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A Miraculous Model? Explaining the New Politics of the Welfare State in the Netherlands

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Abstract

This article portrays the recent achievements of the Dutch political economy in terms of job growth and welfare reform. It takes issue with current welfare state studies which strongly emphasize the institutional and political causes of social policy inertia. Welfare state reform is difficult, but, as the Dutch experience reveals, it can happen. By way of distinguishing between two related policy domains – industrial relations and social security – we trace how the Dutch welfare state has been able to manage and overcome the pathology of “welfare without work”, so typical of the continental welfare state. By manipulating contingent conditions and institutional legacies, policy-makers have been able to adjust the “rules of the game” for social and economic policy-making in the Netherlands over the past 15 years.

1 Introduction

Foreign observers have recently glorified the remarkable performance of the Dutch political economy in the 1990s, particularly pointing to the broad political agreement that seems to have facilitated the relatively coherent policy of adjusting a highly developed and generous welfare state to new and pressing demands. The Economist (12 October 1996), for instance, spoke of “the usual cozy Dutch consensus, epitomised by the country’s odd-sounding government combination of left, right and centre (...)” which expedited a significant departure from the weakened continental pattern of slackening economic growth, rising unemployment and (financial) predicament of the welfare state.

The combination of the words “usual” and “odd” in the above quotation is well-chosen, for consensus is indeed a familiar property of Dutch society and politics. Moreover, in the European context the Dutch “employment miracle”, particularly job growth, does seem a peculiarity. This article deals with the conditions under which the Dutch political economy has been able to generate economic growth, retain a strong currency, lower inflation (and keep it within set limits), reduce unemployment significantly, stimulate job growth, curb public spending, cut the public deficit and the public debt, and substantially reconstruct the welfare state without causing a large increase in inequality.

Our contribution is organized as follows. First a comparative context is provided with an overview of the common pressures with which the European welfare states are confronted. A review of current welfare state studies is then given and applied to analyze the varying responses of welfare states to these challenges. The most conspicuous finding of these studies is institutional resistance to change. Current welfare state theories strongly emphasize the institutional and political causes of inertia. However, in this theoretical approach the Dutch experience presents an anomaly. We therefore criticize the neo-institutionalist theories that have difficulties with understanding institutional change. We postulate that welfare state reform and adjustment can best be understood by studying the interaction between the rules of the game of social policy-making (institutions); the characteristics of particular social programmes (policies); and the changes in the balance of power, both in the economy and the political systems (politics). New political ideas arise continuously and policy learning occurs frequently. However, neither ideas nor learning explain change. We conjecture that the political capacity to bring about fundamental changes in policies and institutions is likely to be enhanced at critical sunk junctures where the costs of a significant departure from earlier policy paths are offset by the costs of institutional inertia.

The third section gives a detailed account of the performance of the Dutch political economy, to demonstrate the extent to which the Dutch case represents a departure from the scenario of “welfare without work” – so typical for what has been called the social capitalist welfare states (Van Kersbergen 1995). Next, we analyze in greater detail the two most important conditions under which this departure occurred. Section 4 examines the resurgence of corporatist exchanges between organized capital and labour in the 1980s. Section 5 looks at a number of social policy reforms since the late 1980s. For an empirical analysis of welfare reform we believe that changes in industrial relations and social policy developments cannot be studied separately. For our analysis we differentiate between two interlocking policy domains. Taking our cue from Peter Katzenstein, we distinguish, first of all, the strategy of external adjustment of the social partners together with the government, and, second, the policy domain of the social security system. By concentrating on the complex dialectic between corporatist negotiated adjustment and welfare reform, we are able to shed more light on the contingent trials and tribulation of the recent Dutch experience (Katzenstein 1985; Hemerijck and Kloosterman 1995). Section 6 concludes the paper.

2 Common pressures and resistance to change

The European welfare states are under constant pressure to adjust their institutional arrangements to changing demographic, social and economic circumstances. The fundamental reason for this is that the conditions under which the post-war welfare state emerged, as well as the assumptions upon which social policies were formulated and implemented are no longer applicable. The literature (e.g., European Commission 1993; Esping-Andersen 1996a; George 1996; Rhodes 1996, 1997) highlights the following developments.

First, the relatively stable balance between generations is challenged by an ageing population, whereby ageing is a combined effect of an increased life expectancy and a decreasing birth rate. An ageing population puts an ever greater claim on national resources, particularly on health, social care, and pensions, without substantially contributing to these resources.

Second, the traditional family towards which so many social policies were targeted is no longer dominant. The double-income household is a frequent phenomenon. The number of divorced, single-person and single-parent households spirals, and single parents tend to claim a larger share of social benefits or – if they manage to combine a job and child rearing – they need to carry the considerable financial burden of child care themselves, which they may not be able to sustain without assistance.

Third, slackening economic growth and the post-industrialization of labour markets (i.e. deindustrialization, the growth of the service economy, and new technologies and flexibilization; Esping-Andersen 1993) have generally decreased job security and the continuity of employment, and have caused a rise in irregular and atypical employment. The stable employment patterns and trajectories that seemed to be a part of a growing, industrial economy are challenged. Consequently, the financial logic of the social security arrangements that were founded on the assumption of stable employment and contributions are also challenged.

Fourth, changing relations between men and women with respect to the division of labour within and outside the family (paid work and unpaid care), as well as the increasing differentiation of the life cycle and of careers have strongly challenged the gendered assumptions of many welfare state arrangements.

Fifth, the politically-recognized systems of interest intermediation and centralized collective bargaining that historically accorded a firm social and economic basis to the welfare state are being eroded, sometimes as a result of deliberate politics, but generally as a result of the weakened position of the organized labour movement.

Sixth, new risks and needs arise to which neither those who defend the welfare state nor those who opt for rollback have viable answers.

