definition is applied to measuring labour market participation of people with disability.

management of firms becomes more important” (Member board of directors Dutch Association of Employment Experts, NVVA)

Whereas in the past, employers could ‘use’ social security arrangements to discard unproductive workers, the reforms in the governance of disability have averted this route:

“Employers and employees have less possibilities to fall back on a social safety net. We (employers) and employees have a common responsibility to keep people healthy on the job by investing in workplace adaptations and changes in the content of work. We should focus on what people still can do” (policy advisor employers association VNO-NCW)

A specific company example was mentioned during the focus group that illustrates this shift²⁸. By Siemens in the 1990s, absenteeism was around the 9%. In the late 1990s Siemens developed and implemented a health management policy. Today their outflow to the disability scheme is close to zero. Prevention for the physical and mental condition of people is ultimately ‘profitable’ for the firm. Core of the health management program of Siemens is a periodically occupational health examination. Every four years, each employee receives an invitation to participate. The examination consists of a medical part such as blood tests, a general test of weight, lung capacity, an ECG (electrocardiogram) and an exercise test. Next to these physical components, also the psychosocial condition is measured by a questionnaire. The results of both tests are discussed with the employee. On the basis of the results advice is provided how the employee can improve his or her physical and mental condition. Examples are a schedule for weight loss, an exercise plan, programs around quitting with smoking, etc. When an employee experiences psychological problems, he or she can use in company social services (*bedrijfsmaatschappelijk werk*). Around 60 percent of all 3.000 employees of Siemens participate in this periodical health examination. As reason for this focus on health, the new governance of disability is mentioned:

“This approach contributes in large part to the mentality change that is needed to curb the inflow in the disability scheme. The focus within Siemens has shifted. It is not about what somebody cannot do, but what the possibilities are. Therefore we increasingly look for other functions within a department or within the company, for a person with a disability” (occupational physician Siemens)

This example is in line with the main conclusion of an evaluation of the Gatekeeping law that “the new employer responsibilities and obligations have led to a significant increase in the efforts of employers and occupational physicians to retain people with disabilities compared with the period before the introduction of the Gatekeeping law” (Reijenga, Veerman & van den Berg 2006: 9). Besides these positive outcomes, also barriers were mentioned.

²⁸ The discussion of this example is based on the information presented by the HR-manager and occupation physician of Siemens in the focus group. Two other company examples of health management were discussed, that of Philips and Tata Steel. Information of these examples can be obtained by the researcher.

The trade union CNV and the Dutch Association of Occupational Physicians expressed their concerns that this type of health management at the firm-level pertains predominantly to midsized and large firms. These firms organize occupational health internally and are mostly self-insured. Meaning that they directly profit from declining inflow of their employees in disability benefits. Small sized firms have less capacity to invest in health management programs and more often contract private insurers (*inkomensverzekeraar*) to insure the risk at disability of their personnel and contract external occupational health services instead of organizing it in house. The unintended effect is that de-collectivization of public provision, by increasing employer responsibilities, is partly compensated by a re-collectivization in the market. Instead of the employer, the insurance company will benefit most from a reduction in disability benefit inflow, because they essentially bear the risk. This creates a principle-agent relation between insurer and employer and might divert the incentive for employers to invest in occupational health. Insurers compete on a market for contracts with employers. If the insurance company would be too critical or would put too many demands on employers they risk losing their contract (Interview Dutch Association of Insurers). For the same reason, insurers have also less possibilities to entice employers to invest in occupational health by raising the contribution if too many employees end up on disability benefit. Employers will simple contract another insurer. A similar mechanism prevails in the market for occupational services. Private occupational health services compete mostly on price, which also implies that the services offered are minimal (interview NVAB). Occupational physicians have thus less means to focus on prevention of work disability (Interview NVAB). The effects of re-collectivization through the market are in line with the central hypothesis that the institutional environment of employers structures micro-level firm behaviour. Future research should more closely disentangle employer investments in people with disability of small, medium and large firms.

