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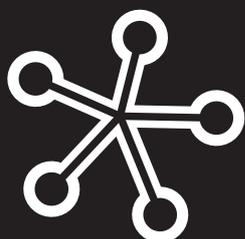
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An analysis of firm support for active labor market policies

in

Denmark, Germany, and the Netherlands

Moira Nelson



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Abstract

Active labor market policies, defined as programs for marginalized workers that improve their chances of finding stable jobs, have grown in importance since roughly 1980 due to high levels of unemployment. This paper examines the role of private firms in active labor market policies in three generous welfare states—Denmark, Germany and the Netherlands. Whereas the participation of private firms in the implementation of active labor market policies enhances the efficiency of these policies, firms' increased bargaining power within the national policy-making arena raises questions about their continued willingness to adjust their preferences in order to accommodate public concerns. The results suggest that the state plays a fundamental role in building firm support for active labor market policies, although employer organizations do influence firms' participation in these programs.

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1. Introduction

This paper examines how well reform packages aimed at addressing the risk of labor market marginalization manage to gain the support of business. Intense coordination between private firms and other economic and political actors characterizes the industrial period during which time the bulk of existing welfare state legislation was generated. The degree to which one observes a continuation of such coordination speaks to the question of whether different actors are able to develop policy responses to new social risks and, by extension, the viability of a redistributive welfare state in a post-industrial economy.

The method used to analyze this question involves semi-structured firm interviews in Denmark, Germany, and the Netherlands, respectively. These three cases were chosen based on variation on the key independent variables of interest, which include the structure of employer organizations and the role of the state. Whereas the organizational capacity of business groups has been recognized to influence the passage of social policy, the relative weight of firm-level versus peak-level organization is illuminated in this study to explain the success of active labor market policies. Moreover, the role of the state is also identified as playing a key role in the promotion of policies to help reintegrate marginalized workers.

The paper is organized as follows. First, I review the literature on business and the welfare state in order to establish broad hypothetical expectations about firms' involvement in the labor market reintegration of marginalized workers. Then, to begin the analysis, I first review the case selection procedure as well as the methodology before examining the degree to which reform packages in each of the three countries succeeded at garnering private firm involvement in the reintegration of marginalized workers. The final section concludes.

2. Theoretical Framework: Business Involvement in the Reintegration of Marginalized Workers

In recent years, increased attention has been given to business interests due to the shift in employers' bargaining power within the national policy-making arena as a result of capital market liberalization and the rise of the neo-liberal agenda. The capacity of firms to relocate or reinvest outside national borders on the one hand and the growing view that private solutions outperform public ones on the other raise concerns about the continued participation of business groups within national policy-making circles. In light of these changes, governments may appear beholden to these ever more powerful groups in order to achieve their own public policy goals, and questions arise about the capacity of governments, if any, to woo business groups: Will employers continue to demonstrate an interest in responding to the concerns of workers and public authorities? Or will employers use their capacity to relocate or reinvest as a *carte blanche* to pursue their narrow interests without anticipating the need to consider the interests of other economic actors? Will the relative dominance of private over public policy solutions lead to a reduction in the role of the state in the policy-making process or, in a different way, generate greater potential for public-private partnerships?

Studies of business interests in social policy and labor market regulation have increased in recent years. Scholarly attention to business interests resulted in large part from the natural process of theory development, where the elaboration of differences between conceptual frameworks precedes the clarification of similarities (Sartori 1970). Writing in 1993, Colin Crouch describes how, over time, scholarship shifted from juxtaposing the analytical foundation of their particular theoretical approach to synthesizing their approach with others: "The 'social democratic' and neo-corporatist schools have, with some surprise, recognized their similarity, amalgamated with 'revisionist pluralism', and taken advantage of the theoretical elegance and rigour to be achieved by casting their arguments in terms of rational action and exchange theory" (Crouch 1993, p. 11). As a result of this process,

the analysis of business interests began to influence understandings of welfare state development and change.

A central consequence of considering business interests with regards to the welfare state was to recognize the potentiality of employer support for social policy (Baldwin 1990; Hall & Soskice 2001; Iversen 2005; Mares 2003). Scholars making this link generally share the view that risks associated with the production process motivate employers' interests in social policy. Those working within the varieties of capitalism framework base their understanding of firms' preferences over social policy on the dominance of specific versus general skill production within the national economy. In this view, investment in specific skills involves contracting problems because workers and employers face potentially high costs upon interruption of the employment relationship: workers face difficulties finding new jobs that suit their skills; and employers cannot easily apply their existing assets to new business pursuits. As such, workers with specific skills prefer generous income support, which, in the case of unemployment, will allow them sufficient time to find employment suitable to their skills. For their part, employers would like some guarantee that they will not lose trained workers to competing firms. As a result, in economic contexts where production relies heavily on specific skills, known as coordinated market economies, employers will support generous unemployment insurance to induce workers' investment in industry-specific skills: high employment protection to induce their investment in firm-specific skills; established training standards to ensure the quality of industry-specific skills; and strict social norms buttressing high levels of firm-based training that ensure a high quantity of high trained personnel (Hall & Soskice 2001, p. 20-27). Employers in liberal market economies, in contrast, will not demonstrate similar levels of support for these social policies and labor market regulations, because the relative dependence on general skills in these economies does not require them. The major consequence of this line of reasoning was to identify two possible institutional configurations for efficient capitalist economic organization, and, by extension, highlight the potential for achieving economic efficiency and social equality simultaneously in the form of the 'coordinated market economy.'

Other work in this field focuses on production risks originating from a broader range of factors. Baldwin (1990) examines how labor market risks of middle class workers, such as shop-keepers and the self-employed, played a fundamental role in shaping the passage of solidaristic social policy in Denmark, Sweden, Britain, Germany, and France. Focusing on France and Germany, Mares (2003)

draws on these foundations to develop a model of employer preferences over the expansion of unemployment, sickness, and early retirement benefits, in which employers' preferences are defined by firm size, skill specificity, and the degree of risk exposure.

The literature cited above predominantly assesses employers' preferences over social policy on the foundation of firm-based characteristics; other perspectives, however, see employers' preferences as derivative of organizational factors. Business organizations provide the means for coordinating firms' actions and thereby generating cooperative solutions over social issues. For example, business organizations can provide the sanctioning and monitoring mechanisms necessary to ensure compliance where collective action problems exist; these organizations also facilitate the payment of compensation to employers who do worse off as a result of coordinated outcomes but nevertheless lend their support to collective goals. Business organizations may also act as a source of new ideas or disseminate information about other firms and government policies (Culpepper 2003). Finally, members of business organizations may also develop norms of trust and reciprocity that facilitate the formation of coordinated outcomes (Crouch 1993; Katzenstein 1985; Traxler 2000).

Whereas these studies broadened the theoretical and empirical knowledge of business support for social policy, they focused almost predominantly on the period of welfare state expansion during which financial markets were closed and growth rates were high. In this context, business faced fewer opportunities to invest abroad and supported passive social policies due to their intrinsic role in firms' production strategies. As outlined above, however, firms' competitive environment has changed, and it remains an empirical question how their increased bargaining power has influenced their dependence on passive social policies in the procurement of skilled workers.

Also, governments, for their part, are more focused on reducing reliance on passive social policies and shifting the focus towards active labor market policies, which are policies that have the goal of improving labor market integration of marginalized workers by providing income support that is contingent upon and indeed directly promotes participation in the labor market. Such policies include direct job creation in the public sector, training programs, and various wage subsidies directed at private firms. Sustained high levels of passive policies have been shown to undermine both workers' capacity to find jobs after long periods of unemployment and states' capacity to finance the welfare state. With regards to business' reaction to this new political agenda, it remains an empirical question whether firms will frustrate reforms of passive policies because they continue to rely on them, firms

no longer rely on passive policies because of their greater bargaining power, or firms actually have developed an aversion to these policies due to higher contribution rates or difficulties finding skilled workers. In sum, changed economic conditions threaten to unravel the underpinnings of a consensus that existed for a large part of the twentieth century and it remains an empirical question whether firms will contribute their efforts to the establishment of a new active labor market policy agenda.

