

**Market, State and Third Sector in Employment Policy:**  
An International Comparison

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# **Market, State and Third Sector in Employment Policy: An International Comparison**

## **1. Introduction**

Recently, the institutional division of labor between the governmental sector, the private sector and the nonprofit sector has reappeared prominently on the research agenda of social and political scientists. The John Hopkins Comparative Nonprofit Sector Project (see [www.jhu.edu/~ips/research/n\\_s/project.html](http://www.jhu.edu/~ips/research/n_s/project.html)) has contributed to this renewed attention, but also social, economical, ideological and religious developments have pointed the attention towards the questions which activities can or should be carried out by the market, for which services and goods the state should be responsible and which role is reserved for the nonprofit sector.

While the term “non-profit sector” refers to a relatively well-defined organizational universe in the United States, the term seems less precise when used to distinguish such sectors in most European countries. Therefore, also the term “third sector” is often used to designate all organizations that are neither profit-oriented businesses nor governmental agencies or bureaucracies (cf. Seibel & Anheier, 1990: 7). In this paper, both terms are used to refer to the wasteland between state and market.

In an international context, remarkable differences can be found with regard to services that are provided by the state, by the market or by nonprofit organizations. For instance, Anheier (1990: 48) uses an example from Hood (1984) regarding rural fire services and lifeboat services. In Britain, lifeboat services are provided by voluntary organizations, while rural fire services are the responsibility of the local authorities. In Sweden, lifeboat services are state organizations, whereas rural fire services are run by voluntary organizations. In West Germany, both services are in the nonprofit sector.

These differences in the division of labor between state, market and third sector are of course not exclusively for lifeboat services or rural fire services. Both within and across countries, an enormous variety can be found with regard to which institutional domain supplies which goods or services. In this paper, the role of public sector, private and nonprofit organizations in the field of social welfare and labor policy stands central. According to Kramer (1990: 255), also welfare states vary considerably in the extent to which they utilize non-governmental agencies. “The Netherlands, where voluntary agencies constitute the primary social service delivery system, stands at one end of the continuum; Sweden, where practically no voluntary agencies are used, although some are subsidized for the purposes of advocacy, stands at the other”.

In addition, in the field of welfare policy a lot of dynamics can be found in various countries all over the world. Transformations take place in the contents of welfare and labor policies, the public opinion on welfare and labor policies, and the institutional design of the field. For instance in the Netherlands within the last decade a move has been made from a welfare system in which the non-profit sector took a central place, via a market-like system, to a system in which the state is the most important player.

In this paper, the central question is: what factors influence the choice for a market, state or non-profit based system of welfare and labor market policies and how can the dynamics between these spheres of governance be explained?

In the second section of the paper, a brief review of the literature on the three spheres of governance - market, state and non-profit sector - is given. Attention is paid to the institutional environments that influence the specific design of welfare systems, and the key values that stand central in state, market and nonprofit sector are discussed. Next, an overview is given of the transformations that the Dutch welfare system has gone through the last decade. In paragraph 4, the developments in the field of labor market policy in three other countries are dis-

cussed. In order to get a clear overview of the developments in all types of welfare states, a distinction is made between Anglo-Saxon, Scandinavian and Continental welfare states (cf. Scharpf & Schmidt, 2000: 9-11). In each of these categories, one country is analyzed: the United Kingdom for the Anglo-Saxon type, Sweden from the Scandinavian welfare states and Germany and the Netherlands of the continental type. In section 6, the developments are confronted with the factors that have been identified in section 2 as important explanations for choosing a specific sphere of governance as the guiding principle in organizing the welfare state. Finally, some conclusions are drawn and a research agenda is proposed.

## 2. Market, state and third sector: An overview

Although the amount of literature on the three spheres of governance is overwhelming, it is still quite hard to obtain a more or less objective comparison of the market, state and third sector as modes of governance. Most arguments for one sphere of governance are derived from failures of the other spheres. In this section, a first attempt is made to outline the strengths and weaknesses of each of the modes of governance.

### *State*

According to Arts (1991: 5) the concept of a state refers to a decision-making and coordinating mechanism that rests on a network of centrally coordinated activities of a large number of actors who make decision collectively. The state has a territorial base, a certain population and an organizational unity.

According to Hoogerwerf (1995: 46-48) three types of explanations can be given for the development of the state. The first is Rousseau's idea of a social contract that people have agreed upon. In a society without a state, no one ever can be sure of his own freedom and property rights. Rousseau regards the state as a mechanism to protect the freedom of persons and goods. A second perspective on the development of the state can be found in Marxism. In the eyes of Friedrich Engels, the state is a means to maintain the class differences. The state seemingly is above the classes and tries to limit the conflict between classes, but in fact it is a tool of the ruling class. In more modern approaches, the development of the state is explained by the interaction of three factors: the total population and population density of the society, economical factors, and ideological factors. Economical factors refer to the availability of resources, technological advancement, knowledge, division of labor and system of distribution. Ideological factors refer to political values, notions of order and law, and religion.

From a welfare economical point of view, five tasks for the state as a mode of governance can be defined (cf. Rosenthal et al., 1996: 69-79):

1. Prevention of monopolies and trusts. This task is aimed at the *protection* of the market in order to ensure a fair amount of competition;
2. Production of collective goods. Collective goods are non-excludable. This is the reason why it is economically unattractive to produce these types of goods. National defense and dikes are examples of collective goods. In this task, the state serves as an *addition* to the market;
3. Regulation of externalities. Production of goods can have external effects: pollution, danger, and other types of inconveniences. Individual producers usually can shift on these external effects to society. So here the state serves as a *protection against* the market.
4. Controlling merit goods. Sometimes, the market produces goods of which it is desirable that people are encouraged to use them (culture, education) or discouraged to use them (alcoholics, tobacco). The state serves as a *correction* on the market.

5. Redistribution of income. The market produces inequalities. Some people are more successful than others. Some people hardly can function in a market system. So a function of the state is to *compensate* for inequalities of the market.

As far as the state is concerned, two specific deficiencies stand out as of particular importance. One is the limit of legal regulation, especially in terms of the implementation of regulatory programs. (Streeck & Schmitter, 1991: 236). Mayntz (1993: 13) states that when governing by the state fails to meet its goals, this can be attributed to several causes. Firstly, regulatory policies can fail because they cannot be implemented. This can have two reasons: because of the fact that the executive authorities are unable to enforce the norms (implementation problem) or because the target groups are not willing to comply (motivation problem). Another problem arises when, even if the rules are being complied with, the problem does not disappear or when all kinds of unwanted side effects appear. This may be due to deficient knowledge of causal relationships (knowledge problem) or to the impossibility to intervene in a goal-directed way in certain system processes by means of the instruments that are available to central authorities (governability problem).