Finally, relatively fixed relations between nations are in a state of flux as a result of the end of the Cold War, the continuing and accelerating economic globalization, and the intensification of European economic and political integration, most topically Economic and Monetary Union (EMU). The attempt of national governments to meet the criteria of EMU intensifies the political debate on welfare restructuring. The predicted result is a dwindling autonomy of national states in the realm of social policy-making.

However, in spite of these mounting challenges, current empirical research predominantly finds that the European welfare states have proven to be remarkably resistant to change. The welfare state in Europe is not being abandoned, although it is being slimmed down, incrementally adjusted, and partially reconstructed. A political constellation that can induce the discontinuation of existing patterns of social policy has not yet emerged in any of the welfare states. Important, at times quite austere, changes are taking place. There is ample empirical documentation of the immense pressures on and formidable challenges to the existing welfare states. There is also abundant evidence for incremental adjustments in the major programmes, for the decreasing growth of social expenditures, and for moderate retrenchments. Nevertheless, institutional variation and continuing divergence among the developed welfare states persists, and the policies of adjustment are largely governed by the institutional logics of the welfare states' distinctive regime properties.

The explanation of this resistance to change is found in neo-institutionalist arguments of path dependency, lock-in and electoral hazard. One can distinguish between two levels of analysis; the meso-level, i.e. programmatic obstacles to reform; and the macro-level, i.e. resilient regime-characteristics. An elaborate meso-level account is offered by Pierson (1994; 1996). His theory is essentially derived from the conviction that the politics of retrenchment is fundamentally different from the politics of welfare state expansion. The difference pertains to the fact that whereas welfare expansion involves popular policies, retrenchment of single programmes does the opposite. Retrenchment affronts voters and vested interests that have come about through the growth of social programmes.

The development of single programmes in the welfare state has produced a new political context by having created a host of interests, solid networks of interests groups, and patterns of mass popularity around social policies. The result is that "the emergence of powerful groups surrounding social programs may make the welfare state less dependent on the political parties, social movements, and labor organizations that expanded social programs in the first place" (Pierson 1996: 147). In addition, powerful feedback mechanisms may arise that make change difficult.

The politics of retrenchment, for instance cutting benefits, does not lend itself so easily to credit-claiming as, for instance, the introduction of new

benefits does. Shifting the goals from expansion to retrenchment is electorally risky, because it imposes "tangible losses on concentrated groups of voters in return for diffuse and uncertain gains" (Pierson 1996: 145), and the attempt to avoid the blame is paramount. Moreover, voters react more strongly to negative than positive incentives. "Retrenchment advocates thus confront a clash between their policy preferences and their electoral ambitions" (Pierson 1996: 146).

The most influential macro-level approach towards welfare state reform is given by Esping-Andersen (1996b: 265) who argues that a regime logic governs the tenacity of welfare states and the defense against its transformation. He points to two great political failures: 1) the failed neoliberal assault on the welfare state; 2) and the absence of a political constellation that is capable of supporting alternative, recast welfare state regimes. Successful reform policies depend on a broad consensus among various social interests and political actors that are capable of overcoming the resistance against change inherent in a welfare state regime (Esping-Andersen 1996b: 266-7). In this view, the politics of retrenchment is an effort "to save the existing system by going on the least unpleasant diet on the menu" (Esping-Andersen 1996b: 265). Like Pierson, Esping-Andersen holds that welfare bureaucrats concur in defense of established positions and rights and have the advantage of being less volatile than democratic politicians. Moreover, welfare clients are hard to convince of the necessity of retrenchment and the welfare state recasts political alignments in its favour.

In sum, recent welfare state theories argue that while the context of welfare state policies has changed, this has not led to the dismantling of existing welfare state regimes, because enduring sources of support exist, even in the face of failing policies and programmes. Welfare state regimes are stabilized and change is predominantly incremental. The institutionalist theories of resistance, although concentrating on different levels, contain four basic arguments (Pierson 1996; Esping-Andersen 1996b). First, there is the protection of a welfare state regime that stems from it being the status quo. Second, the welfare state's political defense may no longer depend predominantly on organized labour, but other powerful defenders have replaced it who owe their job, income, status, services, etc. to the welfare state, i.e. both the welfare state bureaucracy and clientele. Third, the electoral costs of radical retrenchment are prohibitively high as most social policies are still very popular among the electorate. Finally, in addition to the political impediments there are "technical" obstacles to change that are related to the institutional logic of inertia through feedback and lock-in, because once a welfare state programme is established in a specific way, it is extremely difficult to change it. An example is the problem of finding alternative funding systems for pay-as-you-go pension systems.

3 The Dutch miracle

The institutionalist arguments tend to be so heavily biased towards conceptualizing and theorizing the institutional mechanisms of persistence and resistance (path dependency, lock-in, electoral hazard, etc.) that institutional change and fundamental reform become conceptually almost unimaginable. To understand contemporary developments in the Netherlands, however, we need to be theoretically more sensitive to the dynamics of change rather than persistence. Let us start with a description of the favourable performance of the Dutch political economy in order to, subsequently, reflect on the dynamics of change.

A header of *The European* (10-16 April 1997) recently read: "Dutch find miracle cure for ills of unemployment." Indeed, estimates (OECD 1996a,b) show that the standardized rate of unemployment has dropped from a peak of almost 15 per cent in the mid-1980s to 6.5 per cent, currently one of the lowest rates in the OECD area and considerably below the average in the European Union (EU). The job creation rate (in persons) has been 1.8 per cent per year in the preceding decade as against an average of 0.4 per cent in the EU. The current left-liberal coalition, headed by the former labour union leader and social democrat Wim Kok, promised in 1994 that by 1998 350,000 new jobs would be created. This was in fact already achieved in 1997, and in contrast to the American job-machine this has happened without a massive increase in inequality.