The importance of acquiring firms' support for the establishment of a new social policy lies in part in the difficulties of implementing active labor market policies. As much of the evaluation literature warns, there is no guarantee that participants in active labor market programs will acquire stable employment. Rather, evidence shows that these programs may exhibit a range of problems. When participation in an activation policy re-qualifies participants for social benefits the 'carousel' effect may arise where individuals rotate between activation policy and passive support. Three other problems may exist that are more related to the interaction between active labor market policies and market efficiency: deadweight losses arise when firms would have hired the person in question regardless of the subsidy; substitution effects arise when the employment chances of the target group's hiring prospects improve at the expense of the non-target group; and displacement occurs when employment increases in subsidized firms are countered by employment losses in non-subsidized firms. On a general level, these problems suggest the contingency of active labor market policies success at improving the probability that marginalized workers will find stable employment: active labor market policies may just be a transfer to private firms, who hire the same people regardless of the subsidy, and they might benefit some workers or employers to the detriment of others.

Although I do not pretend to address at length the factors accounting for these problems, the evaluation literature does test the severity of these various problems in assessing the impact of active labor market policies, and I make use of their results. Of particular interest for my purposes here is the insight of this literature that subsidies for employment in the private sector entail lower economic costs and lead to better employment outcomes for program participants than direct job creation (Boone & van Ours 2004; Martin 2000). The greater effectiveness of active labor market policies aimed at private firms, and, indeed, the frequently damaging effect of public sector job crea-

tion programs on participants' future employment stability motivates the particular focus on the role of private firms in active labor market policies.

Despite the salience of firm involvement for active labor market policy success, relatively little is known about the factors supporting the passage of these policies. The work by C. J. Martin and D. Swank makes considerable headway in this respect into understanding the various factors that explain firms' investment in active labor market policies (Martin 2004a; Martin 2004b; Martin & Swank 2001; Martin & Swank 2004). Their macro analysis demonstrates the strong effect of business organization on total spending effort on active labor market policies across eighteen advanced industrialized countries with potentially complementary effects between social democratic incumbency and business organization. Significant results for different dimensions of business organizational strength, including coordination, centralization, and influence in policy-making, provide evidence for the stability of this finding (Martin & Swank 2001; Martin & Swank 2004).

The finding that business organizational strength corresponds to high spending on active labor market policies suggests, more generally, continuity between theoretical determinants of social policy in the industrial period and the more recent period of 'permanent austerity.' The organizational capacity of employers therefore appears sufficient to overcome internal divisions to create policies that benefit the national economy more generally.

Yet the expectation that contexts with strong business organization can adjust well to changed conditions may not be warranted. High rates and duration of unemployment in Belgium and Germany in the 1990s and early 2000s raise alarms about the apparently weak capacity of these coordinated market economies to activate jobless individuals, particularly given the relatively low employment rates in these countries. The experiences of France and Italy, though not clear-cut cases of coordinated market economies, demonstrated similar trends, raising questions about the capacity of countries to combine social and economic goals more generally. Therefore, although the organizational strength of business may indeed lead to higher spending on active labor market policies, the various implementation problems these policies exhibit as well as the inability of countries that indeed spend highly on these policies to reduce unemployment suggests, on the one hand, that a one-dimensional measure of business organizational capacity masks nuances in the capacity of business groups to

contribute to the development of effective active labor market policies and the possibility that the influence of business organization is contingent on broader contextual factors, on the other.

In this vein, literature accounting for the failure of ‘consensual institutions’ (Lijphart 1999) to deliver optimal social outcomes have accumulated in recent years. A key challenge of all these works has been to examine more closely the causal mechanisms linking the existence of formal institutions to social and economic outcomes. These studies generally either point to the underlying variation among formal institutions frequently masked in existing measures of coordination or point out that the effects of formal institutions are contingent on broader contextual factors. Martin and Swank (2008) examine the historical determinants of employer associations and illuminate the role of proportional, multiparty systems in promoting, and federalism in impeding, the development of social corporatist associations. Whereas these findings provide an explanation for the broader differences that exist between coordinated and liberal welfare states, the inhibiting effect of federalism on the formation of social corporatist associations provides a potentially useful tool for exploring challenges for business associations in the federal states of Germany, Belgium, and Italy. As case in point, Hemerijck points out the strong sectoral, ideological, and linguistic divisions in the Belgian social interest group structures (Hemerijck 2006). Developing theoretical categories for the variety of business organizational structures, Martin Höpner differentiates between ‘organized’ and ‘disorganized’ coordinated capitalism (2007) and Hicks and Kenworthy distinguish between social corporatist processes and firm-level cooperation (1998). Of particular interest, Hicks and Kenworthy point out the potentially negative effects of firm-level cooperation as a vehicle for realizing redistributive goals:

“Firm-level cooperation is irrelevant for decommodification, ALMP, and unemployment but has regressive effects on transfer spending effort. The latter effect is somewhat surprising. Firm-level cooperation has often been associated with strongly neocorporatist countries like Sweden and Norway and strongly Christian democratic countries such as Germany and Belgium—sets of nations also commonly regarded as oriented toward distributive/redistributive efforts. (This is true even though cooperative firms and industries are most commonly associated with Japan.) However, our findings indicate that, properly adjusted for association with neocorporatism and government partisanship, nations with more firm-level cooperation tend to be oriented against the use of state transfer payments to ameliorate material insecurities (1653).”

Therefore, forms of firm-level cooperation, such as coordination between purchasers and suppliers, different firms, and labor and management, do not necessary improve support for and may indeed thwart efforts to create redistributive policy. The authors explain that firm-level cooperation plays a central role in company strategy aimed at maximizing efficiency and that, while potentially

improving economic growth, these prerogatives do not necessarily lead to strong support for redistributive policies. The argument that social policy improves production in specific-skill economies would challenge that explanation, but this inconsistency could be resolved by assuming that business organization plays a more central part in policy creation rather than preference formation; institutions of firm-level cooperation simply do not have the capacity to bargain over changes in social policy legislation.

While this discussion generally describes strong firm-level cooperation as rather innocuous in relation to the expansion of active labor market policy, broadly understood, strong firm-level cooperation may in fact be related to antipathy towards active labor market policies requiring the participation of private firms. First, by frequently specifying a target group of potential workers, these policies directly intrude on the core company strategies of human resource management. The fear that voluntary involvement in such policies might lead to quotas potentially causes firms to oppose the creation of such policies at all. In other words, legislating policy, albeit voluntary in nature, that touches on issues related to company strategy implies the potentiality of losing control over these areas in the future; firms may prefer to avoid this risk altogether. Second, where firm-level cooperation is high, firms have likely developed relatively more efficient company strategies. Therefore, in these contexts, firms should be relatively more sensitive to attempts by the state to influence policies related to core company strategies. As case in point, whereas Hicks and Kenworthy's study finds that firm-level cooperation does not relate to active labor market policies, their measure of active labor market policies includes all types of policies and not solely those aimed at private firms. Therefore, although firm-level cooperation may not impede the passage of active labor market policies per se, it may still weaken support for active labor market policies requiring the participation of private firms.

An additional contextual factor that has been shown to sustain the relationship between formal coordination on the one hand and coordinated adjustment on the other is the state. The role of the state has been identified as playing a key role in reinforcing employers' coordinative capacity on the one hand and their support for solidaristic policies on the other (Martin & Thelen 2007). The role of the state on sustained coordination embodies three logics: as an employer, the state holds an intrinsic interest in promoting the employment prospects of their workers; the state can also play a role in fostering cooperation among the social partners; finally, the state can negotiate with private sector actors (33-34). In terms of active labor market policies, the state plays a potentially large role in coordinat-

ing activities with firms and other institutions regarding the training and integration of marginalized workers. In tandem with its interest in promoting the skills of its own public sector workers (Spicker 1997), the state therefore holds considerable potential for creating effective active labor market policies with other actors. To summarize, the different adjustment capacity of generous welfare states to changed economic conditions prompted closer examination of the underlying logic between the existence of collective organizations and institutions and policy outcomes. One consequence of these efforts was to recognize variation in the structure of institutions previously discussed as relatively homogenous, such as business organizations. A second consequence was to illuminate the role of factors previously side-lined in the literature, such as the state, and demonstrate the relevant effects of these factors for policy outcomes.