Another problem with state hierarchic coordination is that it has always been associated with specific difficulties of legitimation. These are basically of two kinds: one involves winning the support and the cooperation of groups that are asked to sacrifice some of their interests in favour of general interests; the other involves presenting a consistent image of the societal role and the jurisdiction of legitimate state intervention as such – in other words, a normative definition of the boundaries of the modern state” (Streeck & Schmitter, 1991: 236-237).

What is apparently common across systems in which the private sector is given a more important role is a belief that a public bureaucracy can no longer cope with the pressures being put on it by budget restraints, higher client expectations and claims of inflexibility by interest groups and political élites. This turn away from bureaucracy is buttressed by the emergence in public discourse of economic theories of organization which draw on agency theory and transaction cost theory in order to justify quasi-market systems of service delivery (Considine, 2000: 614).

### *Market*

A market can be defined as “a decision-making and coordinating mechanism that rests upon a network of actual and potential exchange relations between individual actors making independent choices which feature compatibility” (Arts, 1991: 5). Perfectly competitive markets would be an efficient coordinating mechanism. When we all compete in the market place, we inadvertently optimize output and minimize prices. This implies efficient production, because the desired result is produced, namely sufficient goods and services at minimal expense (idem: 11). So efficiency in the production of goods and services is an important feature of the market as a mode of governance.

Moreover, the mechanism of supply and demand can be considered as an important mode of interaction between consumers and producers. In a perfect market, producers are more responsive to the wishes of consumers than the state can be.

According to Arts (1991: 8), the history of economic life in modern societies is normally presented as consisting of two main periods: Firstly the expansion of markets into pre-existing communities in the nineteenth century, and secondly the expansion of the interventionist state into the new market economy in the twentieth century (cf. Streeck & Schmitter, 1991). It could be argued that at the end of the twentieth century, a third period has been started in which the market is regaining terrain from the state. Commercial enterprises discover new markets in the field of social security, health care, and education because the state gives up certain tasks in these fields (Hoogerwerf, 1995: 61).

However, the marketization of public life not only is caused by commercial enterprises performing tasks that previously were performed by the state. Public organizations themselves more and more use market-like coordinating mechanisms. In their highly successful 'Reinventing Government' - that is widely regarded as the starting-point of the new public management stream in public administration - Osborne and Gaebler (1992) for instance plea for a competitive, results-oriented, enterprising and market-oriented government.

Of course, a central question is whether the market indeed succeeds to produce goods and services in a more efficient way than the state does. Dutch research on this topic is rare, but according to Hoogerwerf (1995: 67) it tends to agree on the conclusion that the production of goods and services by private companies leads to lower costs. This is usually explained by the absence of incentives of competitiveness and profit, combined with the presence of bureaucracy and the desire of budget increases by public official.

Arts (1991: 12) argues that markets sometimes fail to realize an efficient allocation of resources and an adequate gratification of needs in terms of goods and services. The answers economists tend to give to this question is generally based on market imperfections such as incomplete information, heterogeneous goods, monopolistic and oligopolistic power and limited competition. They also refer to the fact that competitive markets would themselves lead to a suboptimal production of collective or categoric goods, and are unable to solve the problem of external effects adequately (Arts, 12-13). Streeck and Schmitter (1991) agree with Arts when they state that concerning markets, the obvious and often analyzed problem is that the unregulated interaction of self-interested parties may fail to produce certain collective or categoric goods which are a necessary precondition for an effective functioning of the market ('market failure').

Another important drawback of the market as a coordinating mechanism is its inability to deal with weaker players in the market. According to Streeck and Schmitter (1991) free competition may result in social cleavages and inequalities. Arts (1991: 12) states that "in large social groups such as societies or commonwealths, markets will not bring about an equitable income distribution". According to Arts, who considers an equitable income distribution as a collective good, this failure is perfectly understandable, because the market is unable to produce collective goods (idem: 13).

Within a market, the danger exists that people in an unfavorable position are excluded from certain services or goods. From implementation studies, we know that street-level bureaucrats tend to 'cream' their potential clients, and concentrate on the best clients within specific groups. Within a market, with incentives for successful job placements for instance, this danger is even greater.

### *Third sector*

As I stated in the introduction of this paper, more and more scientific and political attention is aimed at the nonprofit sector as a mode of governance in the welfare state. As Streeck and Schmitter (1991: 234-235) state, "the widely accepted antimony of state vs. market appears to be insufficient. The swing of the pendulum of public policy seems to be different in different countries, with some countries being much less torn between the two extremes than others. As it happens, these countries tend to be those that have relatively strong institutions, often described as 'neo-corporatist' of associational and inter-associational conflict - for example Austria, Norway, Sweden, Switzerland, West-Germany. Institutions of this kind, in addition to mediating between the state and the market, seem to limit the extent to which the two can invade each other and enlarge their domain at each other's expense" (Streeck & Schmitter, 1991: 234-235).

According to Kramer (1990: 260), no consistent set of factors has yet been identified which can explain the presence of nonprofit organizations in widely different countries - democratic and totalitarian, highly centralized or decentralized regimes, religiously heterogeneous or homogeneous, etc.; or the particular mix between government, the market, and nonprofit organizations in different fields of service. Nor have any theories been proposed to account for the origin, development, and change over time of the sector or its components in relation to government (Kramer, 1990: 260). Up to a certain level, these statements hold true.

A general but simple line of argument that can be found in literature is that there is a non-profit sector because both state and market fail in providing collective, categorical goods and services. And Kramer (1990: 256) certainly is right when he argues that the reasons why non-profit organizations are responsible for performing certain activities can vary across countries: "Voluntary agencies are used by government because, as in the United Kingdom, the Local Authority Social Service Departments may not have appropriate, specialized or sufficient resources; or because, as in Holland, they are, for historical and religio-political reasons, the providers of first choice, or, for more pragmatic reasons, in the United States and Israel they may provide an economical, flexible services which is often a means of avoiding bureaucratic or budgetary constraints" (Kramer, 1990: 256).