The following developments stand out in the "miracle" (Schmid 1996). First of all, prolonged wage moderation, agreed to in a series of coordinated sectoral collective bargaining by trade unions and employers' associations, has contributed to a substantial curbing of wage costs. This has helped strengthen competitiveness and output growth, and boosted employment growth. Second, in exchange for wage moderation the trade unions have successfully been able to shorten the average working week for full-time workers. Third, the growth of female participation is the most conspicuous development in the improved performance of the labour market. Over the last decade female participation rates increased from 35 per cent in 1983 to 51 per cent in 1994. Fourth, the share of part-time work in total employment has surged from less than 15 per cent in 1975 to 35 per cent in 1994. 75 per cent of part-time jobs are held by women and 63 per cent of all female workers are employed part-time, the highest proportion in the OECD-area. The incidence of part-time work among men is also at a high 14.7 per cent. Fifth, the favourable performance of the political economy is not only highlighted by the growth of employment and the reduction of unemployment, but also involves the maintenance of a stable pattern of (limited) earnings inequality, pointing to the possibility of evading the trade-off between equality and employment

growth that can be observed elsewhere (see OECD 1996b: chapter 3). Finally, there is the transformation of the welfare state which, on the one hand, includes the gradual but considerable moderation of one of the most generous social systems, and, on the other hand, comprises the introduction of policies that aim at facilitating labour market entry and participation at the expense of traditional passive policies that encouraged labour market exit.

The Dutch "miracle" has even contributed to a remarkable political self-confidence among social policy-makers who have produced a number of comparative studies, (e.g. Einerhand 1995; De Voogd et al. 1996; MSAE 1996a), that attempt to show that "the Netherlands is no longer the odd-man-out in Europe in the socio-economic field, as was the case at the end of the 1970s" (MSAE 1996b: 1). And indeed, about a decade ago the Dutch political economy was characterized as a spectacular example of employment failure (Therborn 1986). However, it seems that the Netherlands is once again the odd-man-out in Europe, but now because of its employment success. It seems, therefore, that the country's poor image has inverted, so much so that there is now "a new Netherlands that, surprisingly, appears to be working" (*Wall Street Journal*, 27 December 1996).

One major result is that total net labour market participation (in persons) is now at 64 per cent. However, this success has to be nuanced to some extent. First of all, labour market participation in full-time positions is still at a low 50 per cent, well below the levels in neighbouring countries. Moreover, the share of long-term unemployment in total unemployment is a comparatively high 52 per cent, while dependence on the welfare state is concentrated among the low-skilled, older workers, and immigrants. Finally, a considerable amount of unemployment is hidden in other social programmes, particularly in the disability scheme.

Nevertheless, on balance it is fair to say that the Dutch experience represents to some extent a "miracle" of employment growth in an era that is generally believed to be one of jobless growth. Therefore, from a comparative, empirical, and theoretical point of view this miracle constitutes an interesting puzzle. There are some additional arguments that further warrant a closer look at the Dutch case. First, Schmidt (1997) recently found that "politics still matters", also in retrenchment policies, and he suggests that more profound case studies are needed to shed more light on how and to what extent politics and policies actually matter. One of the interesting points about the Dutch case concerns its diverging responses to the social, political and economic pressures that are common to all European welfare states. This case therefore provides an excellent opportunity to present an analysis of how politics still matters. Second, the successful attempt to introduce activating social policies in an institutional context of what was once one of the most passive welfare state regimes of Europe is remarkable. It indicates that path dependency and institutional lock-in can

be overcome and are therefore not constraining policy-makers to follow eternally the historical path prescribed by institutions. In other words, the political-institutional transformation that the Dutch welfare state is experiencing clearly transcends the politics of retrenchment and institutional sclerosis elsewhere in continental Europe where welfare states have typically proven to be much more resistant to change. Third, in the light of the recent political turmoil elsewhere in Europe (particularly in France, Germany, and Italy), the preservation of the "cozy" social and political consensus, or at least acquiescence, in a period of transition singles out the Dutch case as a possibly atypical political achievement.

Finally, the Dutch case can tell us something about the conditions under which institutions change. In his analysis of the new politics of the welfare state, Pierson (1996: 176-79) has offered the building blocks for a comparative theory of welfare state reform that intimates the conditions under which social policies and the institutions in which they are embedded are likely to change (Pierson 1996: 178). These conditions emerge: 1) when electoral risks are estimated as limited; 2) when financial crises create an acute sense of emergency; 3) when the properties of political institutions facilitate the capacity to hide the visibility of retrenchment and to avoid blame; 4) when politicians manage to alter the institutional logic so as to generate a more favourable context for reform. The following analysis of the two interlocking policy domains of the welfare state, industrial relations and the system of social security, not only clarifies the Dutch miracle, but also generally examines the extent to which the above conditions help explain social policy reform in the unlikely event that it happens. In other words, what are the conditions under which institutional resistance against change can be overcome?

4 The resurgence of corporatist adjustment

Many observers would agree with Gerhard Lehbruch's characterization of the Dutch political economy as an example of corporatism "par excellence" (Lehbruch 1979: 165). The recent evolution of corporatist governance illustrates the theoretical point that institutions and consensus – or lack thereof – influence each other over time, both positively by promoting a problem-solving style of coordination, and negatively, by provoking decision traps. While the period 1945-68 was characterized by a state-led, centrally-guided form of corporatist governance that could keep wage costs down, the period 1968-82 was one of faltering agreement and institutional immobility. Wage costs soared, including non-wage social security contributions, as did inflation. Then, in the 1980s a new form of responsive corporatism regained prominence that has a lesser interventionist role for the state and that proved compatible with increasing

international constraints (Hemerijck 1995). We analyze the origins and development of responsive corporatism and demonstrate its significance for the employment miracle.

The oil crises of the 1970s hit the economy hard and the process of de-industrialization accelerated. Between 1975 and 1982 the share of the working population in the internationally exposed industries contracted from 26.5 to 21.9 per cent, and in the process the industrial unions lost about 20 per cent of their membership. Confronted with excessive labour costs, firms responded by substituting capital for labour or relocated labour-intensive industries (shipbuilding, mining, textiles) to low labour cost areas. This led to a severe employment crisis with the unemployment rate surging to almost 15 per cent in 1984. Moreover, it disclosed that the balance of power between capital and labour had significantly shifted in favour of the former (Visser 1987).