A second factor mentioned in the focus group is a possible differentiation of investments in occupational health per sector. Investments of employers are less likely in sectors were employers use many temporary contracts, such as the cleaning or catering industry. Because of the temporary nature of the contracts, employers are hesitant to make long term investments (interview Dutch Association of occupational health services and re-integration companies). This observation is also in line with the theoretical expectation that employer's investment in occupational health will be systematically undersupplied to the extent that workers are expected to leave the firm. To what extent investments of employers differ per sector should also be a topic for future research.

A final barrier that was mentioned frequently in the focus group and interviews is the separation between occupation health organized by employers and curative care provided by health care providers such as general practitioners and specialists. Occupational physicians in the focus group indicate that return-to-work is still in many ways a 'blind spot' in the provision of curative health care. The aspect of work is under discussed in consultations, communication with employers scarce and work-focused guidance and support lacking (interview NVAB). Health care providers on the other hand point out that the role of health care professionals

relate to diagnoses and treatment of the health problem and not managing work disability and return to work (interview LHV). In addition, for health professionals it is often difficult to find and contact occupational physicians, which requires time efforts that are often not reimbursed (interview GGZNederland). Cooperation and service integration between occupational care and curative care may contribute to work re-integration. The reason is that can also be patients by care providers such as general practitioners. In the current situation employees can receive conflicting advice about the return to work. 5 of the 6 respondents of the client interviews indicated that their general practitioner emphasized not to work until the complaints are over, while the occupational physician of their employer emphasized to (gradually) return to work, even when the experienced health problems are enduring. According to the respondents, this conflicting advice slowed down the re-integration process.

6.7 Conclusion and discussion

In this chapter I argued and empirically showed that employers have a central role in the development of disability benefit caseloads. In the context of a historically grown 'social contract' between employers and the state, individual liability of employers for sick and disabled workers was collectivized under a national disability scheme. This meant that employers became less responsible and in return contributed to the costs of disability in a common risk pool through a fixed premium. This situation led to a de-alignment between individual (firm) responsibilities and incentives for health investments, causing collective action dilemmas and free-riding problems in the effort of employers to retain people with disability in the workplace. I showed that, under such an institutional arrangement, measures to curb the rising number of disability claimants in the Netherlands proofed rather unsuccessful. Only by changing the relationship between employers and the benefit regime, the Dutch disability crisis was combatted successfully. Yet, I also showed that the specific disability governance regime continues to affect the micro-logic of firm behaviour. Under current institutional conditions it becomes harder for people with disability without employer attachment to enter the labour market. This situation also explains why for those people with disability on temporary contracts, the route towards the disability benefit scheme is more common than for those without health problems. This chapter furthermore implies that policy makers and academics should be more sensitive to the aspects of governance in the implementation of (social investment) policies. Something which remains all too often hidden away in the current debate on social investment reforms. When the institutional (governance) environment does not enable key actors to follow a social investment route, social investment policy packages are not likely to yield the expected outcomes for individuals at risk of poverty and social exclusion. A comprehensive social investment strategy should include the governance of social policies as well.

Conclusion

Chapter 7

In recent years, the reform of active labour market governance has been high on the agenda of both academics and policymakers. This study's contribution to this debate involves the introduction of a distributive logic of ALMG. Distributive ALMG both structures decision-making authority and influences the capability of political actors to pursue long-term policy interests, by gaining control of the implementation of welfare programmes. This dissertation highlights the distributional politics of ALMG and explores the distributional outcomes for those groups that are considered to benefit from active labour market services. This study has generated a number of empirical and theoretical contributions. In this final chapter, I discuss these contributions and reflect on some avenues for future research.

7.1 Empirical contribution

The first empirical contribution is that the relative power of political actors (both within and between the corporatist and partisan arenas) drives the direction of ALMG. Based on the results of chapter 3, I conclude that – if they unite on a joint position – trade unions and employers' organizations can enforce corporatist ALMG arrangements. Indeed, in situations like this, they can actually override governmental reform plans, even if the government holds a large legislative majority. However, when these parties *fail* to agree, the government can take the lead and partisan-based policy outcomes become more pronounced, as shown in chapter 2.