However, at a general level several institutional factors can be identified that seem to influence the development of third sector organizations in a country. According to Salamon and Anheier (1996: 9) three sets of factors seem to be especially important in shaping the scope and scale of the nonprofit sector in a country:

1. Heterogeneity. The existence of a nonprofit sector can be considered as a result of inherent limitations of both market and state in providing collective goods. Because of their collective nature, such goods are generally underproduced by the market system. According to classical economic theory, the existence of such collective goods explains why government is needed in a market economy. However, the more diverse the population, the more difficult it is for people to agree on what collective goods should be provided. The result will be unsatisfied demand for collective goods on the part of different segments of the population. The function of the nonprofit sector is to meet this unsatisfied demand for collective goods. The greater the diversity of the population, the greater the size of the nonprofit sector (Salamon & Anheier, 1996: 9-10).
2. Scope of the welfare state. The greater the scope of the welfare state in a country, the less unsatisfied demand for collective goods remains. So the number of nonprofit sector organizations and project is expected to be lower in more elaborate welfare states.
3. Historical traditions. Various historical and religious traditions can encourage or discourage the formation of nonprofit sector organizations. For instance, in the Netherlands a strong tradition of subsidiarity growing out of Christian social thought has offered quite a hospitable climate for the growth of nonprofit institutions.

Furthermore, Van de Donk (2001: 17) stresses the importance of trust that is associated with the non-profit sector. According to him, it is likely that non-profit organizations will emerge to provide goods and services for which only limited information on the quality of the service is available (for instance health services). It would cost consumers a lot of transactions in a market to make a rational choice between various suppliers. Trust in the supplier is essential in this case, and in the view of Van de Donk, non-profit organizations are trustworthier than market or state organizations. Another function of the non-profit sector is to create variety and multiple perspectives in policy processes. If the state does not provide all services and goods by itself for the total society, this opens up the opportunity to experiment with non-standards solutions, to innovate and to learn. This is considered as an important benefit of the non-profit sector (Van de Donk, 2001: 18).

Kramer (1990: 256) seems to agree with Van de Donk on this point: “While welfare states differ in the extent of their reliance on non-governmental organizations for the provision of social services, they all share a basic perception of voluntary agencies: these organizations are expected to be innovative and flexible, to protect particular interests, to promote volunteer citizen participation, and to meet needs not met by government”.

Hupe and Meijs (2000: 7-8) state that nonprofit organizations can be expected to deliver higher quality and greater equity in service delivery. Nonprofit sector organizations are not primarily profit-oriented, so they can afford to provide a higher quality of service than commercial enterprises and because of small scale and adaptability they are more responsive than governmental bureaucracies. Nonprofit sector organizations are more inclined to serve those in greatest need because of their access to voluntary and philanthropic support, their charitable goals, and their more limited preoccupation with profit.

Just as the state and the market as spheres of governance, the non-profit sector also has several drawbacks. Salamon (1995: 45-49) mentions three possible failures of the non-profit sector:

1. Particularism. There may be solidarity within the community for which the specific non-profit organization was meant, but solidarity outside the community tends to be fairly low.
2. Paternalism. Non-profit organizations, especially those that are based on religion, tend to have a view on what is good for people. Also democratic decision-making procedures are often absent.
3. Amateurism. The variety of employees in the non-profit sector can be great. On the one hand there are high-skilled professionals, but on the other hand also volunteers who have the best intentions but lack professional training can be found in the non-profit sector.

### *Summary*

In this section, very shortly the most important features of state, market and third sector as spheres of governance have been presented. In table 1, the characterizing institutional environments, key values and drawbacks that are connected with each of these spheres of governance, are summarized. However, the characteristics in this table should be seen more as ideal types. As Kramer states, the organizational differences between non-profit organizations and other providers of social services (state and market) have diminished considerably, because they all draw their funds from the same governmental sources, are subject to the same regulations, and utilize the same types of professionals and other staff members (Kramer, 1990: 256). In the real world, hybrid organizations can be found that combine several characteristics out of different spheres of governance. However, in the next sections I will show to what extent the characteristics that are presented in this table have played a role in the institutional design and dynamics in the field of labor market policy in various European countries. In paragraph 6, we will then be able to assess the value of this table to explain the roles of the state, market or nonprofit sector in each of these countries.

	<i>State</i>	<i>Market</i>	<i>Nonprofit sector</i>
Institutional environment	Extended welfare state State tradition	Retrenchment of the welfare state	Limited welfare state Nonprofit tradition Heterogeneous
Task	Production of collective goods - Protecting of the market - protecting against the market; - correcting the market ; - compensating the market;	Production of private goods	Production of categorical goods
Key values	Equity Coverage	Efficiency Responsiveness	Equity Trust
Drawbacks	Limits of regulation Legitimacy	Exclusion Market failures	Particularism Paternalism Amateurism

**Table 1** Characteristics of state, market and nonprofit sector

### 3. Market, State and Third Sector in the Netherlands

The historical evolution of the Dutch welfare state can be divided into four stages. The first stage is that of the development of arrangements. It is almost impossible to determine the exact day of birth of welfare states. Different arrangements have evolved at different paces in a large period of time out of arrangements in the private or charity sector. However, according to Van der Veen (1999: 33) it can be stated that the modern Dutch welfare state has started at the end of the nineteenth and the beginning of the twentieth century. This stage of development ended with World War II. A crucial element in this first stage was the origin of compulsory arrangements that came in the place of the nineteenth century arrangements that had their origins in the private or charity sector and that usually were voluntary. A second important element was the growing interference from the state with the organization and the implementation of these arrangements (idem: 34). Until World War II a slow but steady extension of the system of social security took place. Compared with other western countries the Dutch welfare state developed rather late.

After the Second World War, this changed radically. The economic prosperity of the first post-war decades accommodated an extensive system of quite high benefits in the field of social security. Also in other policy domains the interference of the state increased. This is the period of the extension of the welfare state. This period lasted until the economic recession of the 1970's. In this period the Dutch welfare state developed from straggler to leader.

At the end of the 1960's, the economic prosperity came to an end. Growing inflation since 1968, in combination with two oil crises, caused a deep crisis for the Dutch welfare state. High unemployment rates, together with high inflation, and social trends of individualization and emancipation created an explosive increase of the expenditures on social security (Van der Veen, 1999: 42-44). In the period of the mid-seventies to the end of the 1980's the crisis of the welfare state primarily was defined in terms of affordability. Van Doorn (1992: 2) speaks of a shift from the social to the economical perspective. Solutions also were defined in economic terms like cutting back benefits and making access to arrangements more difficult.



Although the economy started to grow again in the second half of the 1980's, the number of people that benefited from disability allowances, unemployment benefits and welfare benefits remained high. This causes a shift of attention towards the ways in which these arrangements were administrated and implemented. Van der Veen (1999: 45-47) speaks of a shift in the problem definition from affordability to controllability. This period is called the period of administrative-institutional revision of the welfare state (cf . Rigter et al, 1995: 416-420; Teulings et al., 1997: 253-259).