In this context of predicament, the inauguration of the centre-right coalition (Christian democrats and conservative liberals) under the Christian democrat Ruud Lubbers in 1982 acted as a catalyst for change. Eight years of centre-right ruling provoked a break with corporatist immobilism as the Lubbers government – no longer committed to full employment – disengaged itself from industrial bargaining. A major goal was to guarantee that collective bargaining outcomes would no longer have a direct effect on government expenditures. The government achieved this by severing price indexation and breaking the statutory couplings between wage increases in the market and those in the public sector and between wages and social security benefits.

The Lubbers-government portrayed itself as following a neoliberal, non-sense macroeconomic policy that would be capable of overcoming the resistance of vested interests that blocked the adaptation and revitalization of the economy. This government, like its predecessors, was ready to intervene in the system of industrial relations. It seemed that the stage was set for a tough confrontation with both organized labour and the employers. However, with unemployment soaring to a post-war record and membership declining rapidly, the trade union movement was weakened and therefore hardly in a position to wage industrial conflict. In fact, the movement recognized that improving the profitability of industry was a *sine qua non* for any viable job strategy (Visser and Hemerijck 1997). Moreover, the employers' organizations feared political interference in the form of a statutory and uniform reduction of the working week. Under these conditions of contingent pressures and changing power relations, and after a decade of failed tripartite encounters, the new coalition's entry into office was crowned by a bipartite social pact in 1982, the so-called "Wassenaar Accord". This path-breaking accord marked the resurgence of corporatist adjustment in the political economy and created a pattern of agreements characterized by: 1) the exchange of wage moderation for a reduction in working hours to fight unemployment and help restore the

profitability of industry; and 2) a process of "organized decentralization" of corporatist institutions.

The Wassenaar Accord inaugurated an uninterrupted period of wage restraint up until the mid-1990s. All agreements since 1982 have reconfirmed the need for wage restraint. Nominal wage increases have fallen to zero and since the 1980s the anticipated increase in inflation has been the basis for sectoral negotiations. Only in 1992 and 1993 did the average negotiated wage increase exceed the inflation rate by half a percentage point. Estimations are that over 40 per cent of job creation in the last decade must be contributed to prolonged wage moderation. Keeping wages down is defined as the strongest instrument in the adjustment strategy (Centraal Plan Bureau 1995: 268), and a remarkable degree of social and political consensus is organized in its support.

While wage restraint in itself helps to preserve and create jobs, an additional pay-off was required to make corporatist adjustment tangible for trade union rank and file. Over the last decade the average working week has been brought down from 40 to 37.5 hours. In those sectoral agreements in which a reduction of the working week was negotiated wage increases have been smallest. The process of cross-the-board labour time reduction has now come to a halt as concertation shifted gradually towards part-time work as the main tool for redistributing work. Between 1983 and 1993 the share of workers with part-time jobs (less than 35 hours per week) increased from 21 to 35 percent. Part-time jobs particularly meet the increased labour supply of married women. Most recently, an accord that balances labour market flexibility and social security, the so-called "Flexicurity Accord", grants more rights for workers on temporary contracts (rights of employment after 24 months, pension and other social security rights) in exchange for a loosening of dismissal protection, longer probation periods, together with more leeway for negotiated dismissals on the part of employers. From a comparative perspective, it is interesting to note that sectoral negotiators have been keen to avoid a situation whereby only low-skilled workers and the public sector suffer from the effects of the pressure of international regime competition (Van den Toren 1996).

Although the appreciation of the Guilder (coupled to the Deutschmark since 1983) has made exports more expensive, the overall decline in wage costs has practically been capable of compensating competitive losses due to changes in the exchange rate. Moreover, the appreciation of the Guilder has stimulated a low level of inflation, which, in turn, has had a favourable effect on domestic wage trends. What is more, wage moderation has had a favourable impact on employment in sectors that produce mainly for the domestic market, rendering low-wage, labour-intensive production more profitable. As the Economic and Monetary Union (EMU) of the EU will render traditional instruments of exchange rate and interest rate policies virtually obsolete, the significance of wage cost competition and social policy reform for competitive reasons is likely to increase.

Institutionally, the corporatist agreements have evolved from comprehensive package deals to so-called central framework agreements that generally voice non-binding recommendations to be filled out in more detail at the sectoral level. The accords therefore embrace the freedom of sectoral collective bargaining and the primacy of self-regulation in industrial relations. These new principles have been politically recognized. Since the Wassenaar Accord there has been no political intervention in wage setting. The role of the peak organizations of capital and labour is now basically confined to redirecting sectoral contracting parties towards tacit, economy-wide wage restraint. Central consultation in the Foundation of Labour – the central bipartite corporatist institution (Stichting van de Arbeid) – allows the centrally bargained deals to be passed on to sectoral negotiators. The higher the level of consensus at the central level, the more smoothly bargaining takes place at the meso-level (Heertum-Lemmen and Wilthagen 1996). The inclusion of sectoral bargaining in the central agreements is an example of “organized decentralization”, which stresses sectoral bargaining with an effective input from the central level (Traxler 1995).

The political side of the new corporatism is characterized by regular consultations between government and the “social partners”. Although the state plays a considerably less dominant role in collective bargaining, there is still extensive political power. Based on pre-war laws, the Minister of Social Affairs and Employment has the authority to declare collective bargaining agreements legally binding for all workers and employers in a certain branch of industry, whether they are unionized or not. This provision remains a treasured policy instrument and is crucial for securing economy-wide wage restraint. It also implies the power to declare (parts of) collective agreements not generally binding. Although in practice mandatory extension is routinely applied, the Minister has the right to refuse a request for extension when the content of the agreement is not in line with policy interests. In other words, politics still has considerable influence in industrial relations, but in a more indirect manner. Employing a so-called “shadow of hierarchy” (Scharpf 1993), governments have been effective in encouraging labour and capital to reach agreements that concur with their central policy goals.