From this discussion, I generate hypotheses about the relationship between economic and political institutions and the frequency and intensity of private firms' participation in active labor market policies. First, I start from the finding of scholars within the varieties of capitalism approach that business organizations support the development of coordinated solutions to shared problems. However, drawing on the literature that identifies divisive elements within business organizations, I contend that the structure of business organization is critical to building broad support for active labor market policies. Passive social policies arguably resolved collective action problems between employers and employees central to the production process and therefore to the success of the firm. Active labor market policies, on the other hand, can hardly be assumed to play such a pivotal role in firms' core functions. The main beneficiaries of active policies are marginalized workers. The disadvantages facing unemployed workers in the labor market are many: the occurrence and duration of an unemployment spell weakens an individual's self-esteem (Seligman 1975), reduces their skill levels (Pissarides 1992), and incurs a potential stigma among employers, which can be seen in the wage penalty suffered by workers who were unemployed prior to their current employment position (Arulampalam 2001; Gangl 2004).

The potential benefits to private firms are less clear. Tight labor supply and generous subsidies, respectively, may provide firms with incentives to hire workers through active labor market policies. At the same time, these factors will only prove realistic incentives in cases where firms remain open to hiring from the pool of marginalized workers in the first place. Since employers likely rely on many informal channels to find new workers (Montgomery 1991), a potentially large problem plaguing the

proponents of active labor market policies is finding ways to motivate firms to forego their internal networks and hire typically unemployed workers from the public employment service. Therefore, inducing firm investment in active labor market policies relies on building awareness about and openness towards active policies and their potential benefits to firms. The potential continued reliance of firms on passive social policies will also have to be considered.

First, peak business organizations represent one avenue for building firm support for active labor market policies. On the one hand, these institutions hold an interest in alleviating skill shortages. On the other hand, they also have the resources to launch a campaign to motivate firms to invest in active policies in order to maintain a large supply of well-trained workers. Countries with strong peak-level business organizations should therefore be related to relatively high levels of business support for active labor market policies aimed at private firms.

If, however, firm-level business coordination is strong in a given country, the opposite is likely true: since this type of coordination particularly strengthens firms' capacities to develop highly efficient firm-based responses, firms in this context are likely to regard a policy proposal that interferes with their hiring practices as an intrusion on their core company strategies, leading them to denounce such proposals. Although any type of coordinative institution should help build support for social policies, convincing firms in contexts with high firm-level coordination will face the challenge of overcoming initial scepticism and communicating clearly the benefits of these policies to firms.

Third and last, the state, similar to peak-level business organizations, has the resources to launch a campaign motivating firms to invest in active labor market policies. And, in contrast to peak business organizations, the state holds an intrinsic interest in reducing unemployment. Also, due to its extent resources, the state can therefore place additional pressure on firms to hire unemployed individuals. In short, both peak business organizations and the state theoretically exhibit an interest and the resources to develop a campaign inducing firm support for active labor market policies. These hypotheses are listed below in Table 1.

Table 1. Hypotheses about Factors Influencing Investment of Private Firms in Active Labor Market Policies

<ol style="list-style-type: none">1. Countries with strong peak-level business organizations will be related to extensive campaigns for active labor market policies and a high degree of firm participation in these policies.2. Countries with strong firm-level business coordination will be related to the dominance of firm-level solutions to human capital dilemmas, weak national campaigns for active labor market policies aimed at private firms, and low participation of private firms in these policies.3. The presence of a strong state will be related to the enactment of active labor market policies aimed at improving the integration of marginalized workers into the labor market and extensive campaigns for active labor market policies

Having reviewed the literature on the relationship between business and social policy and listed the hypotheses for private firms' participation in active labor market policies, I turn now to the substance of the paper. I will first outline the methodology before turning to the analysis.

3. Methodology

Case Selection

The three countries of Denmark, Germany, and the Netherlands are selected according to Mill's method of difference. Although all three are generally considered to be generous welfare states, they differ broadly on the characteristics discussed above including federalism, the structure of their business organizations, and the size of the state. The table below provides descriptive data regarding these characteristics. The data on federalism is a three-pronged measure: none, weak, and strong. The measure of firm-level cooperation are factors scores generated from four variables, which include the presence of cooperative institutions between purchasers and suppliers, competing firms, and labor and management as well as the presence of functional departments within firms. The variable for tripartite neo-corporatism comes from Hicks and Swank (1992) and measures the degree of coordination between peak employers and trade union confederations and the state. Finally, the measure for public sector employment is the proportion of civilian government employment as a percent of total employment.

A brief glance at Table 2 below demonstrates that Germany is the only country of the three selected that exhibits a strong federalist structure. In contrast, all three countries exhibit well-organized business organizations, although the structure of these organizations differ in important ways. In Denmark, high levels of cooperation between firms are complemented by peak level organizations capable of negotiating strongly with both national political leaders and local economic actors. Whereas the factor scores for firm-level cooperation are relatively low in the Netherlands, the high Dutch score for tripartite neo-corporatism is relatively close to the Danish score. Germany, on the other hand, scores quite high on the firm-level cooperation factor, but quite low on the tripartite neo-corporatism variable. Finally, the public sector in Denmark, as measured by the average share of public sector workers in the 1990s, is markedly higher than in Germany or the Netherlands. The measure for public sector employment not only captures the state's direct responsibility over a given proportion of the workforce, but also taps into the broader capacity of the state to pursue its distinct policy goals. In short, the selection of Denmark, Germany, and the Netherlands resulted from the

variation on key variables of interest, which allows some insight into the explanatory power of these variables with respect to differences in firms' participation in active labor market policies.

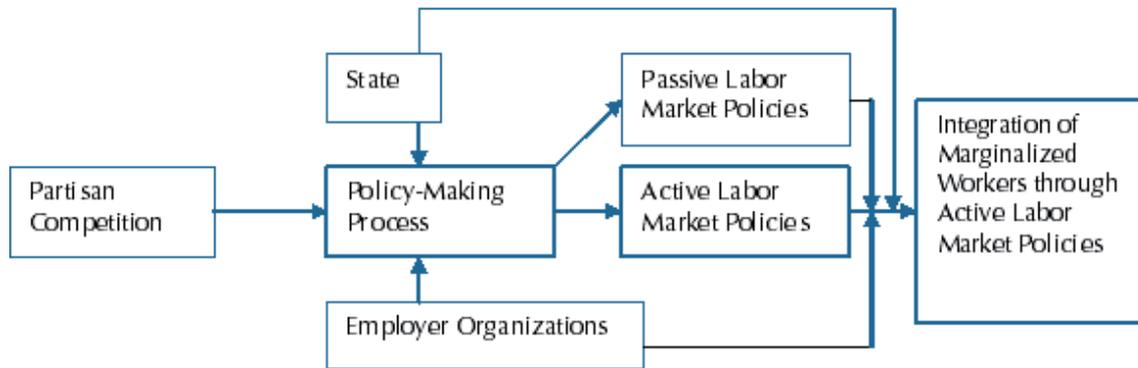
Table 2. State and Interest Group Structures in Denmark, Germany, and the Netherlands

	Federalism ^a	Shop Floor ^{b, c}	Tripartite Neocorporatism ^{b, d}	Size of the Public Sector ^{a, e}
Australia	weak	0.08	0.30	9.94
Austria	weak	0.28	0.70	12.82
Belgium	strong (since 1990)	0.28	0.58	9.45
Canada	strong	0.08	0.18	14.09
Denmark	none	0.28	0.67	21.36
Finland	none	0.41	0.73	13.78
France	none	0.10	0.32	13.58
Germany	strong	0.42	0.23	8.07
Ireland	none	0.08	0.00	6.71
Italy	none	0.47	0.10	8.30
Japan	none	0.94	0.15	5.85
Netherlands	none	0.09	0.41	6.01
Norway	none	0.39	0.95	21.83
New Zealand	none	0.08	0.36	10.54 ^f
Sweden	none	0.34	1.00	22.40
Switzerland	strong	0.28	0.23	8.57
United Kingdom	none	0.09	0.31	10.32
United States	strong	0.12	0.04	10.19

Source: *a*=(Huber et al 2004); *b*=(Hicks & Kenworthy 1998); *c*=Firm-level cooperation; *d*=Hicks and Swank measure for tripartite neo-corporatism; *e*=average of civilian government employment of the working age population for the 1990s; *f* = due to missing data the results for New Zealand are taken from the 1980s.