In this period, several reform processes were initiated that are important for the division of the welfare system between the three spheres of governance: market, state and nonprofit sector. A radical revision of the welfare system in 2000 was the result of these processes. In that year, a new legal framework for the Dutch welfare system (the so-called SIWI-law: Structure Implementation Work and Income) was adopted.

In the Netherlands, the social security system can be divided in three subsystems. First, the employee assurances are paid for by contributions of employers and employees. The unemployment benefits and disability are the most important arrangements of this type. Secondly, labor market policy is the responsibility of an autonomous organization, the Public Employment Service. Finally welfare benefits are the final piece of the welfare system, for everybody who is not able to earn a living in any other way. In the following table, it is shown that the impact of the five stages that have been distinguished previously has not been similar for each subsystem.

	Employee Insurances	Labor market policy	Public welfare
Development (1900-1945)	Collectivization Corporatistic Voluntary (partial)	Private initiative Decentralized	Charitative Local Growing state contribution
Expansion (1945-1970)	Organized by branch Corporatistic Increase of coverage Compulsory	Centralized Hierarchic Public Isolated from employee assurances and public welfare	Decentralized Local From 'gift' to 'right'
Crisis (1970-1990)	Corporatistic Limits to access and benefits Organized by branch	Internal reorganization Isolated from employee assurances and public welfare	Decentralized State enforces limits to access and benefits
Administrative-institutional reform (1990-2000)	Limits to role of trade unions and labor unions Privatization Competition	Neo-corporatistic Decentralized Cooperation with employee assurances and public welfare	Decentralized Welfare to work Creation of additional jobs
SIWI (2000-2002)	Integration Centralization State Contracting out of reintegration	Integration Centralization State Privatization of reintegration	Increasing local responsibility Welfare to work Contracting out of reintegration

**Table 2** Developments in three subsystems in the Netherlands  
Source Fenger (2001: 104)

What considers the dynamics in the division between the roles of market, state and third sector in the administration and implementation of the Dutch welfare system, the last decade seems to be the most interesting. For this reason, a more detailed description of the developments in the Netherlands in the period 1990-2002 will be given. I will concentrate on the unemployment insurance and the employment policy.

As can be seen in table 2, until 1990 organizations of employees and employers were responsible for the administration of the unemployment insurance. Both at a national level, and at the functionally decentralized level of branches of industry: the so-called trade associations. The state only had a role as a supervisor in the Social Insurance Council that consisted of three parties: employer's organizations, labor unions and the central government. (Bannink, 1999: 58; Rigter et al., 1995: 252-254). But as a result of the ever-increasing appeals on unemployment benefit, disability allowances and welfare benefits and the ongoing criticism on the quality of the process of administration, the role of the trade associations became a point of discussion. When the Supreme Court of Audit in 1992 observed that the supervision of Social Insurance Council was inadequate and that independent supervision could increase the controlability, the parliament came into action. A parliamentary investigation committee was installed (Roebroek & Hertogh, 1998: 419-420; Van den Heuvel, 1995: 22).

As a result of the investigation committee, radical changes in the institutional design of the employee benefits were implemented. The involvement of employees and employers with the administration of the benefits was limited. And the Board of Supervision of Social Insurance was the independent successor of the Social Insurance Council. Trade associations became principals that had to contract administration agencies for administering employee insurances for limited periods of time, four years. These administration agencies had to compete to obtain contracts. Five private administration agencies were established.

However, before the first contract period was finished, the idea of competition was torn down already. Two reasons can be given for this. In the first place, political parties feared that privatization of benefits could lead to unfair situations. For this reason, a cut between the administration of the benefits and the decision upon individual claims was proposed. The idea of independent pilots in private agencies appeared to get a majority in parliament, but in the discussion with the parliament, the minister withdrew his proposal and promised to formulate a new proposal. The second reason was that the private administration agencies had merged with conglomerates of banks, insurance companies, personal finance advisors etc. Politicians feared an intolerable mixture of public contributions to employee insurances with private capital.

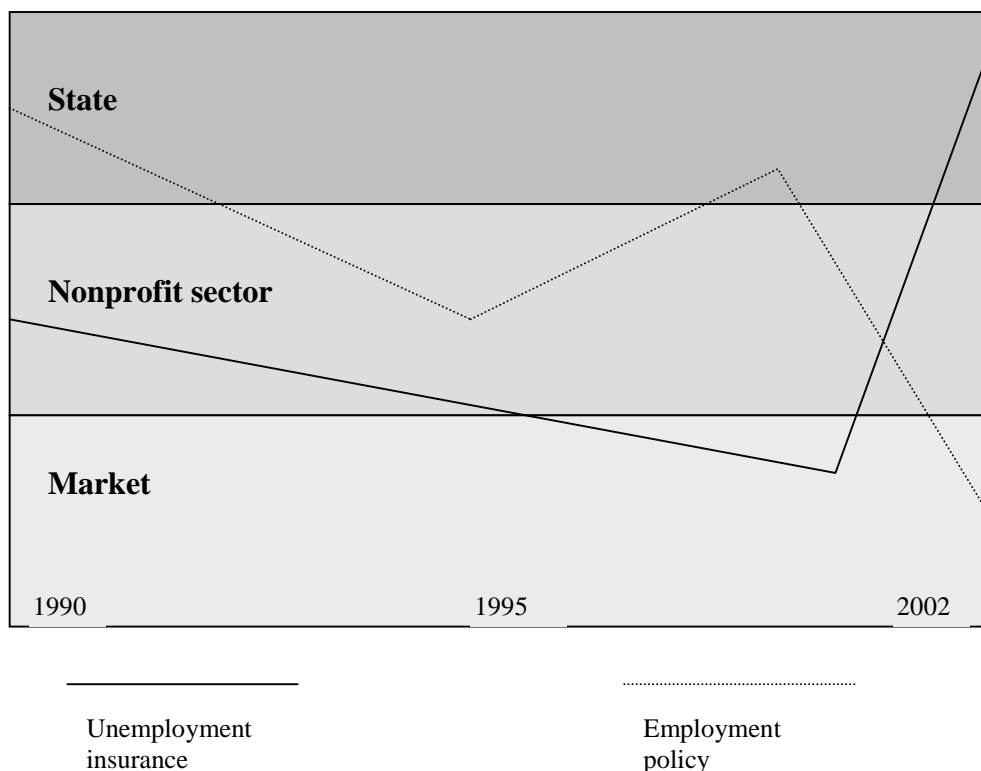
In 2000, a new proposal was submitted to parliament. In this proposal, the five private administration agencies were merged into one national Administration Agency Employee Insurance. The independent Board of Supervision of Social Insurance lost its independence and became also part of the national ministry. The only part in which competition was possible (and compulsory) is the field of activating unemployed persons. Specialized reintegration offices have been established, under which the former Public Employment Service.