So far, the new institutions of corporatism have proven to be robust, although not entirely without conflicts. In 1993, consensus was under pressure as economic conditions rapidly deteriorated and unemployment increased. And it was not until the government threatened to intervene directly in the process of wage setting that a new accord was reached. Again the success of this accord was contingent on a large measure of decentralized commitment to the central recommendation and the politically strategic use of the shadow of hierarchy. It reconfirmed the call for wage restraint and recommended further decentralization down to the company level.

In sum, over the last 15 years corporatist adjustment has been given a new lease of life in the Netherlands. The conditions under which this could happen were a significant shift in the balance of power between labour and capital. A weakened trade union movement gradually accepted that increased profitability was a prerequisite for job growth. The stronger organizations of capital were willing to reenter the existing corporatist institutions and accepted labour time reduction under the threat of political intervention by the government. Again, wage restraint in exchange for labour time reduction became the main policy instrument to restore and maintain the profitability of capital and fight unemployment. The Wassenaar Accord was also an attempt to prevent political intervention. As a result, the institutional rules of the game within which these new policy avenues were tried have shifted from the tripartite pattern of centralized collective bargaining with strong political leverage in the 1950s and 1960s towards bipartite organized decentralization under the shadow of hierarchy.

5 Crisis and reform of the welfare state

Organized capital and labour, under the shadow of hierarchy, have managed to find a responsible and mutually rewarding solution to problems of economic adjustment. It consisted of a pay-off between wage moderation and labour time reduction. The return to responsive corporatism, however, was partly facilitated by a general lenience or even permissiveness in the social security system. Prolonged wage moderation and industrial reconstruction were compensated for through the welfare state, via a generous labour exit route for less productive, mainly elderly workers. This, however, caused a crisis of governability in the social security system which then prompted major institutional changes, particularly in the sickness and disability schemes.

The Dutch social security system has both universalist schemes (e.g., the flat rate public pension) and social insurances (e.g., for unemployment, sickness, and disability). The universalist schemes are solidarist, financed via general taxation, and geared towards supporting non-working citizens with a minimum income. The social insurances provide earnings-related benefits to workers and employees, are financed through compulsory payroll taxes, and eligibility depends on contribution years. They are administered by industrial boards (Bedrijfsverenigingen) on which representatives of the unions and the employers organizations sit. The boards collect contributions and decide on benefits. Because of their quasi-monopoly in social security the bipartite industrial boards have a high degree of institutional power, independent from the state, over social policy in general. The third tier, public assistance, provides the public safety-net for those whose benefits according to the other

tiers have expired. Public assistance is tax-funded and administered by local authorities.

The crisis and reform of the Dutch welfare state revolved around the disability scheme that increasingly became an instrument for early retirement and industrial restructuring. Four features established the idiosyncrasy of this scheme (Aarts and De Jong 1996). First, the scheme did not make a distinction between different causes of disability. The risk of disability was defined as a social rather than solely an occupational risk. Second, the so-called "labour market consideration" provision stipulated that in assessing the degree of disability the diminished labour market opportunities for partially disabled persons should be taken into account. As a consequence, disability as the basis for entitlement was redefined as a worker's particular incapacity to find a job similar to his former job. If the probability of not finding an "appropriate" or "fitting" job was evaluated to be high then the degree of disability would also be determined as high. Third, disability and sickness benefits were closely related to the extent that a person would receive sickness benefits during the first full year and then would qualify for the disability scheme. The funding of the schemes, however, is dissimilar. Sickness pay is primarily financed by employers while disability benefits were entirely financed by employees' contributions. Workers' contributions were set at uniform nationwide rates and were unrelated to the particular risk factors in different industrial branches. Most firms supplemented sickness benefits up to 100 per cent of former earnings and many even supplemented disability benefits to a comparable level for a year or longer.

The broad definition of disability, the incorporation of labour market opportunities into the calculation of the degree of disability, and the high replacement rates are not per se unique features of the system. The most distinctive property of the Dutch programme concerned the institutional organization of responsibilities and control. Sickness pay and disability benefits were managed by the industrial boards. These were largely responsible for examining the health of employees for whom their employers pay sickness contributions directly to the appropriate Industrial Board. However, a remarkable deficiency in the transparency of medical assessments arose as well as economic incentives for employers to use the sickness and disability schemes as a convenient procedure for "firing" redundant, particularly older workers, and avoid social friction at the same time. Paying a sickness benefit for one year and then letting the disability scheme take over was calculated as in many ways a much cheaper option than maintaining a redundant worker on the regular payroll. Medical doctors could interpret the labour market clause of the scheme generously, employees and the unions appreciated that the disability scheme guaranteed generous benefits until retirement and the government had found an additional early exit instrument. In fact, the

combination of the low threshold for entitlement, the blurring of social and occupational risks, and the generous level and duration of benefits explains why the disability scheme became a major method for reducing the supply of labour.

The unanticipated yet inevitable result was, however, a steep rise in the number of recipients and an exhaustion of the scheme's financial resources. A scheme that originally was meant to support no more than 200,000 people was paying more than 900,000 benefits in 1990. By 1986 in the 55-64 age group those who received a disability benefit outnumbered those with a job. Estimates indicate that between 30 and 50 per cent of those receiving disability benefits should have been considered unemployed. Early retirement facilities were added to the generous disability scheme and these also rapidly became popular labour market exit routes. As a result, the participation rate of older men (60-64) dropped dramatically from about 70 per cent in 1973 to 22 per cent in 1991 (Hemerijck and Kloosterman 1995).