The study's second empirical contribution is that ALMG can shape distributive outcomes. Labour market outsiders have, to some extent, benefitted from ALMG reform in the Netherlands. Chapter 5 shows that the empowerment and activation of outsider groups, such as single parents and early school-leavers is indeed being actively pursued at local level. Within the social assistance scheme, clients are offered individually tailored, fully integrated services. In addition, work is geared towards higher qualifications and/or quality work rather than quick labour market entry. Chapter 6 showed that radical reforms in the governance of disability have incentivized employers to retain workers with health problems in the labour market. On the other hand, the results here also reveal some unintended effects on the implementation of activation policies. This involves a socially selective policy outcome where, in some cases, those facing fewer barriers to the labour market profit more than people who are at a relatively large distance from the labour market. This effect is seen in the governance of unemployment insurance, social assistance and disability.

The distributive outcomes of ALMG reflect the interests of those who hold political power. The state may defend outsiders' interests in ALMG, but it can also take measures that, albeit unintentionally, reproduce and reinforce existing divides between insiders and outsiders. Under a series of centre-right governments from 2002 to 2012, substantial cuts were made in funding for activation measures, both in the public employment service (unemployment insurance) and at local authority level (social assistance). These budget cuts had a particularly large impact on service delivery to typical outsider groups. Both inside the public employment service and at local authority level, case workers channelled effort and

support measures into individuals with relatively favourable employment opportunities. As a result, they unintentionally neglected the needs of the most disadvantaged. The extent to which the government is able to pursue its preferences is shaped by the structure of ALMG. Due to its powerful, central role in Dutch ALMG, the government can unilaterally implement measures that would be much harder to achieve in a context where it is required to share power (as in Austria, see chapter 3). In other words, the matter of whether outsiders benefit from activation policies is inherently a partisan political question that may be especially reinforced in a state-led ALMG structure.

7.2 Theoretical contribution

In addition to the empirical contributions, both parts of this dissertation also have implications for existing theories. Part I shows that actors, their interests, and the alliances they form are all significant in terms of ALMG reform processes. This factor receives less acknowledgement in functionalist and ideational accounts of institutional change. Theories of path dependency and gradual institutional change, on the other hand, do tend to take actors and interests seriously. An observation added by the present study is that interactions between actors can also result in more radical change. Rather than being exogenously driven, this type of change is the result of shifting coalitions, and of the power of key actors, within national welfare states. In the definitive work of Thelen and Streeck (2005) and Mahoney and Thelen (2010), considerable emphasis is given to institutional entrepreneurs who are able to gradually shift the existing institutional structures by means of processes such as drift, exhaustion, layering, displacement or conversion. Yet, in their analysis, the specific influence of “agents of change” largely depends on the formal political context, such as existing veto options. According to Mahoney and Thelen (2010: 19), veto options give defenders of the status quo means of blocking change. Similarly, where would-be agents of change face a political context involving a large number of potential veto points, it will be difficult for them to mobilize the resources and assemble a coalition that is capable of displacing the existing institutional rules. Hence, according to this theory, displacement (i.e. radical change) is unlikely in a political structure with many veto points. However, chapters 2 and 3 show that in a veto-point dense political system like that of the Netherlands, which is characterized by bicameralism, the formal incorporation of organized interest groups in decision-making processes and coalitional governments, radical change does occur. In Germany too, which could be considered an even more veto heavy system (as it has a federalist system organized through the powerful upper chamber (Bundesrat) and a strong tradition of corporatist decision making), there have been radical changes in ALMG as well (which are not covered in this dissertation). Before the path breaking “Hartz reforms” of 2003 and 2004, a “surprise manoeuvre” by the German government forced a change in the leadership of the German Public Employment Service (*Bundesagentur für Arbeit*), one of the bastions of social partnership and social policy ‘self-government’ (Streeck, 2009: 61-62). This increased state control over ALMG was at the expense of unions and employers’ associations, who lost their status as corporatist co-governors of the social security

