

### The Crisis Imperative: Crisis Rhetoric and Welfare State Reform in Belgium and the Netherlands in the Early 1990s

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Sanneke Kuipers

# The Crisis Imperative

CRISIS RHETORIC AND WELFARE  
STATE REFORM IN BELGIUM AND THE  
NETHERLANDS IN THE EARLY 1990s

CHANGING WELFARE STATES



AMSTERDAM UNIVERSITY PRESS

## THE CRISIS IMPERATIVE

## CHANGING WELFARE STATES

Processes of socio-economic change – individualising society and globalising economics and politics – cause large problems for modern welfare states. Welfare states, organised on the level of nation-states and built on one or the other form of national solidarity, are increasingly confronted with – for instance – fiscal problems, difficulties to control costs, and the unintended use of welfare programs. Such problems – generally speaking – raise the issue of sustainability because they tend to undermine the legitimacy of the programs of the welfare state and in the end induce the necessity of change, be it the complete abolishment of programs, retrenchment of programs, or attempts to preserve programs by modernising them.

This series of studies on welfare states focuses on the changing institutions and programs of modern welfare states. These changes are the product of external pressures on welfare states, for example because of the economic and political consequences of globalisation or individualisation, or result from the internal, political or institutional dynamics of welfare arrangements.

By studying the development of welfare state arrangements in different countries, in different institutional contexts, or by comparing developments between countries or different types of welfare states, this series hopes to enlarge the body of knowledge on the functioning and development of welfare states and their programs.

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# **The Crisis Imperative**

Crisis Rhetoric and Welfare State Reform in Belgium  
and the Netherlands in the Early 1990s

Sanneke Kuipers

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*Sanneke Kuipers*  
*November 2005*

# 1 The Crisis Imperative

## 1.1 Welfare State Crisis in the Lowlands

In the struggle by European welfare states to overcome recession during the 1980s, two countries in particular lingered behind. The Netherlands and Belgium exemplified the pathology of ‘welfare without work’ that characterized continental welfare states.<sup>1</sup> In their enduring attempts to improve their macro-economic and financial situations, both states were largely unable to tackle their most pressing social policy problems. In Belgium, the total unemployment benefits covered income transfers for approximately one million people – roughly one-tenth of their population. Likewise, in the Netherlands roughly one million of the country’s 16 million people received disability benefits. These respective programs were responsible, in large part, for the countries’ high inactivity rates.<sup>2</sup> They represented the Achilles’ heels of their social security systems.

The institutional settings in both states are very comparable, as will be discussed further in chapter 3. In both countries, social partners have a structural impact on social policy in agenda setting, decision-making, and implementation phases.<sup>3</sup> While employers’ and employees’ income contributions finance the programs, the social partners are responsible for administration and allocation of funds to the beneficiaries (Deleeck 2001).<sup>4</sup> Also, powers and responsibilities are diffused in complex configurations of interdependent policymakers. The political systems are home to a wide variety of political parties, governing together in multiparty coalitions. Therefore, possibilities to inhibit change are abundant.<sup>5</sup>

Yet, the 1990s showed a surprising divergence in scope and extent of the policy changes in both welfare states. In Belgium, the government announced major reforms but took only incremental steps to improve the financial sustainability of the system and to activate the unemployed with subsidized work programs. Belgium’s previous social security arrangements proved remarkably resilient. In the Netherlands, policymakers announced fundamental reforms to both the contents of the disability

program and the way it was organized and implemented. The results were unprecedented cutbacks and a major overhaul of the organization of disability benefit administration and supervision. This book explains the divergence of policy reforms in the two welfare states from an institutional crisis perspective.

Reform is the product of the deliberate construction of an imperative for change by change-oriented politicians. This imperative takes the form of a crisis, when politicians engage in rhetoric that stresses the severity and urgency of the situation. In this rhetorical exercise, a narrative is constructed that attributes responsibility for this crisis to a failing system in need of change. Also, the crisis narrative implicates powerful actors who dare to resist change. If change-oriented politicians succeed in depicting their opponents as responsible for causing the crisis, they can eliminate opposition and gain support for change at one stroke. Reform becomes imperative in the wake of the crisis. The central claim of this book is that under certain institutional conditions, a crisis can induce reform, and that both the crisis and the reform are the result of strategic behavior by change-oriented actors.

## **1.2 The Puzzle and Its Pieces**

The Dutch case shows a major overhaul of large social policy programs in a consensual democracy, even though many voters depend on income transfers and many public actors have an interest in protecting the status quo. The disability policy was in the spotlight and actors felt pressure to respond. Major changes to the existing arrangements were perceived to be inevitable. This book seeks to explain why a similar predicament in the Netherlands and Belgium produced virtually no changes in Belgium, while the Netherlands reeled with changes. Conversely, because drastic change is considered less likely to occur than marginal adjustment, how can it be explained that the Dutch institutional structures were radically altered, whereas the Belgian system proved so resilient? Accordingly, this study asks whether a crisis perspective can explain the incremental adjustment of unemployment policy in Belgium, and the drastic changes in disability policy in the Netherlands.

Theories on welfare state reform and social policy change vary widely. According to classic public policy theories, only small-scale, incremental change constitutes the range that all governments can – and must – achieve in the pursuit of reform. Accordingly, the best efforts of actors involve ‘muddling through’ or smuggling reform through the backdoor (Lindblom

1979). According to Rose and Davies's (1994) theory on political inertia, established policy sectors characterized by high levels of institutionalization are difficult to reform. The social security systems in many welfare states are highly institutionalized policy sectors. For the purposes of this study, welfare state theories will be used because they apply more precisely to the subject of this research. Some of those welfare state theories will be touched upon briefly in this section; a more detailed discussion of existing perspectives will follow in chapter 2.

Theories in the field of social security seem to agree that welfare state change is very difficult to achieve. Esping-Andersen's (1990) well-known comparative work on various welfare regimes provides a vivid case-in-point. By categorizing European welfare states in three distinct regimes, Esping-Andersen's main argument was that the common denominators of each regime were the basic structures of the social security system. Those structures, once established, fully determine the future of a nation's welfare state. In more recent work, Esping-Andersen acknowledges divergence but accords it a marginal role in policy development (1999; for more emphasis on divergence see Scharpf and Schmidt 2000). Another contemporary classic, Pierson's (1994) study on welfare state reforms in the United States and Great Britain, arrived at similar conclusions: 'Despite the aggressive efforts of retrenchment advocates, the welfare state remains largely intact. Any attempts to understand the politics of welfare state retrenchment must start from the recognition that social policy remains the most resilient component of postwar domestic politics' (1994: 178).

Chapter 2 includes a discussion of welfare state theories that explain reform and retrenchment nevertheless. The conditions for successful retrenchment offered by Pierson (1994; 1996) are met to a greater extent in Belgium than in the Netherlands, and yet the cutbacks by the Dutch government paled Belgian retrenchment efforts into insignificance. The logic of blame avoidance employed in various party political accounts (Ross 1997; Green-Pedersen 2002) does not explain the diverging outcomes in these two cases either. Both countries were governed by center-left-wing parties with pro-retrenchment liberals in the opposition, but their reform processes were very different. The budgetary crisis and economic recession in both countries were similar, but even if the size of the cutbacks correlated with economic distress, we would need to know how they relate to each other (see discussion of Rodrik 1996; Visser and Hemerijck 1997; Elmeskov et al. 1998; Levy 1999). The discourse analysis departs from the objective assessment of reform necessity and relates successful reform to crisis narratives by reform-oriented actors (Cox 2001; Hay 2001; Schmidt 2000). The

discourse approach comes close to the main argument of this book, but it does not offer institutional conditions for successful crisis narratives.

The next section presents the claims of this book in brief. The aim is to contribute to accounts of welfare state reform by relating the intended social construction of crises to the phenomenon of institutional persistence. This approach probes the mechanisms that come into play when actors employ crisis narratives to pursue reform, and how they use the institutional vulnerability that increases the potential of crisis narratives as a powerful weapon. Belgium and the Netherlands provide compelling illustrations of social insurance systems gone awry and allow us to analyze what happens to these vulnerable systems when politicians engage in crisis rhetoric.

### 1.3 The Theoretical Argument

This study tends to see non-incremental policy change as the result of political behavior at a tipping point in the history of a policy sector. This explanation focuses on the construction of crises as a political instrument that induces drastic reform (Hay 2001; see also Edelman 1977; Boin and 't Hart 2000). Change-oriented actors deliberately create a 'crisis narrative,' a simplified causal account of a situation described as a crisis, requiring robust and decisive action. Crisis narratives are exploited by political actors to forcefully intervene in institutionalized policy sectors that used to be immune to political agitation. Crisis rhetoric serves to underscore the necessity of reform, de-legitimize the status quo and discredit the policy sector's protagonists. Crisis rhetoric has the most potential when institutional rigidity has been building up during long periods of policy stability and path-dependency.

Path-dependency means that an institutional structure persists in a changed environment. This process is caused by institutional reproduction. Reproduction means that a system is strengthened over time because the policy outcomes produced by the system further consolidate, necessitate, and substantiate its institutional structure. Policy outcomes reproduce the policy institutions in such a way that the stable system generates contradictions vis-à-vis its changed environment. Those contradictions are fertile ground for the construction of a crisis, which is used by change-oriented policymakers to induce large-scale reform.

This book demonstrates how Dutch political actors exploited a crisis narrative to assault the mechanisms that had kept a costly and counterproductive social insurance in place for 30 years. The crisis narrative pointed to

visible contradictions produced by the system, such as an astonishing number of sick and disabled people in one of the healthiest countries in the world, a sector governed by closely cooperating actors primarily interested in self-preservation, and a social insurance system that became top-heavy under the increasing load of the number of claims divided by the number of contributors. Meanwhile, reform-oriented politicians appealed to 'new' values (such as individual responsibility), instead of the tenets constituting the failing system (such as solidarity). The crisis they launched did not only discredit old policy doctrines and protagonists, it offered a new policy direction and opened up possibilities for using new venues for policy formation and implementation (cf. Baumgartner and Jones 1993).

In Belgium, established institutions appeared more resilient to reform than their Dutch counterparts. The crisis narrative exploited by the Belgian prime minister called for a solidarity similar to the harmony that once produced the welfare state after the Second World War. Instead of harmony, the crisis triggered mass upheaval, and the Belgian government quickly had to abandon its original reform plans and pursue less ambitious adjustments. The government was unable to ignore mass protests and union influence. Once their crisis narrative was imbued with solidarity appeals, they could not blame unions and other reform opponents for the crisis, or discredit the union-protected social insurance structures as causal factors. Reforms introduced as the new 'Global Pact' included cheese-slicing adjustments that were far from innovative or drastic.