The loss of jobs for manual workers in industry, which occurred rapidly and massively, encouraged the use of sickness and disability legislation and early retirement to shed older, low-skilled males from the labour market before the normal age of retirement. The explicit objective of disability legislation to encourage revalidation and labour market reintegration was almost entirely discarded. Instead, the scheme became a harsh welfare trap: once officially recognized as partially disabled a worker acquired a permanent labour market handicap. The labour market consideration was interpreted by the relatively independent industrial boards in such a way that if productivity was below the wage level a worker would be considered fully incapacitated to work. It was assumed that discrimination in the labour market would prevent such a person from finding another job.

Political attempts were made to reduce the demand on the schemes. Stricter measures were introduced to curtail the misuse and to cut back social spending. In 1984 the statutory minimum wage was reduced. Replacement rates were cut and nominal benefits were "frozen" between 1984 and 1990. In 1987 the second centre-right Lubbers government enacted a structural reorganization of the system of social security. Replacement rates were cut from 80 to 70 per cent, entitlements were restricted, indexation was cancelled, and the duration of disability and unemployment benefits was shortened. Moreover, the labour market consideration of the disability scheme was repealed. However, these and similar measures had little effect on spending because the number of social security beneficiaries continued to rise. One of the reasons for the failure of the reform is that the weak prominence of the state in the social security system prevented the mobilization of sufficient power to override the incentives to misuse the disability scheme for labour market reasons. As a result, institutional change stalled.

By 1989 the number of people receiving disability benefits was rapidly approaching one million and costs were exploding. Continuing the labour market exit strategy would necessarily end in disaster. This added to an already emerging sense of emergency among most social and political actors, notably among social democrats who had entered a coalition with the Christian democrats. In a dramatic *cri de coeur*, Prime Minister Lubbers proclaimed that the Netherlands had become a sick country and that "strong medication" was required. In this context of predicament, the government proposed to introduce a radical reform in order to discourage the misuse of sickness and disability benefits and to close off other labour market exit routes. In spite of the emergency and the widespread conviction that radical changes had to be made, the proposal was highly controversial, politically risky and met with stiff resistance. In 1991 nearly a million people demonstrated in The Hague against the reform in what was probably the largest protest demonstration ever. The Labour Party was internally divided, its party leader almost fell over this issue, and its members of parliament ambiguously defended the proposed changes. The costs were high for the social democrats as the party experienced a hemorrhage of its membership and of electoral support. The social democrats were largely held responsible for what the electorate saw as an attack on established rights. The party did not recover in time and at the 1994 elections it was punished with a historic defeat.

Notwithstanding popular resistance and obstruction by the trade unions, the reforms were enacted. The Act on the Reduction of the Number of Disablement Benefit Claimants introduced a so-called "bonus-malus" system for employers. An employer who hired partially disabled workers received a bonus, while a financial penalty (malus) had to be paid into the sickness scheme if an employee became disabled. However, political pressure from the employers has already forced the withdrawal of the measure. The reform of the disability programme included an age-related reduction of replacement rates which largely left older workers unaffected. The duration of the benefit was substantially shortened. This especially affects employees with an income substantially above the statutory minimum wage. Benefits for persons aged under 50 at the time of the enactment of the new legislation were reduced, and these now decline gradually over time to 70 per cent of the statutory minimum wage plus an additional age-related allowance. Finally, medical re-examinations of beneficiaries were undertaken on the basis of more stringent rules and the legal requirement for the partially disabled employees to accept alternative employment was tightened. A new definition of disability serves to coerce beneficiaries to accept all "normal" jobs. In 1993, 43,300 beneficiaries younger than 35 years of age were reexamined. Little over 50 per cent maintained their benefit, 18 per cent had their benefit reduced, and nearly 30 per cent lost their benefit, while 2 per cent actually saw an increase in their benefit.

The reforms had met with sharp criticism from the trade unions and their strategy was to circumvent the effects by demanding the inclusion of supplementary benefits in the collective agreements. As a result, the costs of sickness and disability have now become part and parcel of the bargaining process itself. This does tend to reinforce the incentives to reduce absenteeism at the level of companies and industrial sectors where collective bargaining takes place as the relation between costs and benefits is more directly visible.

Under the new sickness leave scheme of 1994 the first two weeks (for enterprises with fewer than 16 employees) or six weeks (for all other enterprises) of sickness benefits are directly charged to the employer. By making employers bear a part of the costs the measure attempted to stimulate employers and employees to reduce absenteeism. Employers were compensated by an average reduction of sickness benefit contributions of 4 per cent of gross wages.

The reform endeavours of the coalition between social and Christian democrats were greatly enhanced by the results of a series of inquiries into the causes of the crisis of social security. These studies essentially revealed what everybody already knew, namely that social security was being misused by individuals, employers and firms, the industrial boards, the unions, and local governments for purposes of industrial restructuring. In 1992, the National Audit Office (Algemene Rekenkamer) diagnosed major deficiencies in the design, administration and implementation of social security. It concluded that in particular political supervision of the practices of the Industrial Boards had consistently failed. The report emphasized that responsibility for control lies with the state. However, given the tripartite constellation of the Social Insurance Council, the body of control, political actors had very little power to steer and supervise social security. The report of the National Audit Office conclusively brought to the fore the most problematic aspect in institutional design of the social security system, namely an ambiguous distribution of power and responsibility.

In spite of some resistance from the Christian democrats, the social democrats successfully promoted a committee of parliamentary inquiry into the causes of the disability disaster. Such a committee is the parliament's strongest instrument of control as it has extended legal authority in hearing witnesses. Its major recommendation was that the implementation of social security ought to be monitored by a government agency that could operate fully independently of the "social partners" and their bipartite Industrial Boards. The Kok government (social democrats, radical democrats and conservative liberals, i.e. the first government since 1918 without any of the religious parties) has reorganized social security in this vein and installed an independent body of control. The parliamentary committee has also advised that the Industrial Boards be replaced by regional agencies that closely work together with Public Employment Services in order to link passive and active labour market policies.