This brings us to the second part of the detailed description of the Dutch case: the employment policy. There is a great difference in the dynamics between state market and third sector compared with the unemployment insurance. This is illustrated also in figure 1. From the Second World War, employment policy had been a task of the national government (in fact, this had been a 'heritage' of the German occupation during World War 2). In the new Public Employment Service Law of 1990, it was decided to have national government share its responsibility with organizations of employers and employees, the so-called tripartization. Apart from a Central Employment Council, also regional employment councils were established (Van Gestel, 1994: 84).

However, within a few years the first critics on the performance of the Public Employment Service could be heard. Sol (2000: 281-284) even states that the experiment with the tripartite governance can be called a failure. In 1995 a revision of the law took place, in which the role of the central government was reinforced again.

The proposals for the SIWI law in 2000 implied a new reorganization of the public employment service. The old public employment organization was abolished. Instead, new Centres for Work and Income (CWI's) were established. In the CWI, the labor office and the intake for unemployment and welfare benefits were integrated. The activities of the old public employment service that were aimed at reintegration of unemployed were privatized. The new organization, Kliq, became one of the new players in the reintegration market that was established in 2000.

In figure 1, a illustration is given of the dynamics in the involvement of the three spheres of governance in the Netherlands since 1990. In paragraph six, these developments will be confronted with the theoretical assumptions from the second section of this paper.



**Figure 1** State, non-profit and market in the Netherlands

#### 4. Market, state and third sector in international perspective

In this section, a brief overview will be given of the developments in the institutional structure of welfare and employment policies in five other countries. Germany will be analyzed as another example of the continental welfare states. The United Kingdom will serve as an example of the Anglo Saxon welfare states, whereas Sweden will represent the Scandinavian welfare states.

## Germany

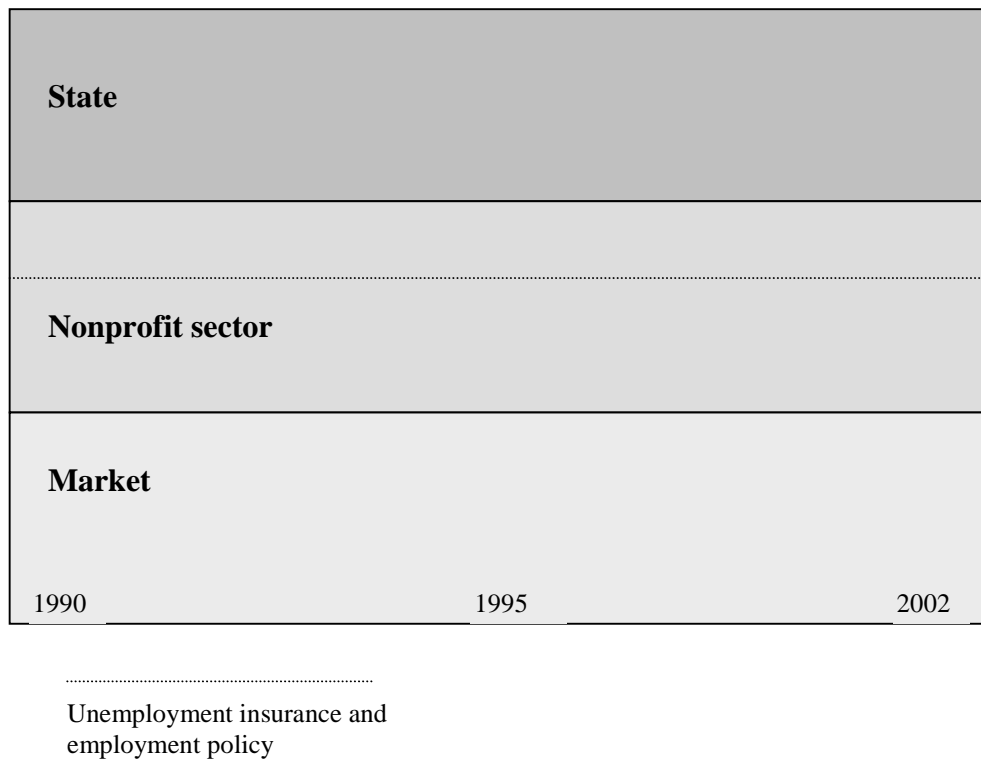
Compared with the Netherlands, two characteristics of the German developments in welfare and employment policy stand out. In the first place in Germany there is an institutional integration of the responsibility for unemployment benefits and labor market policy in the Public Employment Service, the *Bundesanstalt für Arbeit* (BA). Secondly, the absence of dynamics until 2002 is striking.

The foundations of German social insurance were laid in the 1880s with the introduction of health, accident and pension insurance. The rise of the welfare state was associated not with the replacement, but an incorporation of the private associations that had sprung up since the mid-19th century (Bönker & Wollmann, 2000: 328). Instead of simply being substituted by state institutions, the associations became part of a rather complex 'mixed economy', that combined state responsibility for social services with limits to direct state provision. The evolving regime reflected a historical compromise between the different social actors (idem: 329). Heinze & Strünck (2000: 284) state that the dominance of non-profit organizations and the political doctrine of subsidiarity (religious autonomy) have shaped the German welfare system. Unlike in other countries, the Second World War did not lead to a clear break with pre-war social policy. Bönker & Wollmann (2000: 328) even state that for social services, the "German welfare state has been a frozen one, until recently characterized by a high degree of institutional stability and, to use a fashionable term, path dependence". For the fields of personal social services, social housing and health care, Bönker and Wollman (idem) are of the opinion that a shift towards marketization can be observed since the 1990's. However, in the field of unemployment and labor market policies, the institutional dynamics only started in the summer of 2002, with a destructive report of the German Supreme Court of Audit on the performance of the *Bundesanstalt für Arbeit*.

The German labor market policy is the responsibility of the federal Ministry of Labor and Social Affairs (*Bundesministerium für Arbeit und Soziales*). This ministry is also responsible for the unemployment insurance and the disability insurance. Collective social insurance companies that are governed by representatives of employers and employees perform the administration of these social insurances. The implementation of the disability insurance, the employment insurance and the labor market policy is carried out by the *Bundesanstalt für Arbeit*. Representatives of employers, employees, and federal, regional and local authorities govern this organization. The majority of the financial resources come from contributions of employers and employees; only a limited amount comes from the Ministry. This system of employment policy has been incredibly stable over time. Even the persistent mass unemployment that Germany faces since the 1990s and the German unification has not led to fundamental changes in the system (cf. Manow & Seils, 2000).