The main argument of this book is that the characteristics and causes of crises matter for the reform possibilities and constraints that follow. Welfare state change is often accompanied by some political 'crisis' or another, while the influence of crises as a factor in reform processes often remains unaddressed or underexposed. The link between crisis and reform is not self-evident but definitely worthy of in-depth investigation.

#### **1.4 Analysis of Reform**

Reform is considered non-incremental when it is unprecedented and comparatively large in both a systemic and programmatic sense. Programmatic retrenchment refers to direct cutbacks on social programs, whereas systemic retrenchment refers to indirect, contextual changes with a long-term impact on social security arrangements. Systemic retrenchment influences social policy in a more inconspicuous way, because it alters the context for future decision making (Pierson 1994). This book adopts Pierson's division

between programmatic and systemic retrenchment, because the distinction allows us to study concrete reform efforts aimed both at the policy program and at the contextual factors that help to sustain certain practices and power resources in a policy sector.

Pierson (1994) speaks of ‘retrenchment’ when cutbacks and reforms lead social policy to conform more closely to the residual welfare model (i.e., a welfare state with means-tested public assistance only). This research does not necessarily seek to only explain state disengagement in social insurance schemes. In continental systems, it is equally interesting when reform means that states get *more* involved in social insurance policies that were previously the domain of the social partners. States can also take responsibility from the social partners and turn collective insurance schemes into private arrangements – this would include major changes even though it could not be characterized as retrenchment.

Pierson’s distinction does not suggest that programmatic retrenchment involves less fundamental changes than systemic retrenchment. The difference between systemic and programmatic is not the scope or depth, but rather the *locus* of change (Van der Veen, Trommel and De Vroom 2000). Claims as to whether change was drastic or incremental will be substantiated in this research by placing reform in its historical context, by looking at the immediate quantitative effects of cutbacks and by assessing whether the reform affects the basic characteristics of the social policy.

Programmatic retrenchment has more direct budgetary implications than systemic retrenchment. Green-Pedersen (2002) calculated the savings as a percentage of the total expenditure on a particular scheme. This study will use Green-Pedersen’s (2002) results for the Dutch case, and compare them to the budgetary implications in the Belgian case. Chapter 3 assesses both the programmatic (direct, quantitative, and qualitative) consequences and the systemic (long-term, indirect) effects of reforms. The effects of systemic reform cannot be measured, but can be examined qualitatively, and the relative size can be clarified by comparing earlier adjustments and reforms, and between the Belgian and Dutch cases.

Systemic reform is conducted when policy changes are made that influence future conditions for decision making. Pierson’s (1994) categorization is helpful in instructing the analysis. The possible effects of all of the investigated policy changes will be traced, with respect to 1) the flow of financial means and human capital; 2) privatization at the level of policy organization/administration, but also of individual insurance schemes; and 3) reform of decision-making structures (Pierson 1994: 15-19; cf. Van der Veen, Trommel and De Vroom 2000). These relate to the uneven distribution of



resources in an institutional setting, which can be changed in order to alter the power relations sustained by those resources.

## 1.5 Purpose, Relevance and Limitations

The aim of this research is to probe into the black box of crisis-induced reform: How and when does crisis rhetoric enable actors to address policy problems in such a way that they can overcome institutional barriers to change? And, if these institutional barriers continue to block change effectively and induce path-dependency: How does this process of institutional reproduction work? A welcome contribution to the scholarly debate can be made by focusing on the link between the reproduction of institutions and policy reform (Thelen 1999).

In addition, there is still a lack of systematically comparative and detailed reports on welfare state changes (Alber 1996: 3 in Green-Pedersen 2002; Scharpf and Schmidt 2000: 2). Many comparative case studies on continental European welfare states – even the ones with more than two cases – conveniently omit Belgium as subject of investigation (see for instance Levy 1999; Swank 2002). Consequently, little is known about Belgian reform and its comparability to other countries. Though Belgium and the Netherlands are seemingly look-alike neighbors in many respects, comparative research on the two countries proves exceptional.<sup>6</sup> Perhaps because of its extraordinary federal structure, its regional conflicts and its complex policy-making practices, Belgium is rarely the subject of international comparisons in the case study mold (Van Ruijsseveldt and Visser 1996). However, when regional divides interfere in national political decision making in Belgium it is fascinating to see *how* this affects reform possibilities and why a crisis narrative does not enable policymakers to overcome the linguistic schism. The Netherlands may not have a federal structure, but is a solid candidate for comparison in many other aspects, as will be substantiated in chapter 3.

The outcome of reforms does not suggest that the Dutch do a better job of solving their problems. The present-day situation in Belgium and the Netherlands shows that, in spite of drastic reforms, the Dutch may have increased their activity rates, but still have not solved their disability insurance problems. The Belgians slowly but surely work on the activation of their unemployed and gradually improve their *de facto* retirement age by discouraging the use of pre-pensions. In the Netherlands, the vast number of reorganizations in administration and their modest effects have generated policy instability, discontent among civil servants and voters, ongoing

media criticism, and a decade of intense political debates. Nevertheless, the fact that large-scale reform occurs in one setting and minor reform takes place in another similar setting is intriguing. Although the outcomes of large-scale reform may be disappointing a decade later and make the reforms seem insignificant in retrospect, at the time the reform was introduced it was perceived as drastic. Consequently, perhaps the perceived success of reform and its effects ten years later is not very interesting. What is important here is that drastic reform was possible in the first place, and that it can be compared to a contrasting case in order to analyze what made the drastic reform possible. The Dutch and Belgian welfare states provide us with such cases.

This book is both relevant for scholars engaged in the debate on welfare state reform and readers interested in social policy development in the Low Countries. This study provides a context-sensitive analysis of two cases of continental welfare state reform, discussing Dutch and Belgian reform politics. Second, it is an in-depth examination of crises in public policy sectors, to what ends they can be used, and what unintended consequences they produce. Two turbulent episodes in the Dutch and Belgian welfare states in which reform attempts induced mass upheaval are particularly interesting from this crisis perspective.

This study does have limitations. To begin with, the cases studied were limited in time. Although both the Dutch and the Belgian policy sector analyzed here saw impressive reform follow-ups in the second half of the 1990s, this study only analyzes the social security reform efforts of the first Dehaene government in Belgium, and the third Lubbers incumbency in the Netherlands. Subsequent reforms are no less interesting, but took place in a substantially different setting, with different participants in policy making and a new political coalition in government. In addition, the ambition here is to explore the influence of actors and institutions in the process of policy reform, starting with an interpretative framework of theories and concepts that seem to offer explanatory power. When two cases are studied within a tentative framework, it is impossible to conclude much more than that the study leads to a certain set of hypotheses worthy of further research, and what particular factors had an impact on social policy reform in the cases studied here.

This does not mean that the research findings will be exclusively particularistic. The subject of study – social policy reform – is a common source of problems in many advanced welfare states. The structure of the institutional settings studied here can be found elsewhere in continental Europe. Therefore, the conclusions of this research consider if and which lessons can be

drawn for other instances of policy reform under similar circumstances. The primary goal is theoretical: analysis of political conduct that produces reform through interaction with institutions that constrain or enable reform. Not statistical regularities, but rather the identification of patterns in the complex interaction between actors and institutions are the focus of this study.

## 1.6 Book Plan

In the next chapter, the theoretical framework employed in this book is outlined and explained in detail. The choice for a crisis perspective on welfare state reform is substantiated and compared to alternative explanations. Chapter 2 also defines and explicates the concepts and assumptions that guide this study. The chapter ends with a brief summary of the case analysis.

Before this case analysis takes place, chapter 3 will discuss the comparability of the two cases. The assumption that the two cases are similar enough to be puzzled over regarding the different outcomes of their policy reform processes requires some substantive empirical evidence. In addition, chapter 3 addresses the difference in reform outcomes by comparing the immediate impact of the reforms conducted in each case, in terms of both quantitative impact (how big were those cutbacks) and qualitative impact (did reforms include an attack on previously sacred cows).

Each case is then analyzed on a system level to see whether and how path-dependent self-reinforcing sequences occurred over time, and if contradictions between the institutional structure and its environment were produced. These macro-level analyses will be preceded by a description of the building blocks of the system and a presentation of the actors involved in each case. However, it is not wise to read the first empirical chapters of each case (chapters 4 and 6) as mere descriptions, because the principal aim of those chapters is to analyze the reproductive sequences that are crucial for the reform processes as they evolve in the empirical analysis of the cases that follow.

The next chapter for each case (chapters 5 and 7) will probe the within-system level and study the reform processes selected. In both cases these reform attempts were announced as drastic political interventions to curb the uncontrollable developments in the runaway social security systems and to solve the crisis of unsustainable benefit dependency rates. Just why they turned from similar attempts to different outcomes is addressed in a detailed exploration of the institutionalized possibilities and constraints to change-oriented actors to pursue their reform proposals.

The book concludes with the theoretical contributions provided through this exercise. What was found in the black box? What can be said, within reason, about the different variables that interacted to influence those reform outcomes? What can be expected in other cases, based on an understanding of the processes under study? The final chapter assesses the adequacy of the theoretical framework used to study policy change from a crisis perspective.

## 2 Crisis and Change

### 2.1 Introduction

Some social security research suggests that ‘the alignment of political forces conspires just about everywhere to maintain the existing principles of the welfare state.’ Much of the knowledge in the field agrees that ‘the cards are very much stacked in favor of the status quo’ (Esping-Andersen 1996: 265 and 267). Studies on welfare state reform indicate that retrenchment tends to be more rhetoric than reality, as affecting core areas of public policy. The gap between the rhetorical claims and the actual record of Thatcher’s social security reform serves as a good example (Bradshaw 1992; Pierson 1994). Parsons (1995: 577) puts forth that ‘at best, government tampered at the margins with ... various combinations of policy maintenance and succession.’ Based on a comparative study on welfare state retrenchment in industrialized societies, Mishra (1990) concludes that despite rhetoric, governments have, in practice, been reluctant, unwilling, and unable to go beyond partial termination – such as cutbacks and savings – to make more substantial changes.

Yet not everyone agrees that welfare states of the past decades are so impotent (cf. Bovens, ’t Hart and Peters 2001). In a more positive assessment, Scharpf and Schmidt (2000: 19) suggest, ‘there are indeed several paths toward a successful adjustment of advanced welfare states.’ They offer this statement despite the fact that they found no solution for the adequate adaptation to international economic pressures. Scharpf and Schmidt analyze how countries differ in their macroeconomic policy responses; some nations alter their exchange rate policy, while others attempt to impose wage restraints. Whatever the response, it becomes clear that welfare states face respective problems as a consequence of their respective basic social security systems (Esping-Andersen 1999). This leads us to anticipate that countries with a similar basic structure face similar problems to which similar reactions can be expected.