The ways in which these factors influence active labor market policies is outlined below in Figure 1. First, the state, political competition, and employer organizations pass a host of active labor market policies through a policy-making process. The success of active labor market policies in facilitating the labor market integration of marginalized workers depends on the broader structure of passive labor market policies and employer organization. The darker boxes indicate the foci of the study, or dependent variables, whereas the lighter boxes indicate the main explanatory variables.

Figure 1. Theoretical Framework



Methodological Tools

The methodological approach involves structured interviews based on original Danish research by Cathie Jo Martin (Martin 2004b; Martin & Swank 2004; Martin 2004c). For each country, a random sample of 100 firms was selected from the list of the 500 largest firms in each country.¹ The list of the largest 500 firms was provided by the Børsen list in Denmark, the CDAX list in Germany, and the FEM Business list in the Netherlands. Structured interviews were held either in person or via telephone, lasted between 40 and 90 minutes, and were typically conducted with a human resources director. Data collection was completed by Cathie Jo Martin for Denmark in 2001 and by the author in 2006 and 2007 for Germany and in 2007 and 2008 for the Netherlands.

The structured interviews included more or less two broad groups of questions. The first group of questions covered background information about the firm: the firms' finances, personnel, and organizational networks. The second theme involves the firms' experiences with active labor market policies, including topics such as sources of information about active measures, the firms' actual use of these measures, the experiences of participating firms, and the reasons why firms chose to use or not use these measures.

¹ In Denmark, every fifth firm was selected. In Germany and the Netherlands, firms were divided into groups of five. For each group of five, the firms were assigned random numbers and the firm receiving the highest number in each group was selected.

The question regarding firm participation in active labor market policies was recoded for the cases of Denmark and Germany in order to facilitate comparison and further analysis. The way in which the responses to this question were coded deserves some attention. The interview partner was asked the following question: “Did your firm use any of the following policies? When yes, how many?”. If firms answered ‘no’ to this question, they were questioned further about whether they would consider using these policies in the future and asked to elaborate on the reasons for their decision not to participate as well as their opinion about the role of these policies in responding to the problem of unemployment. These questions were, aside from other goals, used to assess whether the firm was against the policies for ideological reasons.

The findings from these two sets of questions were then used to construct a five-pronged measure of firm-participation in active labor market policies. The ordinal measures of firm participation ranges from 1 to 5, where 1 and 2 indicate degrees of non-participation and 3, 4, and 5 indicate varying intensities of participation. With regards to the measures of non-participation, 1 indicates non-participation and ideological opposition to active labor market policies. Another value of non-participation is created, however, in order to capture firms that did not participate, but do not demonstrate ideological opposition to active labor market policies. In other words, they did not participate but are not fundamentally opposed to the idea of active labor market policies and would potentially consider using these policies. The value for this type of participation is 2.

The three values of the firm participation measure are 3, 4 and 5. The value of 3 is given to firms that participated, but only at the most minimal level. In all case, participation involved hiring a single individual. Also, besides the low use of these policies, the decision of the firm to participate was more accidental than deliberate. Frequently, the firm had already decided to hire the individual and realized later that they were able to receive a state subsidy for doing so.

The remaining two values for participation, 4 and 5, denote firm participation in active labor market policies in cases where firms were observed to consciously bear these policies in mind when making new hires. A distinction is retained, however, in terms of the actual numbers of new hires made with the use of an active labor market policy. A value of 4 is reserved for those firms that hired a few workers with an active labor market, but refrained from a formal commitment to participating or otherwise implicit agreement to prioritize hiring with the aid of an active labor market policy. On the other hand, a value of 5 denotes a high level of participation in active labor market policies, where

firms demonstrated a strong commitment to hiring with the use of these policies. In Denmark, this commitment was verified by the signing of a formal agreement, whereas in Germany high commitment to hiring with the use of an active labor market policy was assessed by the number of positions for which firms received an active labor market policy as well as qualitative data from the interview partner that demonstrated the high commitment of the firm to hiring with these policies.

The German case required the dependent variable to be coded twice, because of the nature of active labor market policies in Germany. Theoretically, active labor market policies are designed to improve the employed chances of marginalized workers, which are mainly understood to be unemployed workers. In Germany, however, the main policy included Midi- and Mini-jobs, which have the unique feature of being filled with non-marginalized workers. For this reason, I coded two measures for firm participation in Germany: the first measure assessed firm participation of all active labor market policies whereas the second assessed firm participation for the subset of policies used by previously unemployed individuals. This was achieved by first asking firms whether their Midi- or Mini-jobs were filled by unemployed individuals and then adjusting the coding of the first measure accordingly.

The list of active labor market policies about which firms were questioned were chosen from the National Action Plan for Employment and Competitiveness from the year prior to the beginning of the interviews. For Denmark, this included leave schemes, job rotation, and programs for workers with permanent disability, including fleksjobs and skaanejobs. For Germany, this included tax redemptions on part-time work, in the form of Mini- and Midi-Jobs, relocation subsidies, and subsidies for training regular workers, training additional apprenticeships, and hiring disabled workers. In the Netherlands, this included subsidies for hiring or maintaining disabled workers as well as individualized projects coordinated with the municipalities. The Netherlands proved a unique case where private employment agencies play a central role in labor market reintegration and extensive firm and inter-firm projects exist that bolster the employability of marginalized workers or those at risk for marginalization.

The analysis proceeds by first providing a summary of each country's experiences with active labor market policies involving both national level policy reform as well as the experiences of individual firms. For each country, I begin by reviewing the development of active labor market policies as well as the rules governing individuals' responsibility to be available as subjects of these policies.

Both aspects are relevant, because the passage of active labor market policies alone does not ensure that these policies will indeed be used. As long as workers are able to draw on passive support in cases of unemployment, the incentives to take part in an active labor market program are rather weak. In short, gauging firm investment in active labor market policies prompts questions about the availability of these policies and this section clarifies the policies available to private firms in each case. This discussion fits thematically into the debate on activation, or increasing individuals' incentives to take up jobs and the various policy mixes that produce such incentives.

The analysis below will distinguish three separate types of questions regarding the formation and implementation of active labor market policies. First, I will provide an overview of the design of active labor market policies in the last decade. Second, I will explain how active labor market policies interact with other type of labor market reforms to provide some insight into how active labor market policies are used as part of a broader package of reforms. Third, I will assess firms' investment patterns in active labor market policies and explore the consequences for our understanding of firm support for the integration of marginalized workers.

4. Analysis I

Sustained low growth rates since the mid-1980s generated tremendous budgetary pressure on generous welfare states committed to providing income support to unemployed workers. Long-term, generous income support during unemployment spells was also shown to reduce individuals' chances of finding a new job. Together, this heightened financial pressure and reduced employment chances signaled fundamental problems for the sustainability of the welfare state.

By the mid-1990s, broad consensus among political actors across generous welfare states recognized the imperative to adjust policies in order to reflect this changed environment. To restore the viability of the welfare state, it was necessary to advance reforms aimed at reducing reliance on policies that provide income support without any obligation to work (passive policies) and expand policies that facilitate integration into paid employment (active or activating policies). At the same time, any attempt of the state to revoke their historic promise to provide income support as a matter of right both threatens to incur opposition from those who use or otherwise rely on these policies as well as depends critically on developing a winning coalition for new policy agendas.

Denmark, Germany, and the Netherlands all managed to create reform agendas aimed at reducing the right of individuals to income support, and thereby reducing the financial burden on the state; in each country, active labor market policies represented part of the reform package. The speed, degree of consensus, and extensiveness of the reforms achieved in these three welfare states, however, varied tremendously, not least with respect to reforms in active labor market policies aimed at private firms. In the space below I will review these three reform agendas, paying particular attention to changes in active labor market policies and how they interact with passive social policies. I will then focus on the participation of private firms in each case and examine the nature of their involvement in the integration of marginalized workers. Afterwards, I will compare the findings and discuss the implications for our understanding of the theoretical determinants of 'activating' reforms.