In 2002, the German Court of Audit published a destructive report on the performance of the *Bundesanstalt für Arbeit*. It appeared that the BA deliberately overestimated its own performance indicators. The *Bundesanstalt* traditionally had a strong monopoly position on intermediation on the labor market. The share of temporary work agencies like Randstad and Vedior was rather low, due to a reserved attitude of the Germans of these kinds of agencies. It is still unclear what the future will bring for the institutional design of the labor market and unemployment policy in Germany. But against the background of the marketization that can be observed in other sector of social policy and the lack of flexibility in the labor market, partly due to the limited position of temporary work agencies, a shift towards a more market like sphere of governance in my opinion would not come as a surprise.

In figure 2, the stable development in the fields of unemployment policy and labor market policy in Germany is depicted.



**Figure 2** State, nonprofit and market in Germany

### *The United Kingdom*

According to Rhodes (2000: 21), in any comparative work on the welfare state it is obligatory to begin with a discussion of British ‘exceptionalism’. However, as in other countries, at the start of the first arrangements for poor and disabled, government activity was minimal. In 1906 a government was elected with a large Liberal majority and support from the emergent Labour Party. The 1911 National Insurance Act and legislation of the 1920’s created social insurance benefits for old, sick and unemployed. This development is relatively centralized and weak. Limited benefits were paid by the state and did not involve any form of partnership with voluntary organizations or trade unions. New participants in the social policy system were not emerging and little was being done to strengthen those already involved (Hill, 2000: 310). Clarke and Hoggett (2000: 225) state that the management of social insurance has not involved any sort of corporate arrangement with the ‘social partners’.

After the Second World War, the role of the state was further elaborated in the United Kingdom. Webb and Wistow (cited in Hill, 2000: 316) write of “the surprisingly cohesive and widely accepted ‘pure doctrine’ of state welfare which underpinned the development of the post-war welfare state. The most effective and acceptable response to social problems was seen to involve comprehensive state social services, which were necessarily large bureaucracies, and which operated through paid employees”. Hill (idem) argues that the social insurance system that emerged after the Second World War often provided services far from ade-

quately for social needs. What emerged in this period until 1980 was not a public-private partnership to fill the gaps, but rather a range of market initiatives.

From the 1980's, the British Thatcher period, the role of the private sector in delivering social services was further expanded. In the end of the 1980's, the Department of Social Security was subject to a radical process of restructuring in line with the Conservative government's 'Next Steps' reforms - ie. the 'agencification' of central government. The administration of most social insurance and social assistance type benefits was devolved to the Benefits Agency. Since the creation of the Benefits Agency in 1991 the delivery of social security services has been subject to a series of sweeping reforms exemplifying nearly all of the main features of the New Public Management (Clarke & Hoggett, 2000: 225). In the period from 1991 to 1995, much value was placed on the quality of the service delivery by the Benefits Agency. In the period from 1995 till now, more emphasis is placed upon the introduction of market incentives. Areas were given executive responsibility. Some areas formed Private Sector Partnerships, a program in which private contractors partnered the Benefits Agency in delivering the service. Some units were put out to tender as free standing business units, and benefits processing work was outplaced (Clarke & Hoggett, 2000: 231).

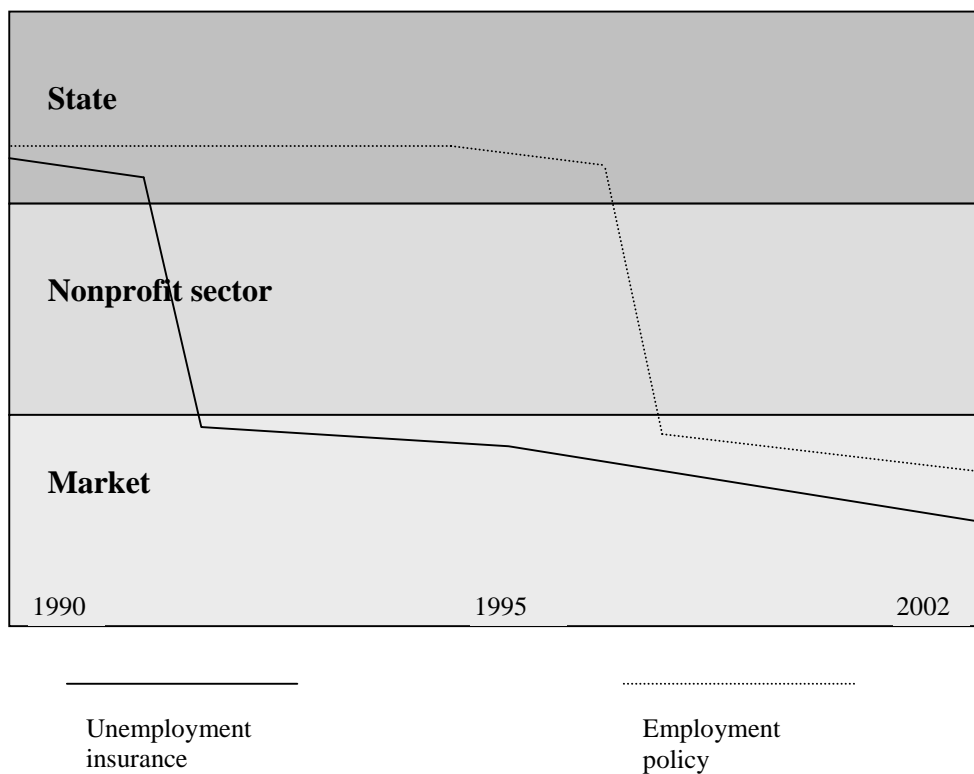
According to Wells (2001: 242), a central feature of the UK system is its universal welfare state with an extended scope but a limited generosity. The main components are universal public education and health systems, universal benefits for people of working age paid to people in respect of unemployment, sickness and disability, lone parenthood and people on low wages. Much of the social protection system is paid for through general taxation. So social security contributions for employers and employees are relatively low. The size of the public sector in the United Kingdom tends to be lower than other EU countries. As a predominantly tax-based rather than contributions based system, with no social partner involvement in the management of social security, the institutional and policy linkages between social policy and the economy have always been fractured and weak (Rhodes, 2000: 19).

When the welfare state was set up in the late 1940's, compulsory labor exchanges were considered as a crucial counterbalance to any scheme of unemployment insurance. Requirements of active job search and availability for work were the key reasons for creating and maintaining a public employment service in the UK. Still in 1995, despite the government's predisposition towards greater private sector involvement, abolition of the Public Employment Service was ruled out. Privatization was not considered feasible, because charging for placing would undermine the help for the unemployed Wells, 2001: 247).