If, however, the social security dilemmas are similar, the international challenges identical, and the social security systems very comparable, why are solutions to those similar predicaments strikingly different? Belgium and the Netherlands are both continental welfare states, with occupational social insurance programs, corporatist decision-making arrangements and consensual political systems. In the beginning of the 1990s, in the middle of an economic downturn, both countries faced alarming inactivity rates and rising budgetary deficits, while striving to meet the Maastricht criteria. Social security reform seemed inevitable. This study seeks an understanding of these reform processes that yielded strikingly different outcomes. Specifically, it focuses on the question of why welfare states with similar institutional settings respond so differently to social policy problems comparable in size, urgency, and complexity.

This book argues that we must probe deep into the black box of the policy-making process. This chapter is a survey of the possible factors that may account for incremental reform on unemployment policy in Belgium, as compared to the drastic changes in disability policy in the Netherlands. Given that the policy sector structures in both countries are similar, it may prove useful to understand how these structures affect the policy processes and the resulting divergent outcomes. A comparison also follows regarding the scope of action afforded to policy actors when responding to policy sector events.

## **2.2 Welfare State Change in Belgium and the Netherlands: A Tough Nut to Crack**

The rather pessimistic opening words to this chapter illustrate the dominant tone of the field of welfare state studies. Studies of welfare state growth and divergence until the 1980s, and of the ‘crisis of the welfare state’ later that decade, concluded in the early 1990s that welfare states are difficult, if not impossible, to change. Welfare state reform was considered to be very path dependent.<sup>1</sup> To some, path-dependency boils down to the simple claim that what happened at an earlier point in time affects the chain of events that follows (Sewell 1996), in other words, existing institutional rules and earlier policy choices determine later policy choices and trajectories. Others criticized this strained conceptualization of path-dependency that, in essence, asserts an argument no more potent than ‘history matters’ (Mahoney 2000; Pierson 2000). According to Pierson (2000: 253) path-dependency means ‘each step along a particular path produces consequences which make that path *more* attractive for the next round’ (italics added by author).

Recently, welfare state analysts converged to a general agreement on the notion of path-dependency: The institutional structures of welfare states, once established, have a ‘lasting and overpowering effect on which kinds of adaptation strategies can and will be pursued’ (Esping-Andersen 1999: 4). Hence, the conclusion that welfare states had become ‘immovable objects,’ very resistant to any form of change, dominated the welfare state debate in the late 1990s (Pierson 1998; Esping-Andersen 1999; Green-Pedersen and Haverland 2002).

These gloomy conclusions were not universally supported. They provoked a plethora of reactions to prove the contrary. This chapter will discuss the diversity of explanations to welfare state change that were offered in the past decade. The current study aims to offer a new and better explanation.

Starting with the notion that welfare states are difficult to roll back and that reforms are likely to be path dependent, recent studies attempt to explain why change occurs and paths are deserted nonetheless. These studies suggest that welfare state reform focuses on cost containment and downsizing because the welfare state has clearly hit the buffers. That is why they coined the term ‘retrenchment’ instead of reform, since reform theories do not apply to adjustments for which no one can take credit. First, there are the proponents of the ‘new politics of the welfare state’ such as Paul Pierson (1994; 1996) and other authors who use his line of argument (Anderson 1998; 2001; Ross 1997; 2000; Green-Pedersen 2002). They argue that successful retrenchment depends on the actor’s ability to avoid the blame for the cutbacks, and thereby shirk the political costs of making unpopular decisions. Second, some scholars assert that the structure of party competition shapes the feasibility of retrenchment (Kitschelt 1999; Green-Pedersen 2001). Third, economic pressures may build up to an extent that can no longer be ignored; retrenchment is inevitable as a crisis grows (Rodrik 1996; Elmeskov et al. 1999). Fourth, normative discourse analysis explains successful retrenchment as the product of the ‘social construction of an imperative for change’ (Cox 2001; Schmidt 2000). The next section discusses why each of these four explanations offers an insufficient account of the developments in both the Netherlands and Belgium.

#### Blame avoidance: the new politics

The ‘new politics of the welfare state’ proponents (Pierson 1994; 1996) employ two lines of argument about retrenchment, in which they question the role of socioeconomic class that had long been such a powerful explanation of welfare state expansion (Korpi and Palme 2003: 425). First, class conflict

does not drive politicians – not even the strongest opponents of social policy – to commit political suicide by proposing highly unpopular reforms. Retrenchment decisions are generally unpopular and politicians will seek to escape the wrath of the voters supporting the existing welfare state arrangements. Retrenchment advocates can avoid blame for their actions if they can conceal their cutbacks, if the opposition is divided, or if crucial opponents can be compensated. Second, welfare states have generated a new class of interest groups who protect the rights of specific welfare state beneficiaries such as pensioners, or the disabled. The emergence of these new advocates explains why the old power resource explanations no longer hold; the landscape of activists simply changed as the result of welfare state development. Therefore, contrary to what the power resources approach predicts, retrenchment advocates do not simply cut back welfare state provisions when they outnumber their opponents in the political arena. Instead, cutbacks are introduced when the political responsibility can be obscured, or when voters are incapable of punishing the culprits.

Pierson (1996: 177-178; 1994: 53-54) predicts that a divided opposition, the absence of a unifying benefit scheme, a budgetary crisis, and exogenous imperatives (such as EU commitments) are important conditions for successful retrenchment. These conditions are certainly met in the Belgian case, even more so than in the Netherlands, yet retrenchment occurred in the latter case, not the former. Pierson acknowledges that multiple veto points such as those that exist in Belgium can hinder the reform process, yet he also emphasizes that a fragmented political system can facilitate blame avoidance (Pierson 1996: 177). Pierson's account of Reagan's use of federalism to duck accountability for severe cutbacks is an ideal example. Anderson (2001) criticizes Pierson's approach for being applicable to pluralist political economies such as the United States rather than to the corporatist consensus democracies of continental Europe. She argues that a corporatist interest group structure may facilitate retrenchment. This argument does not apply to the present cases. Though Belgium certainly has a corporatist system and its trade unions are as influential as the ones in Anderson's case (Sweden), this did not result in significant retrenchment. In the Netherlands, the corporatist actors had long blocked retrenchment, until the Dutch government managed to cast the social partners aside in the reform process.

### The logic of party competition

The logic of blame avoidance is also central to many political party accounts of welfare state retrenchment (Ross 1997; 2000; Green-Pedersen 2002;



Van Wijnbergen 2000). Green-Pedersen's work (2002) applies Pierson's notion of blame avoidance during the retrenchments to social policy changes in the Netherlands and Denmark. It argues that, paradoxically, most successful retrenchment takes place when left-wing political parties are part of the governing coalition (cf. Ross 1997; Van Wijnbergen 2000). To explain this, Green-Pedersen follows Ross (1997) in using the classical 'Nixon goes to China'-notion: retrenchment will be perceived as more necessary and politically palatable when proposed by a center/left-wing cabinet, and faces less critique from right-wing parties in the opposition.<sup>2</sup> 'The traditional commitment of leftist governments to a more extensive role for the state and higher government spending may mitigate accountability pressures, alleviate the politics of blame and thus free leaders to pursue unpopular measures' (Ross 1997: 188). When the Dutch governing coalition changed from center-right to center-left, retrenchments in disability benefits became possible (Green-Pedersen 2002; Van Wijnbergen 2000). On the other hand, Belgium – a case not studied by Green-Pedersen – had many center-left cabinets in a row during the same period, but none of them 'went to China' in the social policy domain. So, politics might matter, but the Pierson/Green-Pedersen account of the political *modus operandi* does not provide a sufficient explanation for the social security policy dynamics in Western democracies.

A similar argument by Kitschelt (1999) holds that the structure of the party system influences the incumbent's motives to pursue retrenchment. The key argument is that the political parties in office will base their decision to roll back welfare state provisions on the presence of a credible anti-retrenchment opponent. Neither the Belgian government nor the Dutch incumbent faced competition by a credible anti-retrenchment party in the early 1990s because, in both cases, the Social Democrats were part of the coalition. In both instances, the Liberal party in the opposition could be characterized as a sizable and active retrenchment advocate. Kitschelt argues that party systems dominated by an economic cleavage (such as Sweden) are more likely to pursue retrenchment than party systems defined by the presence of other issues over which parties compete (such as religion or language). Belgium and the Netherlands both belong to the latter category, though the Belgian party system can be characterized as highly divided on both language and religion, whereas the Dutch parties are only divided by the religious fault line crossing the economic cleavage. Kitschelt's arguments may hold for Belgium, but the strong presence of multiple divides in Belgium still does not explain change in the Netherlands.

Green-Pedersen (2001) offers another explanation for retrenchment

based on the structure of party competition by distinguishing bloc and pivot party system configurations. In a bloc party system, two large parties or two 'blocs' of small parties dominate the political scene, predominantly dividing it into 'left' and 'right.' In a pivot system, three parties compete with each other, which allows the 'middle' (often Christian Democrats) to form alliances with either left or right and thereby define the retrenchment agenda. Pivot systems increase the likelihood of retrenchment, because the presence of a pivot party forces other parties to move to the center. Retrenchment debates are therefore less polarized, which helps incumbent governments justify their austerity policies vis-à-vis their opponents. However, this explanation does not solve our research puzzle because both the Netherlands and Belgium are characterized by such a pivot system. A more detailed account of reform attempts seems necessary to explain the complexity of causal factors that come into play.

### The economic impetus

A more economic explanation of welfare state change asserts that the onset of economic crisis and the confronting of mass unemployment simply forces governments to react (Elmeskov et al. 1998). In line with functionalist theories that used to explain welfare state expansion as the consequence of growing needs of citizens,<sup>3</sup> these approaches see welfare state retrenchment as a response to economic constraints. Elmeskov et al. agree with policy science scholars such as Keeler (1993) that the size of a government mandate for reform is bigger when a crisis produces societal discontent. Agenda-setting theories in policy science such as Keeler's routinely refer to crises as 'opportunity windows for reform' (Kingdon 1984; Baumgartner and Jones 1993; Wilson 2000). Both economic and policy sciences offer little theoretical grip on the relationship between crisis and reform. They offer no clear explanation on why some crises open policy windows and others do not. The concept 'opportunity window' is also used in many institutionalist studies (Wilsford 1991; 1994; Visser and Hemerijck 1997). These authors argue that a general sense of crisis serves as a powerful tool in the hands of reformist policymakers who seek to break down institutional barriers to innovation. However, their notion of 'a general sense of crisis' is hard to corroborate empirically, because it is impossible to separate 'the general feeling' from the crisis rhetoric used by advocates of change. This sense of urgency would also instigate learning processes that lead policymakers to leave the beaten path or 'turn vices into virtues,' but it remains unclear how institutional barriers to change are suddenly overcome (Visser and Hemerijck 1997; Levy 1999).