Currently, the coalition government is marketizing the system of social security in an attempt to improve incentives and efficiency and to curb problems of moral hazard. The right to an unemployment benefit is now more conditional upon the willingness to accept a job offer or to participate in training programmes. The privatization of the sickness scheme became effective in 1996. Employers are now legally obliged to continue to pay their employees for a year, to have an interest in reducing absenteeism, and will seek private insurance against this risk. The institutional change does not necessarily lead to a deterioration of protection. Replacement rates are 70 per cent of earnings and benefits are commonly upgraded to 100 per cent in collective agreements. However, the new institutional form of the sickness scheme has already led to a sharp drop in absenteeism, while the anticipated negative effect of a greater reluctance on the side of employers in hiring persons with higher health risks has not yet become apparent. The possibility for employers to "opt out" of the disability system and seek private insurance is scheduled for introduction in 1997 and would allow for differentiation in contributions between sectors and firms according to occupational risks.

A new General Social Assistance Act came into effect in 1996 which gives local authorities a greater responsibility in the implementation of income support. The Law has an element of workfare as it specifies that recipients of social assistance can be forced to work except when they are ill. The "activation obligation" does not apply to single parents with children under five years of age. In addition, benefits which are coupled to the minimum wage have become more individualized and dependent on household composition. Married couples and unmarried couples living together receive 100 per cent, single-parent families 90 per cent and a single person over the age of twenty three 70 per cent of the statutory minimum wage. Lower rates apply to unemployed young people. "Special assistance allowances" can be supplied by local authorities to households whose assets and benefits are insufficient to cope with extraordinary expenses, giving rise to regional variation in the level of social transfers.

Since the majority of social security reform only went into effect after 1992, it is too early to assess the precise impact. Recent data, however, show a reduction in social spending. More salient developments are the drop in the number of disabled persons, from a peak of 925,000 in 1994 to 861,000 in 1995, and decreasing sickness absenteeism. While in the 1980s the Dutch welfare state seemed to have gone furthest on the continental path of "welfare without work", the crisis of inactivity, especially with respect to the lenient disability scheme, has accelerated reform efforts. A major result is the institutional breakthrough that is weakening the entrenched resistance against change on the part of the unions and the employers. With the upcoming revision of the Social Security Organization Act the "social partners" are forced

to accept independent supervision and control over social security. However, it has to be stressed that the disability rate remains comparatively high and the scheme still hides unemployment. In other words, the Dutch employment "miracle" in this respect must not be exaggerated.

In conclusion, in our opinion the major reason for the crisis of governability in the social security system lies in the institutional structure of control Dutch social security. The Dutch system was characterized by relative fragmentation, generosity, and the considerable control which the organizations of capital and labour traditionally exerted over the system at the expense of political authority. The central state, therefore, had little direct control over the implementation of social policy and the system accumulated a multitude of veto-points that tended to reinforce resistance against change. In fact, until 1993 all attempts to defragment and streamline the system stalled in institutional deadlock.

It was the exploding disability scheme which augmented the necessity to implement new policies and fundamental changes in institutions. The social, economic and political costs of a significant departure from earlier policy traditions and trajectories were entirely offset by the rising costs of institutional persistence. However, we believe that the expectation that fundamental reform would in the long run restore political control over social expenditure explains why political intervention took place in spite of the considerable electoral risks in the short run.

7 Conclusion: a positive-sum solution?

In his imaginative reflection on the current state of the welfare state and its future, Esping-Andersen (1996b: 256) offers what he sees as the only viable scenario for the transformation of the welfare state. The focus is on equality and protection; the two fundamental properties of the welfare state. Inequality is increasingly difficult to avoid and this demands radical innovation in thinking and a stronger emphasis on a viable combination of education and active social policies. "The most logical solution", says Esping-Andersen (1996b: 264), "is that we rethink the idea of redistribution and rights: accepting inequalities for some, here and now, but guaranteeing at the same time that those who fare less well 'here and now' will not always do so; that under-privilege will not be a permanent fixture of anyone's life course. This kind of dynamic, life-chances commitment to equality is arguably a positive-sum solution in that it stresses a social policy more explicitly designed to optimize the self-reliant capacities of the citizenry. Again, the core of such a model's social citizenship guarantees would combine education and proactive income maintenance."

To what extent does the Dutch experience exemplify such a positive-sum solution? We have argued that the policy domains of industrial relations and social security have jointly structured the evolution of the Dutch welfare state over the past twenty years. Flexible adjustment through a renovation of the corporatist system was facilitated by a considerably weakened labour movement, the increased power of the organizations of capital, less direct state intervention, but persistent - more indirect - political intervention in collective bargaining. The fundamental reform of the welfare state could, subsequently, only take place after a severe crisis, particularly exemplified by high, long-term unemployment and spiralling disability rates. The profundity of the crisis, the enormous costs associated with policy immobility and a general sense of emergency broke the institutional deadlock, caused a retreat of the organizations of labour and capital from social security, and facilitated an increase in political control over the system.

Developments in corporatism and in social security seem to have concurred with a shift in the definition of the crisis of the welfare state and in the image of its future that seem to point to a positive-sum solution. The low level of labour market participation was recognized as the Achilles' heel of the welfare state. The background of this development is that in the second half of the 1980s it became increasingly clear that low participation rates and rising demands on social security threatened the existence of the social system. An increasingly small number of economically active people supported a growing number of welfare dependents. Maximizing labour market participation rather than replacing income has now become the single most important policy goal. The Kok government favours active labour market policies under its central political slogan of "jobs, jobs, and even more jobs". Similar goals are included in the central corporatist agreements of the 1990s.