Denmark

In Denmark, the reforms initiated by the Social Democrats in 1994 mark a key turning point in the relationship between social policy and labor market activation. The approach adopted in Denmark can be described as one of broad consensus among many economic and political actors. In

terms of policy content, active labor market policies were developed that, by design, limit reliance on existing passive policies. The reforms stipulated the duty of individuals to take up employment within a limited time; this period was further reduced throughout the 1990s. The 1994 reform only targeted unemployment insurance recipients, whereas the 1996 reform also included social assistance recipients. In light of the unlimited duration of unemployment benefits of the mid-1980s, the extent of these reforms is quite remarkable.

Supporting the smooth implementation of these reforms was a vast network of institutions. For instance, the 1994 reform included the creation of a new administrative unit, the National Labor Market Council.² The National Labor Market Council acts as an advisory institution to the Ministry of Labor and defines goals and output requirements for the Regional Labor Market Councils (formerly Labor Market Boards), which then establish plans to suit local needs (Jensen & Studies 1999). Together, the National and Regional Labor Market Councils act as forum for regional strategic planning that aims to facilitate adaptation to local labor market needs within the financial constraints set out by the Ministry of Employment. Although the local employment offices are responsible for matching jobless individuals to active labor market policies, the Regional Labor Market Councils develop priorities for labor market policies and identify target groups. In this way, the regional Councils provide guidance for the local employment offices that allows them to facilitate a closer and timelier match between job-seekers and available positions. In short, “[t]he Danish government strengthened associations by creating corporatist channels in the realm of social policy that mirror those of labour-market policy. Although social policy has traditionally been left to government, the Social Ministry’s efforts expanded the jurisdiction of the social partners” (Martin 2004a, p. 148).

With regards to private firms, the 1994 reforms etched out a new role for them in the reintegration of marginalized workers into the labor market. Although many active labor market policies were expanded through these reforms, the major change was in the strictly limited duration of unemployment insurance, which meant that participation in active labor market policies became obligatory rather than predominantly voluntary. This implied a larger responsibility for private firms to provide jobs for the unemployed. As case in point, of the 55 firms interviewed in Denmark in 2001, fifty-eight percent agreed that the active labor market policies in place at that time were ‘asking firms to get

2 The National Labor Market Council was merged with the National Social Council in 2003 to form the National Employment Council. The National Social Council originally aims to create a more inclusive labor market.

involved in a new way,' whereas twenty-one percent had mixed opinions and remaining twenty-one percent found the reforms a clear continuation of previous policies. As such, it is not only the case that the activation reforms of the 1990s created new policies, but the reforms also called for private firms to take more responsibility in the implementation of the active labor market policies.

Although difficulties persist in measuring the degree of altruistic firm behavior, the reforms nevertheless suggest a willingness of employers to remain open to the growing problem of labor market marginalization. The expanded responsibility of private firms in the reintegration of marginalized workers not only reflects the state's preference for firm involvement in public policy initiatives, but also conveys a sense of self-assurance on the part of the state that firms would indeed become involved.

Drawing on interview data on social responsibility provides some evidence for this claim. Tables 3 and 4 demonstrate firms' responses to the questions of whether the firm should have social responsibility for its own as well as socially excluded individuals. Social responsibility is understood to mean the responsibility of firms to take action beyond what they are legally required to do. Table 3 shows that almost all Danish firms feel responsible for providing for the well-being of their workers above and beyond the legal requirements.

Table 3. Danish Firms' Responses to the Question: Should firm have social responsibility for own workers

Response	Percent	Frequency
No	0	0
Maybe	2	1
Yes	98	53

With reference to the responsibility of the firm towards socially excluded individuals, the record is more mixed. Still, forty-one percent of firms agreed that firms indeed have such a responsibility and thirty-three percent answered that the firm maybe should hold such a responsibility. What these data demonstrate is an overwhelming willingness of firms to consider the potentially damaging externalities of the production process of workers' well-being.

Table 4. Danish Firms' Responses to the Question: Should firm take social responsibility for socially-excluded people such as long-term unemployed?

Response	Percent	Frequency
No	26	14
Maybe	33	18
Yes	41	22

The augmentation of state institutional capacity through the 1994 reforms and firms' openness to these new policies did not signal a reduction in firms' competencies. In fact, quite to the contrary, a larger role for the state in active labor market policies created new roles for firms and their organizations. With respect to business organizations in particular, Martin explains that although "moving beyond the established channels to build networks with firms threatened the traditional hegemony of the employers' associations, this move paradoxically may have motivated these groups to expand their activities in the social area. The organizations perceived the government's move as an attack on their jurisdiction; consequently, this move may serve to enhance employers' involvement with social policy in the long term. Thus, the continuing vitality of the Danish employers' associations owes something to state activism." (Martin 2004a, p. 148). Therefore, the state, rather than expanding its authority at the expense of that of firms, has actually created an agenda that resulted in a new role for private firms and their organizations.

In practice, the 1994 and subsequent reforms managed to engage firms in the reintegration of marginalized workers. Table 5 below presents the intensity of the firms' participation in active labor market policies that were interviewed in this study. Sixty-nine percent of the firms interviewed used active labor market policies, and fifty percent of these firms signed a formal agreement to take up these policies. In short, the overwhelming majority of firms in Denmark participated in active labor market policies and, for many of them, the intensity of their participation is quite high.

Table 5. Firm Participation Patterns in ALMP in Denmark

Response	Percent	Frequency
5 - High participation	34	19
4 - Marginal participation	33	18
3 - Weak participation	2	1
2 - Non-participation	22	12
1 - Ideological non-participation	9	5
Total	100	55

Germany

Germany reveals a long tradition of active labor market policies (Janoski 1994). Although these policies, true to their name, historically aimed to improve the employment prospects of job-seekers, they functioned largely independent of other labor market policies, which meant that participation in an active labor market policy was typically voluntary and non-participation did not limit individuals' right to other forms of passive support. Therefore, although active labor market policies were in place, their role remained marginal and individuals relied to a much larger extent on passive labor market policies during interruptions in their working life.

Despite a growing unemployment problem in the 1990s, efforts to transition away from passive social policies encountered resistance from a number of sources. First, the German system protects job-seekers' right to select employment prospects suited to their skill level, which is referred to as 'reasonable work' (zumutbare Arbeit). In the 1990s, debates over labor market reform frequently discussed this tradition by challenging conceptions of what should be considered 'reasonable work.' Second, due to its federal structure, increasing financial and administrative problems between the federal employment agency and municipalities frustrated the development of a coherent agenda with regards to active labor market policies. Finally, the strong legal distinction between active labor market policies and other types of labor market reforms also inhibited an encompassing reform of labor market policy in Germany. Due to these three factors, the 1990s was largely a period of political stand still.

At the same time that attempts to adjust passive labor market policy were met with little success, the state committed a large percentage of the budget to active labor market policies. In this period, firms could receive large government subsidies for training unemployed workers. A lawyer at the *German* Confederation of Skilled Crafts, or Zentralverband des Deutschen Handwerks, explained, however, that the vast expenditure in training did not translate in efficient reintegration, because there were never mechanisms set in place to ensure sufficient market demand for skills delivered by training firms.³ As such, interested firms would take on trainees, but these trainees would frequently fail to find employment after the completion of their training period. After the placement scandal, or Vermittlungsskandal, in 2002, when the federal placement agency was revealed as having largely forged their placement statistics, the government embarked on a host of policy reforms which included a seventy percent reduction in the training budget for unemployed workers. Therefore, although private firms previously played a larger role in the reintegration of marginalized workers, their participation did not on average improve the employment chances of marginalized workers much at all. Also, since the reduction in the training budget in 2002, the government has not developed innovative ways to involve private firms in the reintegration of marginalized workers. Outside of training policy, the active labor market policies available to private firms in Germany in 2006 did not represent a strong departure from previous policies. Various subsidy programs offered firms financial relief to hire disabled workers, apprentices, and replacement workers for workers on leave (job rotation).