A more objective assessment of crisis – in terms of budgetary problems, decreasing support in opinion polls, or national economic adversity – can help explore the relationship between crisis and reform (Elmeskov et al. 1998). It is problematic to establish causality between crises and reform, however. To some extent, it is all too obvious that reforms are preceded by some crisis. ‘Reform naturally becomes an issue only when current policies are perceived to be not working... that policy reform should follow from crisis is no more surprising than smoke following from fire’ (Rodrik 1996: 27). Yet the presumed causal link between crisis and reform is not falsifiable; if reform failed to materialize, it can always be argued that the crisis was not severe enough. Nevertheless, Rodrik states that a crisis does allow reformist policymakers to sneak in ‘structural reforms which have significant distributional implications and which would be difficult to implement under normal circumstances’ (Rodrik 1996: 29). Rodrik illustrates how reformist governments in South America managed to package micro-economic fiscal reforms that were generally accepted and considered legitimate for the return of price stability, with macroeconomic industrial policy reforms that normally would have met considerable resistance by influential interest groups.

In spite of the hesitation to recognize a causal link between crisis and reform it seems that such a link is implied nevertheless. While causality cannot be established in a positivist way, there appears to be a natural inclination to relate stability and change through critical junctures. This study seeks to go beyond implying a link, and dives into the mechanisms that come into play when a period of relative policy stability slides into crisis.

#### The social construction of reform necessity

Discourse analysis argues that an understanding of the nature and contingencies of the relation between a crisis and welfare state reform might best focus on how a crisis is framed by policy actors who seek to set the reform agenda (Cox 2001; Hay 2001; Schmidt 2000). Political framing may be particularly relevant for such a historically known conflict arena as the domain of social security. Directly in the middle of the dividing line between social classes, between political parties, and between the most influential societal interest groups such as employers and trade unions, social security issues touch the heart of politics. After all, the welfare state itself is a socio-political construct, based on normative arguments and moral convictions (Schmidt 2000; Cox 2001). In order to bring about fundamental change, policymakers must produce persuasive justifications for their proposals.

Schmidt (2000: 231) points to three types of discourses politicians may engage in: 1) they may appeal to the solidarity values that originally constituted the welfare state 2) they may appeal to competing values that also enjoy a broad moral support (individual responsibility instead of solidarity), or 3) they may call for sacrifices to save the nation from economic disaster, appealing to the higher values of the common good. The first and the last discourse can be integrated into one single crisis narrative calling for solidarity as a primary requirement to face socioeconomic disaster, which is in fact what happened in the early years of many welfare states in the late eighteenth century. The second discursive strategy can be used to point out possible solutions in the slipstream of crisis creation. Though Schmidt (2000) does not tell us exactly how to identify those different discourses, her distinction between basic values and corresponding strategies is valuable when analyzing crisis construction. In addition, Schmidt's discourses contain a normative underpinning of a proposed change, but she does not recognize the deinstitutionalization of the status quo that is so often part of a crisis narrative also. Crisis narratives do not only include a moral conviction of necessary intervention, they also serve to discredit opponents of change. The narrative devalues the status quo and renders worthless the investments made to establish that status quo. Change-oriented policymakers build up an argument to show that radical change is both desirable and inevitable.

In sum, although often perceived or displayed as the occurrence of misfortune, crises are intentionally constructed or at least molded by strategic actors who wish to induce change. Reform-oriented parties engage in crisis framing because they perceive a tension between the institutionalized policy and a changed environment. Hay (2001) gives an example of crisis narrative and rhetorical framing in his study of British macroeconomic reform. Prime Minister Thatcher constructed a narrative that depicted the British economic crisis in 1979 as the 'Winter of Discontent,' in which government was 'held hostage' by trade unions. This allowed her to launch a crusade against the organized labor movement (see also Hay 1999). Although Hay claims to be a new institutionalist, institutions seem to play merely a passive role in his account, i.e., as objects of policy making. This gives Hay's theory, and the discourse analysis approach of others such as Schmidt and Cox, a very actor-centered character as it focuses entirely on actor behavior (Kerr 2002). Yet, the success of a crisis narrative seems contingent upon constraints and possibilities largely defined by existing institutional structures. It is precisely this link between existing institutions and the use of crisis rhetoric by reform-oriented political actors that has been underexposed in welfare state retrenchment research as well as more general reform literature.

### 2.3 An Alternative Explanation: Crises and Institutional Dynamics

This study claims to do better than all of the aforementioned theorists and disclose the black box of crisis induced reform. I agree with discourse analysis that crises are constructed, with the economic approach that crises are not constructed out of thin air, and with the ‘new politics of the welfare state’ approach and historical institutionalism that politics and institutions matter. In both cases, politicians actively engage in crisis rhetoric to set their reform agendas and face very real economic and budgetary problems, while their reform ambitions focus on the most entrenched policy sectors (social security) in their respective public domains. Yet, the crisis narrative ‘caught on’ in the Netherlands, affecting established institutions and their protagonists to such an extent that they no longer inhibit change, whereas in Belgium similar institutions are remarkably resilient in the face of a crisis.

The central claim in this book is that political actors can only successfully exploit crises to trigger reform under conditions of institutional vulnerability. This vulnerability is the product of a long history of path dependent policy adjustments that caused the policy sector to exhibit systemic contradictions that can substantiate a crisis narrative. Furthermore, we need to explore how path-dependency and crisis relate to policy change. Thelen (1999: 397) states:

What we need to know is which particular interactions and collisions are likely to be politically consequential – which of these, in other words, have the potential to disrupt feedback mechanisms that reproduce stable patterns over time, producing political openings for institutional evolution and change.

The interaction between actors and institutional settings that are likely to produce policy change can be understood best if we first know how policy stability was sustained. Institutional patterns that have developed throughout history will later inhibit variation from the course that was once marked out. Such inertia is produced by self-reinforcing mechanisms that reproduce and consolidate a specific institutional structure.<sup>4</sup> Path-dependency is a dynamic, progressive process rather than a static determinant of a situation (Mahoney 2000; Pierson 2000). Recently, welfare state studies have also recognized the self-reinforcing mechanisms that consolidate a specific path, for instance the ‘ratchet effect,’ a term coined by Huber and Stephens (2001), which points out the increasing support for social programs after

their introduction. Additionally, postwar welfare states generated their own feedback through professional networks of welfare bureaucracies and services that, once in place, were 'able to muster substantial veto powers against reform efforts' (Van Kersbergen and Becker 2002: 200; Pierson 1996). Van Kersbergen (2002: 4) also suggests that incremental adjustments of social programs not only reaffirm but even aggravate the difficulties typical for particular welfare state regimes. These aggravated difficulties can become contradictory to the objectives of welfare state provisions.

The link between reproduction and change has been recognized (Mahoney 2000; Thelen 1999; 2003) but seldom studied. This link can be found in the contradictions produced by the constant-path-dependent adjustments of a policy. Reproduction that sustains institutions can lead to contradictions within the institution's environment in several ways. First, the environment can change while the institution remains stable. Second, original objectives can run counter to reproduced and consolidated institutional practices. These contradictions are the unfortunate consequences of institutional reinforcement; a process that inhibits change because it makes established institutions stronger and more persistent. Change-oriented actors who exploit a crisis narrative, point to those contradictions as symptoms of system failure and as arguments for reform. In this fashion, the crisis narrative discredits the old institutions and veto players, while creating room for the use of new venues and actors in decision making (cf. Baumgartner and Jones 1993).

### Institutional dynamics

In policy reform literature, stable structures either determine the possible impact of new ideas, or they falter quickly under an exogenous shock, giving space to sweeping innovation that eventually gains popularity. While exogenous pressures may drive governments to initiate reform, and endemic problems in a policy sector may force them to display decisive action, governments are ultimately bounded by the institutional contexts in which they operate. Existing legislation restricts governments in their maneuvering capabilities. Access to resources such as information and capital is unevenly distributed, giving advantage to those who wish to preserve the status quo (Hay and Wincott 1998). A new minister may have enthusiastic reform plans but may lack strategic knowledge of the sector that would otherwise allow her to pursue change successfully. Ministers who 'come and go' will always meet opposition by at least some of the 'Sir Humphreys' in each sector,<sup>5</sup> who have a strong interest in preserving the status quo. Naturally,

when policy change seeks to affect the institutional structure responsible for uneven distribution of resources, those who benefit from this institutional structure will rise to argue against such changes. Their ability to block change is enabled by their comparative institutional advantage (Hay and Wincott 1998).

When inequalities are fostered and reinforced by institutional structures, they can become deeply embedded in a policy sector. Institutional reproduction consists of the mechanisms at work that reinforce the position of the institutions and the elites within the institutions that have an interest in upholding the status quo in a policy sector. Institutional reproduction strengthens the elite's autonomy and increases their resources toward influencing policy making. For example, institutionalized rules that allow industries to sponsor electoral campaigns often lead to increasingly expensive campaigning strategies. This, in turn, leads to an increasing dependency on sponsors for all but the most affluent candidates, and forces an increasing influence of business on government and politics. The status quo may not embody democracy, but no corrective action is conducted. Political analysis often demonstrates how power leads to more power (Dahl 1963). As long as reinforcing mechanisms are at work, no point occurs when additional marginal growth becomes negative and curbs developments back to an optimal economic balance. Following Mahoney (2000), this book distinguishes three mechanisms of institutional reproduction based on whether they enhance power, efficiency, or legitimacy.<sup>6</sup>

First, the power resource mechanism of institutional reproduction allows elites in a policy sector to enhance their power disproportionately through their exclusive access to advantageous resources. The power resources mechanism directs the focus of the empirical analysis on how key actors in a policy sector acquire advantageous resources. Such resources are information and expertise, institutionalized access to policy making venues (which increases their influence on policy making), and a means to accumulate organizational assets such as capital or members (who can be mobilized to exert pressure on decision makers).

Second, institutional reproduction consists of mechanisms that reinforce comparative advantages of the existing structure against forthcoming alternatives. Pierson (2000: 252) calls this process of reinforcement 'increasing returns'; 'when the relative benefits of an activity compared with other options increase over time.' Not only does the uneven distribution of resources enhance the capacity to block change, but the consolidation of the institutional structures also provides protagonists with good arguments. One potent argument is that sunk costs and acquired rights will make abolishment

of the existing system very expensive, whereas the alternative not only requires investments, but also has uncertain benefits. Cost efficiency mechanisms hold that radical change tends to be costly in terms of abolishing old structures in which money, expertise and time have been invested. This abolishment occurs in return for alternative structures for which considerable investments have to be made in their establishment. In addition, radical change that includes some form of retrenchment tends to be politically costly, when a large part of the electorate favors the shortcomings of the status quo above undefined future advantages.