However, in 1997, the role of the Employment Service changed radically. The Employment Service became responsible for the delivery of the New Deal programs. The New Deal is one of the initiatives that the British government has taken in its Welfare to Work strategy. For the implementation of the New Deal strategy an open tendering procedure is followed. Principals are the regional offices of the Employment Service. Within the New Deal framework there are six programs for specific target groups:

- New Deal for Young People (NDYP);
- New Deal for the Long-Term Unemployed (NDLTU/New Deal 25+);
- New Deal for Lone Parents;
- New Deal for Partners of the Unemployed;
- New Deal for Disabled People;
- New Deal 50+ (Struyven et al., 2002: 174-175).

The New Deal at a local level is delivered through 144 so-called Units of Delivery (UoD). For some elements of the New Deal program, for instance the sanctioning, the Employment Service keeps full responsibility. For some programs, a tendering procedure is compulsory, for instance the basic skills assistance programs. Finally, for some services a tendering procedure can be put out, so differences between UoD's can occur.



**Figure 3** State, nonprofit and market in the United Kingdom

### *Sweden*

Despite its unique reputation, the Swedish welfare state is “clearly derivative, borrowing heavily from Beveridge in Britain and from the German social insurance approach developed in the late 1800s under Bismarck” (Olsen, 1999). The income security component of the Swedish welfare state has two distinct levels. The first tier, a system of flat-rate, universal and largely government-financed benefits, provides only basic security, but a second tier of income-related, contributory social insurance programs is build upon this modest foundation. In the 1970’s and 1980’s, Sweden’s income security programs became more generous (with higher benefit levels or income replacement rates), less restrictive (with fewer waiting days, longer benefit periods and less stringent qualifying conditions), and more universally provided (with higher coverage rates) than in most other OECD countries (Olsen, 1999).

Contrary to the popular belief, taxes for income security in Sweden are lower than in several other countries. The employer, through payroll fees, pays a much larger portion of income-security contributions. Surprisingly, this has not lead to a high involvement of the social partners in the administration of the unemployment and disability benefits.

Until recently, Sweden was renowned as the definitive full employment society. Its reputation was based on an unmitigated commitment to full employment, n enviably low record of unemployment, and a high proportion of female participation in the labor force. Its success was

at least partly a product of the labor-market policies associated with the Rehn-Meidner model. Gösta Rehn and Rudolf Meidner were two influential economists from the trade unions confederation LO (Landesorganisation).

The Rehn-Meidner model was first outlined in a report to the LO congress in 1951. It represented a coherent and integrated approach toward achieving full employment, structural change, and industrial rationalization without inflation. Rehn and Meidner proposed combining restrictive monetary and fiscal policies with a solidaristic wage policy oriented around average production increases and an active labor market policy facilitating the transfer of labor from declining regions and companies to expanding ones (Olsen, 1999; Benner & Vad, 2000: 401).

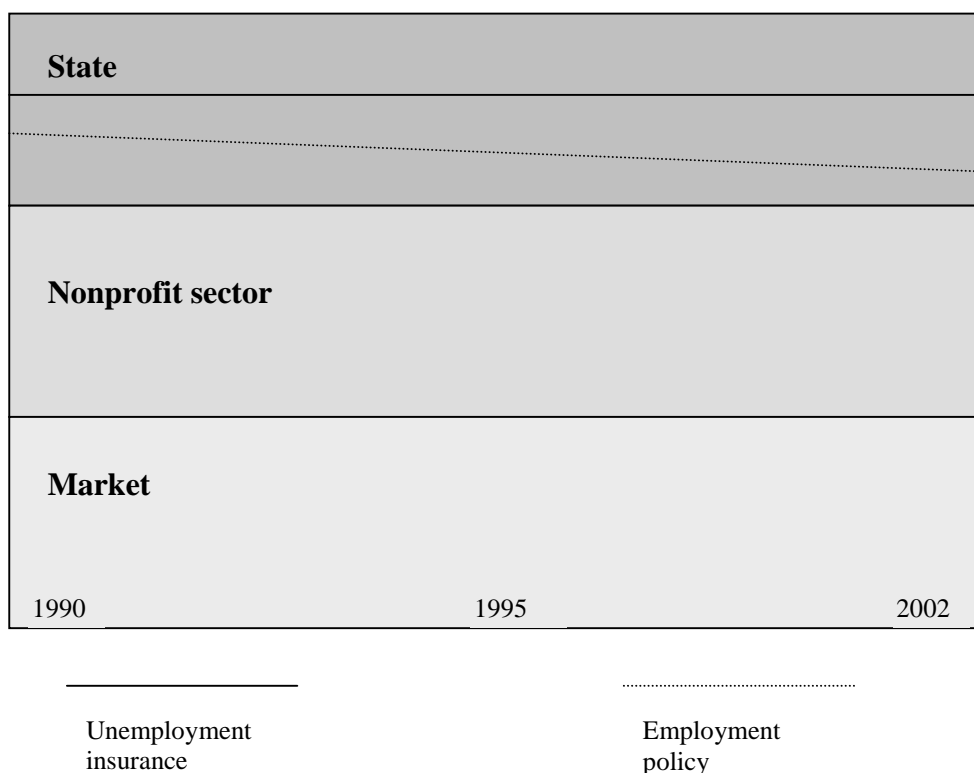
In the field of the unemployment insurance, little has been changed in the 1990s. In the early 1990s mass unemployment made its debut on the Swedish stage. Developments that can be observed in answer to this are lower levels of spending in certain areas, declining public-sector employment, and a decrease in the availability and quality of various social services. However, this has not yet led to dramatic changes. It only led to marginal adaptation of the institutional structure of the Swedish welfare state (Olsen, 1999).

This means that still the provision of almost all social services and the financing and administration of social assistance programs are primarily the concern of municipal councils and authorities. In addition, there are two primary passive forms of cash benefits to compensate the unemployed in Sweden, income-related unemployment insurance (UI) and cash labor-market assistance (KAS). UI has been neither compulsory nor universal. It is a voluntary, state-subsidized and state-regulated system. People with a short work record do not qualify for the UI and must rely on KAS, a flat-rate benefit. This is financed by the state and employer pay-roll fees and dispensed through local insurance offices (Olsen, 1999).

The employment policy also has been a task for the state, with a strong emphasis on the local level. Three levels can be distinguished, the national, the regional and the local level. The Swedish National Labour Market Administration is responsible for the implementation of the employment programs. It formulates directives that have to be carried out at the regional and local level. The local office of the Public Employment Service is the most important actor for the implementation of the Swedish labor market policy. Its task is to match vacancies and job seekers and to offer services that can facilitate the job matching. Sweden has over 400 local Employment Offices (Struyven et al., 2002: 205).