system. The result was a breakdown in the existing mode of ALMG. In line with the explanation advanced in this dissertation, the rise of government unilateralism in German ALMG was preceded by a wedge driven between organized business and labour, as well as between the government and trade unions. This undermined the organizational cohesiveness of the social partners and the traditional pattern of corporatist cooperation (Streeck & Trampusch 2005). Accordingly, the formal political system might be less important in terms of structuring patterns of radical institutional change than the literature suggests. On the basis of the research reported in this dissertation, much more emphasis should be given in the literature to strategic interrelations between trade unions and employers' organizations. The same applies to the ability of national governments to unilaterally pursue ideologically motivated reforms, despite the existence of formal veto points in the system. I fully endorse Peter Hall's insight that institutional change is critically dependent on the coalitions that the defenders and opponents of existing institutions are able to plan and forge, or on those that emerge unexpectedly in the course of distributional struggles (Hall 2010). In short, part I of this dissertation shows that the relative power of political actors within and between the corporatist and partisan arenas is enormously important in shaping the processes of institutional change.

Part II makes a conceptual contribution to the insider-outsider literature, which has tended to conceptualize insiders and outsiders in two different ways. In the first conceptualization, insiders and outsiders are distinguished on the basis of their employment status. Respondents who are in stable employment are considered insiders, while all those who are unemployed or who have non-standard forms of employment are outsiders (Rueda 2007: 14-15; Emmenegger 2009). Schwander and Häusermann (2013), however, define insiders and outsiders on the basis of their risk of being in atypical employment or unemployment. The distribution of this risk varies between different occupational categories and different social backgrounds. I propose a third, complementary, conceptualization based on how individuals from different occupational and social backgrounds are capacitated through active labour market service delivery. For instance, some groups, such as single parents, can be considered as typical outsider groups on the basis of their employment profile and their risk status. However, their risk of unemployment (including long-term unemployment) or precarious employment can be mitigated through high-quality case management. This can be seen in some examples of Dutch social assistance delivery (chapter 5). Yet, under different conditions (such as declining budgets), these same groups may not receive services of the same quality. As a result, their risk of remaining unemployed or of resorting to precarious employment contracts increases. This, in turn, escalates the outsider status of these groups. Similarly, good case management and coaching may increase unemployment benefit recipients' chances of finding work. However, as shown in chapter 4, under conditions of strict performance measurement the provision of activation and reintegration services tends to be focused on the most promising clients. As a result, the needs and interests of the most disadvantaged clients, such as unemployed older workers, the low-skilled and migrants, are neglected. Under conditions such as these, the latter group, can be defined as outsiders. This status is unrelated

to their social background or employment status. It derives from the fact that they receive few services within the administrative structures of the welfare state.