Third, the legitimacy mechanism of institutional reproduction occurs when a policy sector has become consolidated in its environment to such an extent that the policy sector's key actors dominate the definition and understanding of the policy problem the sector has to solve. For example, once drug addiction is defined as a health care issue, policies are formed that treat junkies as patients and health care institutions are charged with the implementation of these policies. These institutions have a comparative advantage in showing their achievements. The policy is evaluated by health care criteria, for which health care institutions operationalize the evaluation instruments and deliver the data. Evaluation is carried out in a forum dominated by health care experts, who are indispensable because of their knowledge of the field, their literacy in the jargon and their understanding of the issue. Arguments against the negative spin-offs of the policy in terms of criminal justice, conflicting legislation, EU harmonization, drug tourism, and urban nuisance fall on deaf ears. The sector's legitimacy is thus confirmed by the standards established by its protagonists against which the sector's performance will be measured. In the empirical chapters of this research, the analysis will therefore also focus on issue definition, evaluative criteria, influence on public perception, and the persistence of taboos in the examined policy sectors.

Reproduction is safeguarded by the institutional rules that govern a policy sector, which do not necessarily conjure up a preferable situation. In fact, reproduction can lead to a consolidated institutional structure that is fundamentally at odds with its environment. Such contradictions in a policy sector tend to accumulate, and later present the government with problems it can no longer ignore or combat by the usual means.

Therefore, a discussion of contemporary struggles about policy reform requires an awareness of the history that shaped the institutional terrain of preferences and actors. In order to understand key actors' strategic contexts, it is imperative to analyze how institutions evolved and what mechanisms reinforced these institutions (Thelen 1999). Sudden change only



makes sense in light of the slow processes that precede it. An examination of how institutional rigidity plays a role leading up to the crisis is important. If institutional reproduction generates an increasingly solidified institutional structure, it may make a sector unable to adapt adequately to changing environments. Those rigidities, combined with exogenous changes, make a policy sector vulnerable to an institutional crisis (Alink, Boin and 't Hart 2001). When institutional structures no longer respond to the changing needs and desires of society, a growing rigidity of the policy sector can clash with its changing environment (Boin and 't Hart 2000).

Hay (2002) calls such clashes a 'ripening of contradictions': situations that open space for competing crisis narratives by actors (from either inside or outside the sector) who wish to adapt the system to exogenous changes.<sup>7</sup> Reformers will use crisis narratives to underline the need for policy change or institutional innovation. They will also exploit exogenous pressures – such as economic recession or new EU legislation – to change the mechanisms of institutional reproduction.

#### The crisis imperative

The use of a crisis narrative can discredit an old system and trigger support outside the sector for innovation which, in turn, can lead to drastic change. Normally, when policymakers perceive the consequences of their policy as contradictory to the policy's purposes or to the policy environment, they will try to adjust their instruments within the parameters of the status quo (see also Hall 1993). Incumbent elites typically frame problems in terms of internal causes within the policy sector and address those problems in terms of repair (Boin et al. forthcoming). Policymakers can try to meet policy problems with the expansion of existing administrative structures to cope with increasing demand (enhancing the power of administrative organizations), with amendments of existing legislation to cope with changes in the policy environment (rendering legislation more dense and complex) and with greater involvement by interest representatives from the increasing population of beneficiaries (thereby increasing the political and electoral risk involved in later retrenchment efforts). This policy evolution within the existing parameters causes a ripening of contradictions between the policy sector and its changed environment, or between the policy and the functional requirements it was designed to meet. Those contradictions are likely to trigger the criticism of external actors. Newly elected or office-seeking actors, together with other actors (EU, adjoining policy-sector elites, special interest groups, etc.) keen to expand their influence and policy domain, con-

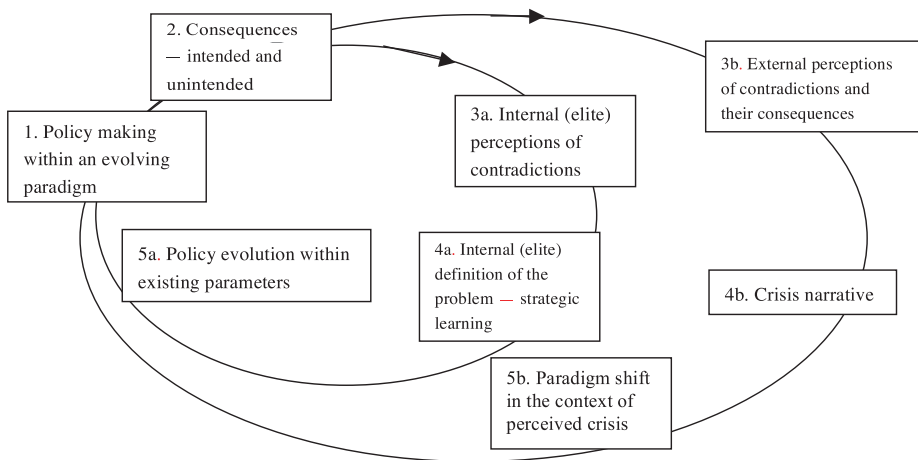


Figure 2.1 Source: Hay, 2001: 201

structure a crisis narrative based on their perception of the accumulating policy contradictions. This crisis narrative serves as a way to induce non-incremental change and alter the basic paradigm of policy making in a sector. In the above model, Hay (2001: 201) captures the differences between normal incremental policy making and exceptional institutional innovation in the wake of a successful crisis narrative:

In spite of Hay's institutional approach, his model gives no concrete place for mediating institutional structures. Institutions seem to matter only as subjects of policy making in Hay's model (Kerr 2002).

Yet, the effect of a crisis narrative depends on the power relations established by institutional reproduction. It is therefore necessary to incorporate the influence of institutional reproduction, and also to define the constraints and possibilities for policy change in terms of uneven distribution of resources. Crisis narratives can include causal relations between the alleged power of the incumbent policy-making actors and the undesired consequences linked to their policies. To underline the need for change, a powerful crisis narrative exploits fundamental tensions between reinforced institutional structures and pressures from a changing environment. A crisis narrative aims to undermine the status quo by affecting the mechanisms of reproduction that sustain the existing institutional structure. It is likely that unless changes occur in their resources – such as legal competences, capital, and information – and influence, status quo advocates will effectively block any ideational shift.

Change-oriented politicians need to attack the mechanisms of reproduction if they want to create space for further policy change. Their ability to

undermine reproduction is influenced by their own resources and those of their opponents. Self-reinforcing sequences have over time insured that these resources rest primarily in the hands of the elite governing the sector. The elites have a pointed interest in maintaining the status quo and protecting the mechanisms that sustain their influence. This provides not only stability but also rigidity over time. Just as power can become an end in itself, the policy aspects that strengthen elite's resources become more valued by its members than the original objective of the policy. However, changes in the environment can affect an elite's privileged position and as such interfere with the loop of institutional reproduction. For, if their resources weaken, so too do the elites' abilities to maintain the status quo. Reform activities therefore need to disable reform opponents by reducing their access to policy sustaining resources. This emphasis on the institutional constraints and opportunities is lacking in Hay's model.

#### An institutionalist loop

An institutional dimension should be added to Hay's model to capture the process described above. The notion of institutional reproduction can be placed in the incremental policy-making loop, because this study argues that adaptation of the policy within the existing parameters leads to institutional reproduction. In addition, the new figure must include a smaller loop, representing institutional reproduction, that unevenly gives an advantage to elites who protect the status quo through their exclusive access to resources and decision-making venues. A successful crisis narrative serves to assail this institutionally defined uneven distribution of resources and influence. Crisis narratives undermine the mechanisms of institutional reproduction and thereby create opportunities to establish new parameters and a new institutional framework.

In an adapted figure, based on Hay's (2001) model, the process of policy making would proceed as follows: The medium loop depicts the 'normal' policy process, in which policy outcomes are interpreted in terms of intended or unintended consequences, and corrected within the existing institutional framework. Contradictions between an institutionalized policy sector and its environment trigger a 'conservative reflex' among incumbent policymakers (Boin et al. forthcoming). A conservative reflex means that information on contradictions induces policymakers to undertake corrective action to re-establish a balance with the old system. A conservative reflex instigates actors to meet old objectives within old institutional boundaries, even if conditions have changed. This yields a reconfirmation of old parame-

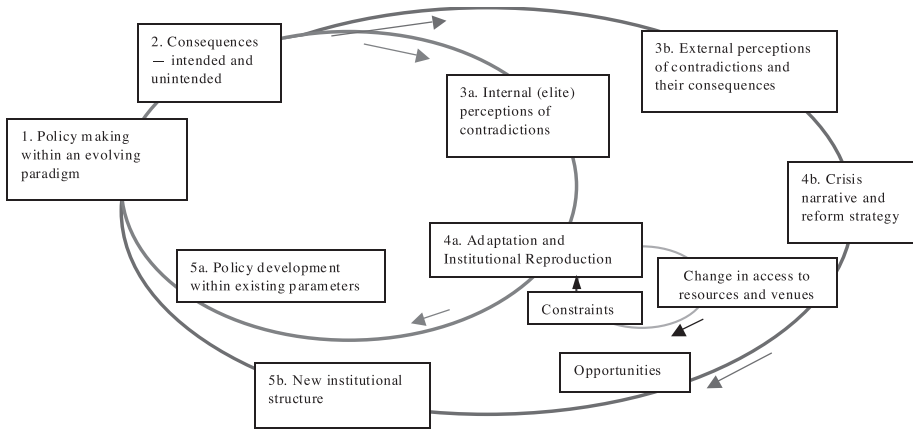


Figure 2.2 Model of stability and change

ters, which is part of a process of reproduction. Corrective action within the existing institutional context reconfirms the status quo. For example, a thermostat will always correct the temperature in its environment to the degree on which it has been set initially, thereby reconfirming the original setting. This will occur even though it might be more efficient to close a door or window, insulate the house or reset the initial objective when the exogenous environment has altered considerably. Similarly, policymakers will make corrective adjustments within the institutional boundaries of a policy sector when they perceive a gap between objectives and outcomes.

Institutional reproduction can force even reform-oriented policymakers to adhere to prevailing institutional structures, because their opponents (actors who benefit from the status quo) have become increasingly able to defend and sustain this institutional reproduction. Rules, procedures, expectations, and transactions solidify over the years into institutional structures that define the access to resources and policy venues. When change-oriented actors inside (or outside<sup>8</sup>) the sector perceive the consequences of the policy as involving an accumulation of contradictions, the process switches to the outer (largest) loop. This can most easily occur when the policy contradictions have accumulated to such an extent that the institutional rigidity vis-à-vis its environment have made the sector vulnerable to crisis. If actors wish to initiate both policy reform and public awareness of the ‘required’ reform, a crisis narrative will be constructed. This crisis narrative, accompanied by a reform strategy, will have to attack the system and reproduction mechanisms that bolster the status quo. By manipulating access to resources and venues (which are intimately linked to institutional reproduction – the smallest loop), political actors can open the door to drastic change.