The new policy goal of furthering labour market participation also plays a crucial role in the system that links social benefits to average wage development. Indexation will be cancelled when the number of welfare dependents increases relative to the number of employed persons. Moreover, the public employment agencies have been reformed on a regional and tripartite basis so as to coordinate better labour market policies. A recent reform has redirected Labour Provision to focus on the placement of job-seekers with a small chance of finding a job. Since 1994, the Minister of Social Affairs and Employment, the social democrat Ad Melkert, has implemented a number of innovations that attempt to eliminate a number of labour market rigidities. His policy efforts focus on specific labour market problems such as youth unemployment, long-term unemployment, the minimum wage, part-time work, unemployment among immigrants, increased participation of partially disabled workers, and a new balance between labour market flexibility and social security.

The social democrats, who seem to be recovering from the disability crisis and have a significant impact on social policy, promote active labour market policies at the expense of passive transfers. The conservative liberals favour market solutions; the privatization of the sickness insurance, and marketization in other areas such as healthcare are examples of their influence. The combination of these two political actors in the so-called purple coalition and the exchange this fosters indicates that political consensus is based on a redefinition of the relation between state, market and family in the pursuit of welfare according to a social-liberal formula that mixes traditional social democratic ideas with neoliberal market elements. The social consensus rests entirely on the pay-off between wage moderation and employment.

Although the Dutch "miracle" perhaps harbours a positive-sum solution, it does not add up to a model than can function as a policy example as the Swedish welfare state notoriously did in the 1970s for academics, journalists and policy-makers alike. There has never been a master plan or coherent policy design. Moreover, the Dutch trajectory of corporatist adjustment and welfare reform is paved with many contingencies, such as changes in the balance of power between labour and capital, a severe crisis of the passive, generous system of social security, and a change in the logic of political coalitions that was very much the effect of an exceptional election of 1994 that severely weakened the natural party of government, the Christian democrats. Finally, it can not be seen as a real miracle as the favourable low unemployment rate is also partly a cosmetic effect of hidden unemployment and of underemployment.

If the contingent and historically specific nature of these conditions make the Dutch experience unfit for export, then this establishes at the same time vulnerable aspects of the "miracle". On the one hand, its fate depends on an unconventional political coalition of which the future in a multi-party, proportional political system is uncertain. On the other hand, the "model" relies on a social coalition that assumes that unions do not demand wage increases and that employers remain willing to accept more part-time employment. But this is not guaranteed as the economy grows and the labour market tightens. Moreover, if every European country were to pursue protracted wage restraint this would seriously constrain Europe's purchasing power without a competitive improvement. Another argument against wage restraint is that it relieves the pressure of firms to innovate and gives workers very few incentives to acquire new skills (Kleinknecht 1996). Wage restraint can never be the long-term answer to structural change. Nevertheless, the Dutch trade unions have so far happily supported the chosen policy avenue, as it contributed to both job growth and a rise in union membership.

To be sure, the Dutch case demonstrates that politics still matters, that institutions, the particular incentives and constraints of policies, do matter but

that they can be adjusted, and that positive-sum solutions to the predicament of the welfare state are possible. A generalization from the Dutch experience may therefore be that welfare states face the immense political task of modifying the political and institutional defense mechanisms, while at the same time fostering new and innovative coalitions that can initiate reform, without destroying all the rules of game of the "old order". Some of these rules, as the resurgence corporatist adjustment reveals, can be put to use to prepare for a "new order". However, if social and political systems fail to redefine social and political consensus on the basis of which such a major change can occur a more gloomy scenario arises. Still, we believe that major transformations in the core policies of welfare states are indispensable because a simple continuation of the existing patterns of social policy is too costly in social, economic and political terms. It is true that electoral risks tend to block reforms. However, severe crises in the social system can overcome inertia. The first policy option is usually one that seeks to avoid the blame and hide responsibility. In contrast to Pierson's conjectures, we have argued that under these conditions politicians seek retrenchment and reforms in spite of risks. What is more, they continue to do so in spite of electoral defeat. Our proposal is to add to Pierson's building blocks of theory of welfare state reform 1) the idea that industrial relations and social security as policy domains cannot be viewed separately, 2) a more thorough concern with shifting relations of power within and between these domains, and 3) an awareness of contingency. Just as the expansion of the welfare state was predominantly characterized by "accident" rather than "design", so, too may be its transformation. However, "accidents" can have devastating consequences for the level of social protection when national welfare states fail to revolutionize their social institutions of protection and therefore fail to counteract the effects of an ageing society, the decline of the traditional family and the changing relations between men and women, mass unemployment and the new employment patterns, and the internationalizing market. This is a distinct possibility, but – as the Dutch case exemplifies – not a necessity.

Note

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Democratic Consolidation in Russia?

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Abstract

Much of the discussion of democratic consolidation focuses upon the role played by elites in this process. Central is the way in which they create and develop political institutions which then shape the movement of the political system in a democratic direction. However in Russia, the history of elite relations and institution-building does not give an unambiguous picture of the consolidation of democracy. If this is combined with a broader analysis of the emergence of a new business class with close links to prominent politicians, the prospects for Russian democracy appear much bleaker than many had hoped.

1 Introduction

One of the most important issues facing scholars in particular and the international community more generally is the fate of democracy in the former communist-ruled states of Eastern Europe and the former Soviet Union. Following the collapse of communism and the installation of democratically-based regimes in most countries of the region, the question remains how these regimes can be stabilized and consolidated, and their longevity thereby secured. The focus of attention has thus shifted from the transition to democracy to its consolidation, from the conditions that would facilitate the replacement of authoritarian by democratic rule, to how the latter can be entrenched in the society.

Much of the discussion of the consolidation of democracy in a post-communist context has generally been very different to the main themes of analysis when the question of democratic stability and longevity last achieved prominence on the intellectual agenda. This was in the late-1950s through the 1960s and was a reaction to the failure of democracy to take root in much of the post-colonial world despite many of these states being left with democratic political institutions. The type of explanations sought for the failure of democracy in a post-colonial context, and therefore by implication the conditions for democratic success, focused upon levels of development and