The Hartz reforms, implemented in 2003 to 2005, marked a significant move away from a passive welfare state with respect to labor market policy. The last reform merged unemployment assistance and social assistance to form a new means-tested benefit called Arbeitslosengeld II. The remaining reforms restructured the job placement bureaus, established a subsidy for entrepreneurs, the Ich-AG, and provided tax relief for part-time work in the form of the Midi- and Mini-job. Together, these reforms represent a massive reduction in the state's commitment to income support during periods

3 Interview, November 2006.

of labor market exit; since large numbers of individuals do not qualify for unemployment insurance, the existing benefit system is largely means-tested.

Even though spending on reintegration activities was reduced in 2002, active labor market policies play a small role in the Hartz reforms. While the restructuring of the placement services constitutes a policy reform aimed at making it easier for individuals to find jobs, Midi- and Mini-jobs as well as Ich-AG were the only policies established to facilitate labor market integration.

Despite the passage of new active labor market policies in 2003, firms did not find that these reforms called for a larger role for private firms in the reintegration of marginalized workers. Eighty-five percent of firms indeed responded that firms did not have a larger role as a result of these changes, and only fifteen percent agreed that there was perhaps a larger role for private firms. No firm fully agreed that these reforms created a new role for private firms

I argue that part of the explanation for the lack of active labor market policies lies in the unwillingness of firms to participate in the reintegration of marginalized workers. As in Denmark, survey questions about social responsibility provide some evidence for this argument. The tepid support of firms for social issues above minimum legal requirements is evident from Tables 5 and 6. Compared to the Danish firms, who overwhelmingly supported the idea fully that they should have social responsibility for their workers, only thirty-three firms fully agreed with this idea in Germany and eight percent appeared somewhat in support. Turning to the results in Table 6, a full eighty-three percent of firms disagree with that idea that they should have social responsibility for socially excluded workers. There were some, seventeen percent, who were somewhat in support of this idea, but not a single firm agreed fully that they should bear responsibility for socially excluded workers.

Table 6. German Firms' Responses to the Question: Should firm have social responsibility for own workers?

Response	Percent	Frequency
No	65	26
Maybe	10	4
Yes	25	10

Table 7. German Firms' Responses to the Question: Should firm take social responsibility for socially-excluded people such as long-term unemployed?

Response	Percent	Frequency
No	83	33
Maybe	17	7
Yes	0	0

Firms' resistance to providing for socially-excluded people translates into low participation rates in active labor market policies. In the first coding of the dependent variable, all active labor market policies were included regardless of whether they were used to hire previously unemployed individuals or not. The total percentage of firms participating in active labor market policies does not look too different from Denmark. Sixty-two percent of German firms, compared to Denmark's sixty-nine, hired at least one worker with the use of a wage subsidy. The intensity of German firms' participation, however, is much lower than in Denmark. Most firms only hired one individual with the use of an active labor market policy, and only four percent (two firms) used active labor market policies as a core human resource strategy.

Table 8. Firm Participation Patterns in ALMP in Germany (All Policies)

Response	Percent	Frequency
5 - High participation	4	2
4 - Marginal participation	12	6
3 - Weak participation	46	24
2 - Non-participation	33	17
1 - Ideological non-participation	6	3
Total	100	52

Considering now the second measure of firm participation, where participation in active labor market policies is only counted as such when firms hired previously unemployed individuals, the participation rates decrease dramatically. Only forty-one percent of firms participated and the large majority of these firms only hired one individual with an active labor market policy. The remaining firms, sixty percent of the total interviewed, did not hire an unemployed individual with the aid of an active labor market policy. Although ideological opposition to participation in active labor market policies was less common in Germany than in Denmark, the German active labor market policies did not actually require firms to take on new responsibilities, which, in addition to their low take up

of these policies, suggests that they simply were not under much pressure to consider seriously using these programs.

Table 9. Firm Participation Patterns in ALMP in Germany (Only Previously Unemployed)

Response	Percent	Frequency
5 - High participation	2	1
4 - Marginal participation	8	4
3 - Weak participation	31	16
2 - Non-participation	54	28
1 - Ideological non-participation	6	3
Total	100	52

Netherlands

As in Denmark and Germany, Dutch reforms in the 1990s and early 2000s also responded to the growing budgetary crisis brought on by the shrinking active to passive ratio. The Wassenaar Agreement of 1982, which succeeded at guaranteeing wage restraint, was followed by the New Course Agreement in 1993, which broke new ground in terms of gaining employers' support for shorter working hours in exchange for union support for more flexible employment protection for workers on a permanent contract.

Although generous active labor market policies to private firms existed throughout the 1990s, the activation strategies currently in place in the Netherlands reflect another trend which aims at increasing flexibility. Where private employment agencies flourished after reforms in 1996, these and similar firms had, by 2001, nearly completely assumed the role of reintegrating unemployed individuals. In fact, in late 2001, the public employment service was officially dismantled and divided into separate parts (Sol & Westerveld 2005), which included the Centres for Work and Income, *Centra voor Werk en Inkomen*, and the Employee Insurance Agency, the *Uitvoeringsinstituut Werknemersverzekeringen*. The division of the public employment service into different institutions represented a rationalization, and in part reduction, in the public management of unemployment. The Centres for Work and Income specialized in training, and the Employment Insurance Agency administered social benefits and assessed the necessary integration needs of unemployed workers. The actual task of matching jobs to job-seekers, however, fell mainly to private employment agencies and private re-

integration companies. For their part, private employment agencies developed departments or entire subsidiaries to handle reintegration services, such as USG Restart within USG People and Manpower Reintegratie Services within Manpower, to name a few. Private reintegration companies also competed for government bids to reintegrate unemployed individuals.

Although these changes were accompanied by an almost complete fading out of existing active labor market policies to private firms, the delegation of reintegration services to particular firms did not imply the absence of a role for regular firms. For comparison with the Danish and German interviews, Tables 10 and 11 demonstrate the responses of Dutch firms to the question of whether they should have social responsibility for their own as well as socially excluded workers. The results for Dutch firms' view of their social responsibility towards their own workers are somewhere in between those from Denmark and Germany. Although roughly half of the firms do not believe that they have a role in providing their workers social benefits above the required legal minimum, thirty-two percent agree somewhat and twenty-one percent fully agree that they are responsible in this way.

Table 10. Dutch Firms' Responses to the Question: Should firm have social responsibility for own workers?

Response	Percent	Frequency
No	47	16
Maybe	32	11
Yes	21	7

Turning to the results for socially excluded individuals, the results change. Again reflecting a distribution that places Dutch firms somewhere in between the highly 'socially responsible' Danish firms and the 'socially non-responsible' German firms, Dutch firms on average did not believe that they should take social responsibility for socially excluded individuals, eleven and a half percent somewhat agreed and eighteen percent agreed fully.

Table 11. Dutch Firms' Responses to the Question: Should firm take social responsibility for socially-excluded people such as long-term unemployed?

Response	Frequency	Percent
No	24	70.5
Maybe	4	11.5
Yes	6	18

Therefore, despite the predominantly small role for regular private firms in the reintegration of marginalized workers through active labor market policies, regular private firms do generally appear willing to take social responsibility for their own workers. In 2007, the central employers' organization, VNO-NCW, in pursuit of more flexible employment protection, were ready to accept an agreement that would oblige every firm with over fifty employees to participate in the reintegration of unemployed individuals. Although the deal fell through, some employers interviewed in this study had already begun considering the implications of such a deal during the early negotiations of the 2007 bargaining round. Therefore, although employers and their confederation appear willing to consider participating in active labor market policies, they seem to expect considerable concessions in exchange for doing so.

With respect to their own workers, however, employers can be considered highly engaged in designing policies to protect their employability. There are roughly two motivations firms cited for such practices. First, many employers explained that tight labor markets made finding skilled workers extremely difficult. Therefore, many firms were using promises of additional training and future job opportunities as a strategy for making their firm attractive to potential workers. Second, in an attempt to increase the motivation and productivity of older workers, firms were building partnerships with similar firms and organizing short-term exchanges of workers. The opportunity to work in a different firm, they reasoned, will make these workers happier and increase their productivity.