Change-oriented actors will identify flaws in a policy system and construct a narrative that points out the symptoms of failure. This narrative should meet the experience of a large audience (Hay 1999).<sup>9</sup> Failures or contradictions in a policy sector can support and sustain competing crisis narratives. A crisis narrative depicts a simplified account of a variety of highly visible and recognizable symptoms and attributes causality and responsibility in a convincing, but not very precise way. However, such a narrative is likely to overrun any account of the situation that more accurately reflects the complex reality (Hay 1999). We will speak of a crisis narrative when:

- The term ‘crisis’ is employed in public debates and the media with respect to a certain policy area.
- Symbolism and metaphors are used to support and enhance the perception of crisis.
- A strong appeal is made to solidarity values, such as the moral conviction that originally constituted the welfare state. Citizens are asked for sacrifices for the common good, to ‘save the nation from economic disaster’ (Schmidt 2000).
- Simplified causal relations unify different aspects of policies and outputs into ‘one big problem’.
- Decisive intervention and structural change are required.
- Values other than the ones safeguarded by the current policy are pointed to in a proposed solution (Schmidt 2000).
- Deadlines are introduced to emphasize the urgency of the matter.
- Required intervention is coupled with survival of the governing coalition.

This crisis narrative is considered ‘successful’ when it dominates political debates and forces policymakers to renegotiate the institutional status quo. In the end, it may or may not lead to changes; this depends on the outcome of this ‘renegotiation.’ Analyses of crisis narratives for each case are presented in chapters 5 and 7, for Belgium and the Netherlands respectively. Crises need to be analyzed as part of the reform process, since it is argued here that a crisis narrative represents an essential element of attempts to pursue drastic change.

## **2.4 Conclusion**

The following analysis of the cases will show how, in the short term, institutional reproduction safeguards policy stability. Path-dependency through

reproductive sequences is a forceful process that inhibits drastic reform. In response to problematic consequences of their policy, policymakers will make corrections and adjustments within the parameters of the old system. Their adjustments will again reinforce the status quo and most likely worsen the problematic consequences of the policy, which often arise from a growing discrepancy between the reinforced institutional structure and its changed environment.

In the long run, the accumulation of contradictions that results from reinforcing sequences, will allot possibilities for change. Policy change can best be achieved when reformist actors successfully defeat mechanisms of institutional reproduction. This reform can occur when change-oriented actors construct a crisis narrative that blames the institutional structure for the accumulation of contradictions in the system. Crisis narratives should point to systemic flaws and combine reform proposals with existing demands among key constituencies. The construction of a crisis narrative enables change-oriented actors to use new institutional venues to pursue reform (emergency acts, governing by decree, social pacts, parliamentary inquiries or investigative committees) (cf. Baumgartner and Jones 1993). However, when mechanisms of reproduction continue, and protagonists of the status quo are able to use their exclusive access to information, capital, and legislative venues, reform will remain a rhetorical exercise.

The next chapters will present the analysis of two cases involving policy problems that qualify as the basis for crisis narratives exploited by reform-oriented actors. In one case, the crisis narrative seems to induce drastic policy change. In the other, the pendulum swings back to the old balance: only minor adjustments are made to meet the most urgent budgetary problems and financially safeguard the system in the years to follow. In order to understand these reform processes, both cases are divided into two parts. First the policy development within the existing parameters is described and analyzed. The policy and its context, consequences, institutional reproduction and accumulation of contradictions are outlined in one chapter for each case. The chapter that follows contains an analysis of the crisis and subsequent reforms that immediately flow from it. This chapter describes, for each case, the problem at hand, the crisis narrative, and the political and policy-making reactions to it. The interaction of actors and institutions will be analyzed to solve our initial puzzle of why there was substantial reform in one case and not in the other. Before turning to the cases in detail, I shall first introduce them, assess their comparability and differences, and elaborate the research design of this book.

### 3 Comparing Social Security Crises: Design and Method

#### 3.1 Introduction

Since welfare state reform is generally considered to be a difficult enterprise, drastic policy changes should not be expected. It is therefore a theoretical challenge to compare a case in which such reforms occurred with a case that, under similar conditions, did not produce similar drastic reforms. Given the dearth of cases in which drastic social security reform does occur (Pierson 1994; Esping-Andersen 1999), a large-N study is a dubious task. Moreover, since a welfare state's institutional structure is generally assumed to have a crucial influence on the possibilities and shape of policy reform, it is necessary to control for this parameter. This chapter explains how the selected countries have similar institutional settings, how the problems posed to both governments were comparable, and how the immediate outcomes of the two reform efforts were vastly different.

This study compares two institutionally similar cases in order to identify differences in the process leading to contradictory reform outcomes. Theory is used to detect possibly relevant differences. The next step is to show how these differences are causally relevant to the intended outcome. The research will conclude with more refined general statements about the phenomenon studied. As any comparative approach, this one is not without problems.

In qualitative studies, cases are compared as whole entities, with regard to how causal factors are expected to interact: their influence depends on the different combinations of factors. Therefore, the total situation must be analyzed and compared to another case in its entirety (Ragin 1987: 25). The theory applied here is less rigid than in quantitative studies, to allow for an enriched dialogue between ideas and evidence during the research process. This enables the researcher to identify other differences in the cases than the ones assumed at the onset of the comparative case study. These can be incorporated into the next step of theory generation.

### 3.2 Similar Institutional Structures

This study claims that the Netherlands and Belgium are very comparable on three equally important, though not mutually exclusive, levels: the institutional structure of the welfare state regime, the configuration of the policy sector, and the characteristics of the political system. The *welfare state regime* is a categorization of ways in which Western democracies have shaped their principles and foundations of state responsibility for the welfare of citizens (Esping-Andersen 1990). The *policy sector* has its own institutional structure and is embedded in a larger unity – the welfare state. It is a field of actors, rules and practices associated with the state's effort to address a particular category of social problems. The institutions of a policy sector direct the organization of policy formation and implementation; the contents of the policy in terms of goals, norms and values; and finally, the process of policy decision making (Alink, Boin and 't Hart 2001). The *political system* consists of rules and practices that govern the interaction of political actors who decide and interact with respect to several policy sectors. Comparisons are outlined concerning the relationship between government and parliament, as well as the relationship between and the positions of political parties, and the consensus-seeking nature of politics in both countries.

#### Continental welfare states

The typology of welfare states by Esping-Andersen (1990) distinguishes three welfare regimes: the Anglo-Saxon or liberal regime, the Scandinavian or social-democratic regime, and the Continental or conservative regime. Each regime is based on a different rationality. In the *liberal regime*, the market is the welfare provider. Public intervention is minimized. Social security is reserved for those who have no chance of surviving in the market system. Benefits are at subsistence level and means-tested. In the *social-democratic regime*, the state is the key work and welfare provider. The system is based on full labor participation. The government offers generous income compensation (financed from general taxes) for all those who cannot provide their own income, due to sickness, unemployment, but also education, or parental leave.

Both the Belgian and the Dutch welfare states are here defined as the third type: *continental, conservative welfare regimes*. Their social security systems are oriented towards income replacement and characterized by the income transfer dependence of many people, the low labor market partici-



Table 3.1 Esping-Andersen's categorization

Welfare State Regime	Liberal	Corporatist	Social-Democratic
Basic orientation	Market	Family	State
Coverage social security	Residual	Selective and hierarchical: workers only, differs per profession	Universal: for all citizens
Eligibility	Strictly limited: - means-tested - at subsistence level	Dependent on occupational insurance and employment record	For all who meet the criteria of 'sick', 'old', 'unemployed', etc.
Level of benefits	Low	Wage related (often high)	High
Public spending on social security	Low	High	High
Financing	General taxes	Wage contributions	General taxes
Private insurance as % of total public spending on social security	High	Medium	Low
Minimum wage level	Low or absent	High	High
Disincentives female labor participation: results	No disincentives: high	Disincentives: low	Many incentives: high
Disincentives elderly labor participation: results	No disincentives: high	Disincentives: low	Many incentives: high
Stratification	High	Insider-outsider effect	Low
Decommodification	Low	Medium	High

Source: Steen, 2001: 110, based on Esping-Andersen, 1990

pation (among young people, women, the elderly, and in general), the single-provider perspective, high long-term unemployment, high wage costs, and the slow development of the service sector. Social changes such as family instability and individualization undermine the existing 'one (male) breadwinner-oriented' benefit schemes. The occupational insurance character of social protection induces inequality between the insiders (employees)

and outsiders (unemployed) of the system. Many policies designed to cope with unemployment are focused on reduction of labor supply, as opposed to increasing demand. Early retirement schemes are a popular way of reorganizing the workforce in declining industries (Cantillon 1999; Esping-Andersen 1999). This often results in high labor market inactivity, which reflects a tension inherent to the system, because the revenue basis of payroll-financed welfare states is critically dependent on levels of employment (Hemerijck and Schludi 2000). Table 3.1 depicts the regime characteristics schematically.

Belgium (along with France and Germany) fits the characteristics of Esping-Andersen's conservative regime quite well. Still, there are three exceptions. First, Belgium has a well-developed service sector (i.e., a large part of the labor population works there). Second, the replacement rates for social assistance benefits are low (liberal level) for people without children. Third, the replacement rates of the unemployment benefits are low, especially for the second income in a single family (SCP 2000: 29). The Netherlands represents a hybrid in Esping-Andersen's categorization. Like Belgium, the Netherlands has a relatively large service sector. The system also has more other Social Democratic elements such as a universal benefit scheme for pensions, and until the 1990s, for disability. The universal benefits for pensions are at a minimal level, however, and most people have supplementary pension savings through collective agreements and private arrangements. The replacement rates for unemployment schemes, survivors pensions, and disability benefits are relatively high. Still, most characteristics of Esping-Andersen's continental regime and the subsequent problems those welfare states face, are typical for both the Dutch and the Belgian situation over the past few decades. Social security in both cases is financed to a large extent out of contributions that come from income instead of from tax revenues; wage costs are high; inactivity (among women and the elderly) is also high and there are incentives in the system to keep it that way; and social security is obtained to a large extent through occupational insurance.