Also in this field, little institutional dynamics can be observed, although Struyven et al. (2002) rightfully argue that some marketization has been introduced in the field of employment training. In 1986, the state authority for public employment training was transformed into an autonomous agency (AmuGruppen) and the market for state-financed employment training was opened up for public and private training institutions. In 1993 a second step of marketization was set. The Amugruppen was transformed into a state enterprise, and level playing field conditions for competition were introduced. In the period from 1986 to 1999, the market share of the (former) state authority for employment training diminished from 100 to 24%. However, this is the only element in the field of labor market policy in which this trend towards marketization can be observed.





**Figure 4** State, nonprofit and market in Sweden

## 5. Dynamics in spheres of governance: Analysis

One of the most striking observations that can be distilled out of the descriptions of these countries is the divergence in developments in the last decade. This contradicts the impression that there is an overall shift from state and nonprofit sector towards the market sector in all modern welfare states. In this paragraph, we analyze to what extent the developments that have been observed can be traced back to the characteristics of state, market and nonprofit sector that have been identified in table 1. First, a brief description of each country will be given, and next some overall conclusions will be drawn.

### *The Netherlands: Institutional Confusion?*

The Dutch welfare state can be characterized by turbulent developments in the last two decades. First, the Dutch disease stood for a welfare state with very high unemployment and low participation rates. The Dutch disease transformed into the Dutch miracle (Visser & Hemerijck). But what can be observed at the start of the twenty-first century almost can be called institutional confusion.

However, what is interesting what considers the role of state, market and third sector in the Netherlands, is that the characteristics that have been identified, play an important role in the discussions on the institutional design of the welfare state in the 1990s. One of the reasons to

limit the role of the social partners in the unemployment insurance is the amateurism of these organizations, while one of the reasons to incorporate the social partners in the employment policy was the lack of legitimacy. Also the move from the market to the state at the end 1990s was defended with an appeal to the danger of exclusion and the importance of equity.

Despite the remarkable differences in the development of the unemployment insurance and the employment policy, some overall observations can be made regarding the Dutch case. First, there is a move away from the nonprofit sector in both fields. Secondly, there has been a great deal of dynamics in both fields, and finally there seems to be disagreement on the optimal division of various tasks between various modes of governance.

#### *Germany: Institutional Immobility*

Germany fits perfectly well in the picture of a state with a strong non-profit involvement in the welfare state. According to Bönker and Wollmann (2000: 329) the forging and relative stability of the compromise between different social actors were encouraged by religious heterogeneity, as well as by institutional features such as federalism and the predominance of coalition governments (Bönker & Wollmann, 2000: 329). The importance of federalism is also brought forward by Grünow (2000): The fragmented structure stems from the various historical origins together with the emphasis on the federal constitutional imperative, which allocated the federal states (and thus, in addition, the communal level) responsibility for the organizational structures and processes of implementation.

However, there are economical and social trends that make could have created some institutional dynamics in Germany. For instance, internationalization and the decreasing role of religion in society could have been causes for dynamics in the spheres of governance. And of course the reunification of East and West Germany also could have been an occasion for a discussion of the institutional design of the welfare state. For this reason, the most important challenge for further research on the German case is to explain the absence of institutional dynamics within a dynamic social and economic environment.

#### *United Kingdom: Towards a Private Welfare State?*

According to Wells (2001: 242), a central feature of the UK system is its universal welfare state with an extended scope but a limited generosity. Much of the social protection system is paid for through general taxation. So social security contributions for employers and employees are relatively low. This illustrates the role of the social partners in the British welfare state that is traditionally limited. What is striking in the British case also is that despite the limited Anglo-Saxon welfare state, civil society organizations do not seem to 'jump in the hole'. This is in contrast with the expectations of table 1.

What also is remarkable in the British case is that there seems to be a well-guided trend towards the marketization of social services. In addition to what I said previously of the non-profit sector, also the private sector seems not to be very eager to fill the holes of the limited welfare state. All private initiative in the British welfare state evolved as a result of processes of privatization of former state tasks.

#### *Sweden: The Public Welfare State*

Characteristic of the Swedish welfare state in the first place is the high level of participation of employers and employees in trade unions and labor unions. However, this has not lead to an important role of the social partners in the field of unemployment insurance or employment policy. This can be explained by the extended welfare state that the Scandinavian countries traditionally have.

Secondly, in the 1990s the Swedish welfare state has had some forms of retrenchment. Contrary to what is stated in table 1, this has not been compensated by private sector activities. It is not clear how this can be explained, but one of the possible explanations is that the retrenchment has been very limited.

## 6. Conclusions

In this paper, the central question has been: what factors influence the choice for a market, state or non-profit based system of welfare and labor market policies and how can the dynamics between these spheres of governance be explained?

It appears that the institutional environment in which the welfare state evolved can explain the long-term development of the welfare state. The scope of the welfare state and the historical governance tradition are important elements of this institutional environment. However, when we look at the dynamics in the last decade, it is more problematic to explain the recent shifts or absence of shifts. Under pressure of economical and social developments transformations in modern welfare states almost seem inevitable. But out of the four countries that have been discussed in this paper, hardly any convergent trends can be distilled. Although several elements of the theoretical discussion of state, market and nonprofit sector can be found back in the descriptions of the four countries, there emerges no clear overall picture of the way welfare states respond to various challenges.

However, there is no need to despair. This paper only has been a first exploration of the role of the state, market and nonprofit sector in the field of unemployment insurance and employment policy. Several themes have not been addressed. I see at least three themes that need further research.

In the first place, the welfare states that have been discussed in this paper come from different welfare traditions. For a first exploration, I have chosen to maximize variety on the independent variable. The next challenge is to analyze the recent developments in these fields within welfare traditions. The most important conclusion of this paper is that common challenges to countries with different starting positions lead to different responses. The next question is what common challenges would mean for countries with common starting positions.

Next, an important theme in institutional theory is that of institutional responsiveness. Historical institutionalism uses the concept of path dependency to explain resistance to change of welfare state regimes. However, as we have seen in this paper, a great deal of variety between countries in the dynamics of institutional structures can be found. To explain this, a more detailed analysis of institutional responsiveness is needed.

Finally, this paper has concentrated on the institutional dynamics in welfare states. No attention has yet been paid to the effects of various institutional structures. One of the common challenges to all modern welfare states is the demographic trend. With the aging of the population, a decreasing group of working people needs to earn welfare state facilities for a growing group of non-active people. Increasing labor market participation and limiting welfare dependence is necessarily to respond to this challenge. Further research on the effects of various spheres of governance on limiting welfare dependency therefore is needed.

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