There is therefore an implicit agreement among firms that education, both formal as well as on-the-job, is an important competitive strategy. Although this awareness has not led to extensive participation of firms in providing education to marginalized workers, employer organizations remain engaged in discussions with the state and the trade unions on new policy needs in the Netherlands. For instance, in 2005, the Ministry of Education and the Ministry for Social and Economic Affairs joined efforts in a new agency called 'Leren en Werken,' in which learning and working are combined to facilitate labor market integration among marginalized workers. Private firms play an advisory role

in the activities of this campaign. The main goals of the campaign are: to create ninety-thousand projects where learning and working are combined; thirty-thousand education projects for the most disadvantaged workers; and 20,000 projects to help young people acquire an education certificate (Tros 2008). The Leren en Werken project has also created a campaign to attract workers to the health and education sectors, where severe labor shortages exist.

Turning to the participation of the interviewed firms in the various policies aimed at improving the reintegration of marginalized workers, the following pattern emerges. Of the forty firms interviewed, five had reintegration services. This included three private employment companies and two firms which had developed their own unique policy to reintegrate unemployed workers. Twenty-eight percent of firms hired workers receiving a disability benefit. Two firms had employability centers within the company, which provided workers with information about new job or training opportunities. The overwhelming majority of firms interviewed did not participate in any of these activities.

Table 12. Firm Participation Patterns in ALMP in the Netherlands

Response (Multiple Responses Possible)	Percent	Frequency
Private Firms with Reintegration Services	13	5
Firms Hiring Disabled Workers with the Aid of a Wage Subsidy	28	11
Firms with 'Employability Centers'	5	2
Firms Not Participating in Any of the Above Activities	65	26

5. Analysis II

Next, I examine more carefully the factors that explain firms' participation in active labor market policies in Denmark and Germany. The Netherlands is not included in this section for two reasons. First, the small number of participating firms makes it difficult to gain consistent estimates. Second, the set of active labor market policies that Dutch firms could use was not constant across firms, which makes any generalization about the determinants of firm participation impossible. For instance, if I would regress the variable for the intensity of firms' participation in active labor market policies on a host of explanatory variables, the interpretation of an explanatory variable would read, a one unit increase in that explanatory variable leads to a change in firm participation in active labor market policies equal to the size of the coefficient. Categorical differences between firms coded as high participation, however, and other firms makes such an interpretation meaningless.

Besides the differing intensity of firm involvement in active labor market policies discussed in the preceding section, Table 13 provides some information on the reasons why firms participated in active labor market policies in Denmark and Germany that helps to clarify the different motivations firms had to participate in active labor market programs. First, more Danish firms listed the subsidy as a motivation for participating in active labor market policies than German firms. The interviews substantiate the quite small effect that the subsidy made in the German case. While the employers found the subsidy an added bonus, the majority stated that the decision to apply for financial support arose after the finalization of a hiring decision. The financial benefit that came with using an active labor market policy did not guide employers' hiring decisions.

Table 13. Reasons for Participating or Not in ALMP

	Denmark	Germany
Subsidies Motivated Participation	38	18
Labor Shortages Motivated Participation	31	34
Social Responsibility Motivated Participation	51	16
Need for Higher Skills Prevented Participation	36	65
Negative Views of the Unemployed Prevented Participation	20	22
Bureaucratic Difficulties Prevented Participation		45

At the same time, the respective difference in labor supply between Denmark and Germany does not appear to account for the greater attractiveness of financial support for Danish firms. In both Denmark and Germany roughly the same percentage of firms listed labor shortages as a reason for participation in active labor market policies. This provides at least some evidence that the relatively tighter labor market in Denmark does not explain participation levels.

Finally, whereas almost half Danish firms listed corporate social responsibility as a reason for participation, a small minority of German firms did so. These results suggest a difference in corporate culture, where Danish firms appear more engaged in social problems than their Germany counterparts. This difference may influence participation on a number of levels, by inducing a higher level of involvement of firms in the policy-making process or changing the human resources strategy of firms to include greater attention to active measures.

Turning to the reasons why firms limited or decided against participation illuminates further differences between the Danish and German cases. German firms were roughly double as likely to limit participation because of demand for greater skill needs. One possible explanation can be thrown out, namely that the unemployed hold a worse reputation in Germany's slack labor market: Danish and German firms exhibit a similar propensity to avoid participation because of a negative view of the unemployed. Therefore, the common trend among German firms to avoid participation because they cannot find the appropriate skill set provides some evidence for main hypothesis that marginalized workers in Germany do not find access or recognition for skills that employers seek.

The next step of the analysis tests the various characteristics of Danish and German firms that influence firms' level of participation. The results of the analysis are below in Table 11. Model I shows the results for Denmark, whereas Models II and III show the German results. Two models

were run for Germany because of the two different ways of coding the dependent variable: Model II has the coding from Table 10 (all policies) and Model III has the coding from Table 14 (only policies for the unemployed). The measurement of the variables was as follows. Membership in an employers association was a dummy variable where membership was coded as 1. Variables for the skill profile of a firm were coded as percent of total workers. Wages was coded as the amount spent on staff costs divided by the number of employees. The wages variable was divided by ten thousand to facilitate interpretation, whereas the variable for size (total revenue) was divided by a trillion to facilitate interpretation. Profit was measured as total profits divided by total revenue. The variables for public sector sales and exports were each measured as a percent of total sales. The variable for union presence was coded as 0 for doesn't know, 1 for no, and 2 for yes. The data for employer organization membership, skill profile, public sector sales, exports, and union presence were attained from the interviews, whereas the data for sales, profits, and wages was derived from firms' annual reports.

The variables for membership in an employer organization, percentage of white collar workers, and percentage of low-skilled blue collar workers are of central interest. In both cases, membership in an employer organization increase firms' level of participation in active labor market policies: in Denmark membership leads to a 1.475 unit increase in participation level. In Germany membership leads to a **repealed** unit increase in participation level if considering participation in all active labor market policies regardless of whether these policies were used to hire unemployed or not. If limiting the measure of participation to those policies used to hire unemployed individuals, as seen in Model III, membership in an employer organization is no longer increases participation in active labor market policies.

Considering the skill profile of participating firms, stark differences exist between Denmark and Germany. In Denmark, a 50 percent decrease in the percentage of white collar workers led to a 0.75 unit increase in the participation level. This shows that firms with mostly blue-collar workers, regardless of whether they are high-skilled or not, are likely to participate.

In Germany, however, only those firms with low-skill blue-collar workers were more likely to participate. A 50 percent increase in the percentage of low-skilled blue collar workers leads to a 0.6 unit increase in the participation level. These results imply that Danish firms participate in active labor market policies in order to gain access to skilled personnel, whereas German firms use these policies to gain access to cheap labor.

Table 14. Regression Analyses of German and Danish Firms

	Denmark		Germany	
	Model 1	Model II	Model III	
Employer Association	1.475 ** [0.556]	0.475 * [0.271]	0.123 [0.245]	
Low Skilled Blue Collar Workers		1.225 * [0.006]	1.096 * [0.522]	
White Collar Workers	-0.015 ** [0.006]			
Wages	-0.582 *** [0.174]	2.323 [.775]	-1.118 [0.698]	
Size	-0.069 * [0.032]	0.057 [0.063]	0.003 [0.013]	
Profits	-2.98 [3.575]	0.008 [1.401]	0.006 [0.006]	
Public Sector	-0.019 * [0.011]	-0.002 [0.011]	-0.006 [0.010]	
Exports	-0.004 [0.004]	0.003 [0.004]	0.002 [0.004]	
Unions	-0.615 [0.472]	0.026 [0.216]	0.132 [0.195]	
Constant	5.238 *** [1.320]	1.616 ** [0.698]	2.392 ** [0.628]	
Adjusted Rsquared	0.394	0.113	0.114	
N	55	52	52	

* Significant beyond .05 level, two tailed test

** Significant beyond .01 level, two tailed test

6. Discussion and Conclusion

The analysis presented in this paper demonstrates the quite different role of active labor market policies in Denmark, Germany, and the Netherlands. Denmark is distinct in that active labor market policies have been incorporated into a comprehensive structure for dealing with unemployment. In contrast, active labor market policies in Germany and the Netherlands experienced a boom in the 1990s before giving way to more liberal-oriented reform in the early 2000s. Liberal reforms in Germany meant reducing the generosity of unemployment assistance and social assistance (by merging them into a low, means-tested benefit) without greatly expanding the resources available for the unemployed to improve their employment or otherwise providing the unemployed with a right to work. In the Netherlands, liberal reforms came in the form of a large privatization of placement services. Although the state did balance these reforms with more pro-active policies to aid the unemployed, such as the *Leren en Werken* agency, the mass privatization raises large questions about the continued responsibility of the state in finding work for the unemployed and therein the guarantee of basic rights available to these individuals.