### Corporatist policy making

The best way to characterize a policy sector is to see whether the relationship between the state and other key actors in the policy field could be characterized as corporatist (as opposed to pluralist). Corporatism is 'an empirical relationship between interest groups and the government that is based on exchange (influence for support), and on cooperation rather than competition' (Andeweg and Irwin 2002: 139). Siaroff (1999) shows that Belgium

is moderately corporatist in many studies, including his own, and that the Netherlands scores high in the corporatist rankings. Belgium seems to score high on the 'hard' structures of corporatism such as high organizational power of labor (by union federations), centralized wage bargaining, works councils, tripartite agencies for the administration of benefits, and the institutionalized input of business and labor in the policy process (see chapter 4 and 5). In the Netherlands, union density is lower, wage bargaining is less centralized, and works councils and tripartite agencies are less powerful. The Dutch score higher on the 'soft' structures of corporatism, in the way the representatives of capital and labor give priority to the general interest above their own specific interests. Dutch social partners are less competitive, strike activity is lower, wage moderation is often voluntary instead of imposed, and social consensus seems higher (Hemerijck and Visser 1997; see also chapter 6 and 7).

In both countries, social partners play a pivotal role in social policy making. Most social security schemes originate in initiatives among industry and the unions. Therefore, programs have an occupational insurance character, though they have become a government preoccupation since World War II. When political actors wish to conduct reforms they consult social partner representatives at the national level, in order to assure themselves of their compliance. This compliance is crucial for three reasons. First, occupational insurance is financed out of social premiums. Second, the social partners have a role in the implementation of the policies. Third, social partners represent a large part of the constituency that is affected by the reforms. The first two institutional features (which characterize all Bismarckian welfare systems) seem to effectively block change (Palier 2000).

### Consensual political systems

In many respects, Belgium and the Netherlands have similar political systems. As small countries,<sup>1</sup> they are vulnerable to external economic constraints. This usually makes policymakers aware of the need to cooperate, avoid social conflict, and maneuver delicately through international debates and tensions. The success of managing economic progress and negotiations depends as much on institutional features as on party politics and preferences, strategic goals, power resources, and control over their constituencies. 'External shocks tend to induce policy actors to play down their divisions, but it usually takes time to understand the nature and implication of such shocks. Policymaking is critically dependent upon agreement within the coalition and support from social partners' (Hemerijck and Visser 1999: 1-2).

Compromise is the policy-making rule in both countries (Hemerijck and Visser 1999; DeWachter 2001). This has two adverse effects on policy-making power. First, policymakers need to form multi-party coalitions and incorporate social partners in administrative structures in order to mobilize resources and include opposition. They thereby minimize the emergence of political alternatives, and rally support for policy change (Van Wijnbergen 2000). Negotiating economies show a remarkable capacity to tackle pressing social policy problems through concerted adjustment (Hemerijck and Schludi 2000). Second, consociationalism and corporatism can inhibit change because all of the parties involved have a stranglehold on each other. This is because, ‘all negotiated systems are vulnerable to so-called “joint-decision traps.” Where the state is weak and its powers are hollowed out, this may create prolonged immobility’ (Hemerijck and Visser 1999: 2; cf. Scharpf 1988).<sup>2</sup>

Both Belgium’s and the Netherlands’ political systems reflect a plural and heterogeneous society; the institutional structure of party competition and electoral procedures allow for an expression of this pluralism. Both can be considered ‘consensual’ regimes, a category well-known from the work of Lijphart (1984), as opposed to ‘majoritarian’ regimes. The latter are characterized by bipartisan, concentrated government and the unity of powers, whereas consensualism includes proportional representation, multi-partisan, coalition governments, and divided powers (Colomer 1996). Together with those formal devices to stabilize a heterogeneous democracy, Colomer considers informal ‘consociational’ devices such as informal rules and customs to reduce conflict and seek consensus at the elite level to be particularly relevant in Belgium and the Netherlands. Both countries are divided along several cleavages, such as the one between Protestant and Catholic religions in the Netherlands (until the 1970s) and religious and secular peoples in Belgium. Both political systems are also divided on the left-right dimension. In both countries, governments often consist of minimal-winning coalitions. From World War II until the mid-1990s, the Christian Democrats have always been present in each governing coalition in both countries. The parliament in both countries is characterized by the wide variety of parties occupying one or more seats because the threshold for political parties is low. Together with the role of corporatist institutions to pacify class conflicts in industrial relations, the structures of the governing institutions display many similarities (Colomer 1996).

It is very important to avoid a comparison that suffers from ‘illusory commonality’ (Ragin 1987: 48). Therefore, attention should be paid to the differences between the two countries as possible explanatory factors to the

question studied. The similarities between Belgium and the Netherlands lend enough ground for comparison, since the two countries share a unique combination of characteristics. Of particular relevance are the macroeconomic and social security system similarities, but the consensual policy making style and fragmented political system that characterize both countries are also relevant. The next section discusses the main differences that are important to bear in mind for sensitivity toward possible explanations for processes of policy change.

### 3.3 Differences

The primary difference between the two is that Belgium is a federal state, and the Netherlands is not. Moreover, Belgium is not an ordinary federal state. The country is deeply divided between the Francophone Walloon and Dutch-speaking Flanders, which is vital in any account of international comparison that includes Belgium (Brans and Maes 2001; Schmidt 2000). Since the 1970s, political parties have been split by this territorial-language cleavage. In 1992, the federal state structure was formalized by constitutional law, which was ‘the last stage in a long process of solving the perennial issue of communalism’ (Keman 1996: 244). In fact, along with the king and the army, the social security system is one of the only remaining undivided institutions in Belgian society (Van Steenberge 1987). This certainly does not mean that the Walloons and the Flemish agree on social policy issues any more than they do on other policy subjects that are subjected to decentralization. On the contrary, social issues stir up debates at all levels of society. Discussions on the so-called ‘transfer’ issue refer to differences in employment records and benefit dependency in Flanders and Wallonia as a reason for the transfer of money through social provisions from one region to the other. Conflicts on this matter are considered a real threat to the current Belgian unity (Deleeck 1991). However, we do not know how this will affect reform possibilities and hinder national policy making. A crisis narrative in response to the economic problems faced in Belgium could be successful nonetheless, or else hampered by factors other than language or regional conflict.

In contrast to other federal states, the current federal structure of Belgium results from centrifugal tendencies that eroded the unitary state during the twentieth century. Policy domains that were left for the federal government continue to be subjected to those centrifugal tendencies. The regions do not only quarrel about the transfer issue, but also about administrative

coordination and cooperation. For instance, social security is a federal policy domain, whereas employment policy is a communal policy domain that leads to problems in policy making, according to the new trend of 'active labor market policies' that combine income replacement with employability incentives (Van Steenberge 021004).

The Netherlands is a decentralized unitary state where social security and employment policy are matters for the central government. As in Belgium, social policy making and corporatist negotiations take place at the national level. Considering communal tensions, it should be possible to compare the reforms conducted by the Belgian central government with those put into effect by the Dutch government.

The macroeconomic context in which these reform processes took place is very similar, but differs historically. The Netherlands industrialized relatively late (in the first decades of the twentieth century), and unlike Belgium, did not possess rich mineral resources for coal and steel production. Belgium was one of the first industrialized countries of Europe, which influenced the character of the labor movement (Mok 2001). Even though it does not show in membership rates prior to World War II, Belgian trade unions are more strongly rooted in society, and more confrontational than their Dutch counterparts. To this day, some Belgian unions (especially those affiliated with the Socialist ABVV) continue to espouse Marxist notions of class struggle and revolution. This is not inconsequential: 'The continuing presence of such latent radicalism works as a constraint on the development of a stable or lasting consensus among the political and economic elites' (Van Ruysseveldt and Visser 1996: 235).

Belgian unions also have a tradition of clientelism toward their members, fitting the characteristics of Belgian society at large. Patronage is part and parcel of political relations at any level of government. Additionally, unlike the Dutch system, the Belgian bureaucracy is very politicized. The political appointment of bureaucrats among the higher ranks is equally divided among the political parties, and at the national level, according to the territorial-linguistic cleavage (Hondeghe 1990). The Netherlands has no such traditions regarding civil service and political culture.

All these similarities and differences are reflected in the institutional structures we are about to study. However, the similarities with respect to the object of interest in this research are greater than the differences, and this comparison says much about reform in small negotiating economies.

### 3.4 Similar Predicaments

Why are similar reform dynamics expected in the Dutch and Belgian social security systems? This section identifies key problems in each sector, and goes on to outline and compare the nature of the problems. This exercise shows that further comparison is warranted. Although this chapter explains how we identify and analyze crisis narratives, the actual crises in each case are discussed in greater detail in subsequent chapters.

Problems and crises are not synonymous. Public problems such as economic recession, integrity issues or organizational chaos are not necessarily crises. Crises do not simply manifest themselves; they are constructed. However, a problem in one aspect of a social security system needs to be conspicuous enough for actors inside and outside the social security sector to be inclined to view and portray it as a symptom of fundamental flaws in the structure and function of that system. In general, European welfare states ran into trouble when their socioeconomic context changed. Globalization of the economy caused increasing pressures on welfare state arrangements in several Western countries. Recession caused unprecedented mass layoffs and industrial reorganizations, which resulted in steep unemployment growth. One way to curb this unemployment growth was to reduce the labor supply by offering alternative exit routes from the labor market. Some countries (such as Italy and Germany) chose to provide generous early retirement and pension schemes. Others used disability insurance (the Netherlands – see chapter 6) or employment exemption schemes.<sup>3</sup> Early retirement and pension exit routes would later become delicate issues when another source of pressure became manifest: demographic aging would make pension rights and other social security commitments increasingly harder to honor.

The number of claimants in a benefit scheme can cause a government problems in two ways. First, the number of eligible individuals can grow so large that it poses a threat to the financial sustainability of the scheme. Occupational social insurance (i.e., the social insurance linked to gainful employment) is financed by premiums on wage incomes paid by employers and employees. The state can get into trouble when the premiums are high because it has to pay for the entire civil service system. In addition, high premiums put upward pressure on labor costs, thus decreasing national competitiveness, which can aggravate a recession.

Second, the inactivity rate can escalate beyond a critical threshold. Benefit dependency can mount so high that the number of beneficiaries exceeds the number of employees who pay the benefit contributions. This poses both an

Table 3.2 Benefit Dependency Ratios

	Pension and early retirement*	Disability	Unemployment	Social assistance	Other**
Austria	11.5	6.8	7.0	2.5	20.1
Belgium	7.8	6.7	23.5	4.6	14.6
Denmark	4.8	9.5	6.8	11.0	9.4
France	13.3	10.0	12.1	5.0	9.0
Germany	10.6	7.4	13.3	4.5	14.4
Great Britain	6.2	9.4	0.9	16.4	5.3
Japan	14.4	5.8	1.7	1.1	12.5
Netherlands	0	13.2	5.5	6.5	8.0
Sweden	0.8	11.9	9.2	2.2	13.0
United States	2.9	7.5	1.8	3.4	4.5

Source: Arents, M., Cluitmans, M.M. and Van der Ende, M.A. (2000) *Benefit Dependency Ratios*, The Hague: Elsevier

\* Publicly financed schemes only

\*\* Statutory sick pay, survivors pension, parental leave

economic and political threat. Economically, this imbalance further increases labor costs. Politically, it becomes increasingly difficult to force workers to continue to pay for an increasing number of (inactive) people. Besides, the assumed harmful effects of non-employment and (benefit) dependency, such as social exclusion, are better off avoided. This process of increasing inactivity is accelerated not only instantly during recessions, but also more structurally as a result of demographic developments such as aging.