Part II further informs theories of dualization. Here, the term “dualization” is understood to refer to the increasing separation between insiders and outsiders, which is related to the employment vulnerability of different actors in the labour market (Rueda, 2014). There are two main explanations of dualization. One relates to structural factors that are external to welfare states, such as skill-biases, technological changes that displace labour engaged in routine tasks (Kiersenkowski & Koske 2012), deindustrialization that shifts stable manufacturing jobs to more irregular service sector employment (Iversen & Wren 1998) and increasing capital mobility undermining the impact of collective bargaining (Wallerstein 1999). Conversely, a second group of studies highlight the intermediating role of politics and policies, internal to welfare states, in shaping labour market dualism (Emmenegger et al. 2012). In this approach, unions, employers’ organizations and political parties are the main actors and coalitions driving the scope of dualization. For instance, these political actors (in interaction with various economic and institutional variables) drive the development of ALMPs that are thought to stimulate the reintegration of outsiders into the labour market, which helps to lessen the degree of dualization. Since the mid-1990s, the Dutch government has pursued an activation strategy that is coupled to the administrative reform of unemployment and disability insurance, and to the devolution of more responsibilities to local authorities. This could be seen as a deliberate strategy to diminish the insider bias (shown by unions when representing core workers’ interests) in favour of a more targeted approach to outsiders. Part II of this dissertation explores the implications of the latter development, by assessing the policy effects of active labour market governance, with the exclusion of social partners, for outsiders in the labour market. As discussed above, part II shows that a different kind of dualization emerges through the governance of active labour market policies. Rather than a dualization between employed individuals and the jobless, this is between those with favourable job opportunities and those who are at a large distance from the labour market. For instance, the chances of finding employment when receiving social assistance benefits have strongly increased for those who have been on benefits for less than a year (from 55% in 2004 to 75% in 2010). At the same time, it has become much harder for the long-term unemployed (whose chances of finding employment after the first year on benefits decreased by more than 5%; Koning 2012). Part II relates this dualizing effect in the implementation of activation policies to specific ALMG variables. The introduction of new public management techniques, together with cost-containment pressures on local authorities, and the shifting of responsibilities to employers may result in the socially selective targeting of services. Any attempt to elucidate the processes of dualization should not focus purely on structural factors or on the development of political actors’ interests. It should also involve a consideration of the behaviour and working practices of actors involved in the governance of policies. As the results of part II show, such a theoretical perspective should be sensitive to the interaction between the policy environment, the governance environment and the behaviour of key actors.

Finally, this dissertation also informs the literature on New Public Management (NPM) and New Public Governance. According to this literature, new ways of governing social policies are considered to be a functional requirement for the implementation of activation policies. The argument is that the logic underlying the provision of activation is fundamentally different from the logic behind the administration of passive benefits. Accordingly, a different form of governance is required. Activation entails “in-kind” services that are complex to deliver, that cut through multiple policy domains and that are individually tailored. These characteristics render a “simple hierarchy” obsolete. They call for forms of flexible governance in which the public actor no longer has a monopoly over social policies. This would involve coordination between other local actors and non-state actors, coordination between policy domains, and the development of integrated services (Minas 2014; Sabatinelli 2010). In addition, steering by means of the NPM principles of outsourcing, marketization, flexible networks and horizontal collaboration would be more in keeping with the “inner nature” of activation (Karjalainen 2010: 172). While these reforms are considered “necessary” or “inevitable” in the literature, this dissertation shows that they are, in fact, politically generated.

7.3 Future research

A number of suggestions for future research can be made on the basis of this dissertation.

First, this study has shown that the relative power of political actors drives the direction of ALMG. Based on the results of chapter 3, I conclude that – if they unite on a joint position – trade unions and employers’ organizations can enforce corporatist ALMG arrangements. However, when these parties *fail* to agree, the government can take the lead, resulting in more pronounced partisan-based policy outcomes as shown in chapter 2. An avenue for further research is the closer study of the interaction between political parties and interest groups in the formation of ALMG and the governance of other welfare programmes such as pensions. Specialists in party-interest group relationships have only begun to examine this question (Allern & Bale 2012). Unions have lost ground and the weakened reform alliance between Social Democratic parties and organized labour enabled the enactment of reforms in labour market policy and pension schemes contrary to the preferences of unions (Häusermann 2010; Klitgaard & Nørgaard 2013). In governance reform, parties on the left nevertheless remain keen to grant unions governance benefits, as shown in chapter 2. The Spanish case in this chapter also reveals how intensified contacts between the PSOE and the labour movement influenced governance reform. Further research may benefit from focusing on the extent to which partisan governments are influenced by interest groups during this process, and whether interest groups that may have lost their advantage in policy reform still stand on solid ground and are closely aligned with specific parties in the politics of welfare governance reform.