The reasons for these different reform paths are beyond the scope of this paper. However, these reforms implied a very different role for private firms within each context. The Danish reforms etched out for private firms a new role in the reintegration of marginalized workers, which largely succeeded in motivating firms to hire unemployed workers. The German active labor market policies, in contrast, did not appear to engage firms in any novel way, either in the creation of active measures, or in the implementation of these policies. In the Netherlands, the situation is mixed. On the one hand, private firms may be said to play an enormous role in the reintegration of marginalized workers if one considers the role of private employment agencies (e.g. *Manpower*, *Randstad*), which help to reintegrate thousands of unemployed individuals each year. On the other hand, regular private firms do not play a substantial role at all. The active labor market policies of the 1990s have been repealed and attempts to develop new policies for firms to help reintegrate the unemployed demand high concessions to these firms.

Considering now the role of employer organizations and the state, I consider the question of whether the analysis provides evidence for the hypotheses developed in Table 1. Denmark would appear to provide clear support for Hypotheses 1 and 3, which relate strong peak level employer

organizations and the state, respectively, to the success of active labor market policies. Employer organizations play an active role in the National and Regional Labor Market Councils, which advise the local employment offices about new target groups. Membership in an employer organization increased the participation of firms in active labor market policies. In respect to Hypothesis 3, the state played a large role in engineering the restructuring of the unemployment benefit system, and the Labor Councils are ultimately state-run institutions.

The Dutch example, however, casts some doubt on Hypothesis I, which relates peak employer organizations to successful active labor market policies. Despite the existence of strong employer organizations, the labor market reforms in the Netherlands did not involve regular private firms in the reintegration of marginalized workers. Private employment firms and reintegration companies of course both play a central role, but that of regular firms is marginal at best. Therefore, it seems to be going too far to consider strong employer confederations as a sufficient for convincing regular firms to aid in the reintegration of marginalized workers. Rather, a strong state that holds considerable leverage over private firms appears necessary to generate the type of firm-level support one sees in Denmark.

The case of Germany provided the most information about Hypotheses 2, which links firm-level coordination to weak firm support for active labor market policies. Despite the state's attempt to develop active labor market policies, these policies failed to engage firms in the reintegration of marginalized workers. As the analysis described, prior to 2002, firms were largely training workers in skills for which there were no jobs. In other words, firms were involved in aiding marginalized workers, but their activities did not really fulfil the purported policy goals. The data on firms' opinions about their social responsibility towards their own as well as socially-excluded individuals supports these findings. Also, the firm-level interviews provided evidence that employer organizations did not increase participation in active labor market policies targeted specifically at unemployed people.

In sum, the findings suggest that business organizations might be an important vehicle for influencing firm involvement in the resolution of social problems. However, the analysis also provides a warning about the limitations of these organizations in responding to the problem of labor market marginalization alone. Firms' propensity to feel responsible for socially-excluded workers generally increased with the degree of business organization centralization, which suggests that centralized leadership is necessary to build awareness about shared problems and support for coordinated solu-

tions. Even in the centralized case of Denmark, however, it remains a key question how important the state was in explaining firms' willingness to help in the reintegration of marginalized workers. Particularly in light of the Dutch firms' less than enthusiastic attitudes towards active labor market programs, it appears that the substantial state subsidies that firms receive in Denmark might play a role in influencing firms' openness to state policy.

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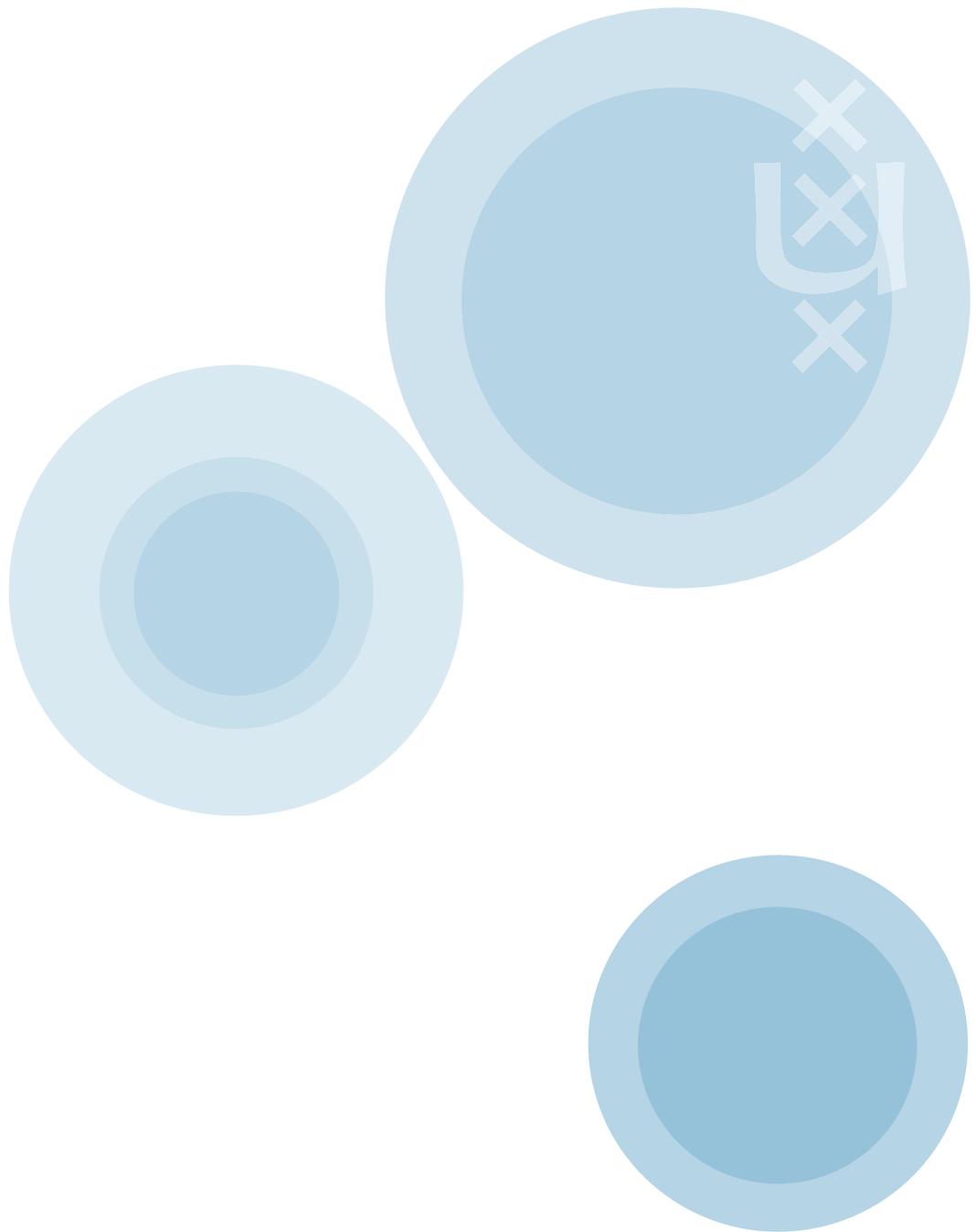
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- The distribution of responsibility between the state and the market in social security
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