Second, ALMG reforms can be researched more intensively with regard to general trajectories of welfare (policy) reform. Are governance reforms a necessary condition for welfare policy recalibration? As this dissertation has shown, the shift towards activation in the

Netherlands was accompanied by profound governance reforms as well. The German Hartz IV reforms are another example. These reforms not only contained changes in benefit levels and the implementation of new activation measures, but also fundamentally altered the arrangements of ALMG (see Knuth 2009). Yet another example shows that the reverse can be true as well. The Belgian case indicates that, in the absence of ALMG reform, welfare policies may become reform-resistant. In Belgium, the implementation of activation policies belongs to the competencies of the regions, with a strong involvement of the social partners, and is difficult for the federal government to steer (De Deken 2011). ALMG reforms such as decentralization, marketization and competition, inter-agency cooperation, and new public management accompanying processes of activation in other countries (Van Berkel, Graaf, and Sirovátka 2011) have not been implemented on a wide scale in Belgium (Struyven, 2009). Furthermore, the administrative landscape of Belgian employment policy delivery has remained unaltered and the role of institutional veto players, the social partners, unchanged (Houwing & Vandaele, 2012). In these conditions, activation requirements are rarely enforced in practice, and the definition of what constitutes an ‘appropriate job’ has hardly changed (De Deken, 2011). A supply-side-oriented activation approach was initiated by the former Belgian Minister of Social Affairs and Pensions Frank Vandenbroucke in 2004. This reform entailed closer monitoring of the job-search behaviour of unemployed people and new sanctions for unemployed individuals who do not actively seek work. However, this reform was quite modest compared to other reforms in Europe, it did not change the basic structure of the Belgian unemployment insurance system, and it met with considerable resistance from the trade unions (Faniel, 2005). Future research should take a more systematic approach to analysing the effects of ALMG on welfare policy reform trajectories in different welfare states.

Third, a key insight of my dissertation is that private actors (i.e. employers, societal organizations, insurers, etc.) have gained new responsibilities for the implementation of activation policies. One of the drivers of this shift in the allocation of responsibilities is the provision of capacitating services that are tailored to particular social needs and that necessitate local implementation and institutional integration across different policy fields (Sabel 2012). Further research should address the link between the development of activation policies and their implementation by non-state actors. To what extent and how have private actors adopted new roles, identities and working practices in the implementation of social investment policies? What institutional and organizational conditions are required for private actors to fulfil their role in the provision of capacitating social investment services?

While much of the existing welfare state literature focuses on the *policies* of welfare reform, this dissertation argues forcefully for including elements of governance in the analysis as well. In doing so, this research updates the body of knowledge on the political drivers of welfare reform (Part I) and it enhances our understanding of how the internal mechanisms of the welfare state shape distributive outcomes (Part II).

Appendix: Overview contributions to the dissertation

Chapter 1	Own contribution
Introduction	Own contribution
Part I	
Chapter 2	<ul style="list-style-type: none"> - Contributed to the introduction, theoretical framework, qualitative data analysis and conclusion. - Responsible for data collection of the Dutch and Spanish case - Data collection of the Swedish and Danish case by Michael Baggesen Klitgaard - Quantitative data analysis by Gijs Schumacher
Chapter 3	<ul style="list-style-type: none"> - Contributed to the introduction, theoretical framework and conclusion - Responsible for data collection and analysis of the Dutch case - Data collection and analysis of the Austrian case by Timo J. Weishaupt
Introduction	Own contribution
Part II	
Chapter 4	<ul style="list-style-type: none"> - Responsible for qualitative data collection and analysis - Contributed to introduction, literature review and conclusion
Chapter 5	<ul style="list-style-type: none"> - Contributed to introduction, literature review, results and conclusion - Responsible for analysis of policy changes - Responsible for qualitative data analysis - Income simulations by Franca van Hooren - Interviews conducted by Deborah Rice
Chapter 6	<ul style="list-style-type: none"> - Content chapter own contribution - Interviews with clients conducted by Susan Hommerson - Responsible for interviews with stakeholders - Responsible for organization of the focus group - Responsible for qualitative data analysis
Conclusion	Own contribution

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