In 1990, the inactivity rates in the Netherlands and Belgium were concentrated primarily in the schemes that were selected as a subject of study in this research. In the Netherlands, the ratio for disability benefit dependency is by far the highest of all countries on the list. Belgium ranks highest for its unemployment insurance dependency ratio (Arents et al. 2000).<sup>4</sup>

In both countries, the costs of the benefit programs had been reduced considerably in the years prior to 1990. By freezing the wage/price indexation of benefits and reducing benefit levels, the Belgian and Dutch governments had both tried to bring down public expenditure and the costs of labor (see for Belgium: Deleek 2001; Cantillon 1999, and for the Netherlands: Aarts, De Jong and Van der Veen 2002; Caminada and Goudswaard 2003). In 1990, social security expenditures<sup>5</sup> as a percentage of the GDP was 26.6% in Belgium and 32.5% in the Netherlands. These figures showed that the two



countries were still among the highest spenders in Europe, with only Sweden (32.9%), Denmark (30.3%), France (27.7%) and Austria (26.7%) spending more or equal shares of their national income on social security (Deleeck 2001: 57). In addition, Belgium was struggling with ongoing monetary instability, a large public deficit (7% of GDP) and a huge public debt (125% of GDP) in 1990 (Hemerijck and Schuldi 2000). According to the European Institute of Public Administration (Gretschmann 1993: 269), at the time, the Netherlands ‘might have a chance of getting their house in order’ to meet the Maastricht criteria. However, it still had a long way to go with its gross public debt of 79.8% (of GDP) and a deficit of 3.8% GDP in 1992. Reports from international watchdogs such as the OECD and the International Monetary Fund warned both countries about the precarious state of their public budgets and their labor market participation rates in the early 1990s (OECD 1991; OECD 1992; IMF 1993; IMF 1994).

Even though the costs of disability insurance and unemployment insurance were less of a problem than they had been during the 1980s, and despite the fact that the expenditure on each beneficiary had in fact decreased over the years (Cantillon 1999; Aarts, De Jong and Van der Veen 2002), public attention turned to those policies as the source of many problems in the early 1990s. Studies of media coverage clearly illustrate this. In the Netherlands, media attention toward disability insurance issues peaked in 1991 – particularly in the summer (Bos 1999). When the disability insurance issue almost caused a coalition rift and the government actions provoked vehement protests, the fiasco was complete (*Vrij Nederland* 960713). In Belgium, media attention toward social security in general and the unemployment issue specifically expanded enormously in the second half of 1993 (Steen 2001). The government proposal for a ‘Global Pact’ was an attempt to solve the problems of the Belgian welfare state in September 1993. It resulted in a storm of protests throughout the autumn. In each case, both the high level of benefit dependency and the government reaction to the problem generated a vast amount of media attention. This provided a context well suited to crisis construction efforts by political actors.

### 3.5 Different Outcomes

The conundrum faced in this study is between markedly divergent outcomes produced by similar crises and, moreover, that these crises took place in comparable policy systems. A presentation of the nature of the outcomes and an assessment of their differences is, therefore, obviated.

## The Netherlands

In the Netherlands, cutbacks of social security are not a new policy feature. In the 1980s, several measures were pursued. Most of them did not focus on disability insurance, but instead on social security benefits in general (such as the benefit reductions of 1985). In 1987, the first disability insurance intervention took place; it would no longer be possible to include the labor market situation in a disability assessment (see chapter 6). This had so little effect that the government decided to pursue more drastic reforms in the early 1990s. The main reforms in the early 1990s are listed below.

These reforms were drastic, and it is necessary to understand why this was so. First and foremost, these changes had a large impact on beneficiaries and

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**Table 3.3 Reform in the Netherlands**

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Title of reform	Year	Contents
Act on the Reduction of the Disability Volume (TAV)	1992	Act provided positive incentives (bonus) to employers for hiring disabled and negative incentives (fines) for producing or releasing impaired employees.
Disability Benefit Claims Reduction Act (TBA)	1993	a) Introduction of a duration limit to the full benefit: after a few years (depending on claimant's age) the benefit would be reduced considerably (reduction again depending on claimant's age and employment record). b) The concept of 'commensurate' employment was adjusted to include all generally accepted work instead of only the kind of work that one used to do before the occurrence of an impairment. c) Regular reassessment of disability was introduced. d) Re-examination of beneficiaries younger than 50. e) Benefit claims had to be actively made, instead of automatic evaluation after fulfilling the one-year waiting period (sick benefit year).
Social Security Organization Act (OSV)	1995	As a consequence of the conclusions of the parliamentary inquiry (1992-1993) on the administration and implementation of social security legislation, a reorganization of the administrative structure was conducted. The social partners were (in their own words) 'thrown out' of the institutional structure. From then on, the government would be primarily responsible and it would privatize the administrative bodies in order to introduce competition among them.

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future claimants. The duration limit coupled with a reduced benefit level, particularly for younger claimants, meant that their income level would be more than halved in cases of full disability (Aarts and De Jong 1996: 62). Meanwhile, partially disabled persons would only receive a fraction of this halved income compensation. In addition, beneficiaries who had already been disabled for years had to be reassessed, and would thus also be affected by the new rules. The altered and more stringent definition of ‘commensurate employment’ meant that the incidence of disability was much less likely. All of the beneficiaries dependent on disability insurance would be affected by these new rules. In total, these plans would save the incumbent government 4.4 billion<sup>6</sup> guilders (2 billion euros) on sickness and disability benefits in the next two years, which was a substantial part (approximately 13%) of the total sickness and disability insurance budget.

Second, the government intervened drastically with regard to the social partners, who had been the initiators of the social insurance arrangements, and who had been responsible for its administration for almost a century. They were stripped of this duty, and legislative changes were introduced that altered their advice from obligatory to optional in social policy matters. It took some time before those administrative reforms were finally enacted (1995), but the discussion started in 1991, in the wake of the conflict over the Disability Benefit Claims Reduction Act (TBA, which came into effect in 1993). The reform processes are closely connected – as will be substantiated in chapter 7 – but it all started with the government’s 1991 decisions to intervene drastically in the disability insurance system. Strikingly, the discussion of the allocation of administrative and supervisory responsibilities had been building up for decades. Before the 1990s, it was practically impossible to pursue a reform of administrative structures. All previous discussions had been to no avail, until the parliamentary inquiry conducted in 1992–1993.

### Belgium

By contrast, Belgium witnessed only minor changes, both in programmatic and systemic terms. The Global Plan of the Dehaene government contained a wide range of small measures. The intention was to cut 14.6 billion Belgian francs (24.5 million euros) in total on unemployment insurance in 1994 and the same amount in 1995 (FET 931118). Taken together, this is a small amount compared to the Dutch target of 4.4 billion Dutch guilders (2 billion euros). The planned Dutch cutbacks on sickness and disability insurance were almost 50 times larger than the combined 1994 and 1995 Belgian

Table 3.4 Programmatic and Systemic Reform in the Netherlands

	Programmatic	Systemic
TAV	At first, the fines had much more effect than the bonuses. In 1994, Dfl 26 million were paid as bonuses as opposed to Dfl 225 million received in penalties (Aarts and De Jong, 1996: 63). Success of penalties heavily outweighed success of the bonus system. Success was not long-lived, however. Courts decided that the penalties conflicted with Article 6 of the European Human Rights Treaty and so the TAV was abolished in 1995.	Partly because of its short existence, and because of its character as provider of direct incentives, this reform included no systematic change.
TBA	The benefit cuts and more stringent eligibility criteria had a direct effect in the year following implementation of the reforms. Total number of benefits dropped by almost 3% (first occurrence of no increase). Number of annual recoveries per 1000 beneficiaries increased by 30% (Aarts and De Jong, 1996: 40). Benefit cuts were compensated in collective reinsurance arrangements—which cover roughly 85% of the employees.	The introduction of TBA was a shock to the system. New eligibility criteria and cuts in the benefit levels and their duration finally clarified for everyone that social rights such as income compensation for disability cannot be taken for granted. The changes were primarily programmatic but its effects on public opinion and political decision making can also be considered structural.
OSV	The Social Insurances Organization Law did not directly affect the contents of the benefit program—its consequences will thus be discussed as systemic changes.	The Social Security Council was replaced by the National Institute of Social Insurances (LISV) and the Committee on Social Insurance Supervision (CTSV). The social partners were represented in the LISV management (which coordinated and financed social insurance administration) but not predominantly. The creation of the CTSV separated administration from supervision, since the CTSV members did not represent the social partners (Aarts and De Jong, 1996: 65). Of the prior administrative bodies, the bipartite ‘industry boards,’ the five largest survived and would compete for clients. The industry boards that conducted administration from a ‘sector-specific’ angle now became responsible for a more generic clientele, driven by competitive incentives.

Table 3.5 Programmatic and Systemic Reform in Belgium

	Programmatic	Systemic
Global Plan 1993 (including measures until 1996)	<ul style="list-style-type: none"> <li>- Positive incentives for employers to hire unemployed or low-educated applicants.</li> <li>- Wage reduction (10%) for starters in their first year to make it more attractive for employers to hire them.</li> <li>- Increased control of moonlighting among unemployed social security beneficiaries.</li> <li>- Public employment creation: 85,000 additional jobs.</li> <li>- Increase in the qualifying period for unemployment benefit eligibility.</li> </ul>	<ul style="list-style-type: none"> <li>- Government trimmed the price indexation—a sacred cow in Belgium. This rocked Belgian industrial relations, and later caused a structural slowdown of wage and benefit increases. It also allowed the government to raise the VAT on products excluded from the index without any negative consequences for state finances (to the contrary).</li> <li>- Government joined the supervision of social security administration. Instead of a matter between social partners only, it became a 'tripartite' concern. This change occurred during the 'global management of social security financing.' Premiums previously separate for each arrangement were collected as a single contribution and centrally disbursed among social insurance schemes to pay out the benefits. Distribution formula adjusted annually after evaluation of needs.</li> </ul>

cutbacks on their social insurance system. The Dutch target had to be met by the end of the then-incumbent government's term (within two and a half years).

The measures of the Global Plan with respect to unemployment insurance comprised a decrease in social security premiums (with 2,480 euros/year per employee) if employers hired an unemployed entrant, or a low-educated employee or used work time reduction. It was stipulated that starters work against 90% of the full wage in the first year. A resolution to increase efforts to combat moonlighting (untaxed employment) was introduced. Plans for public employment creation were announced and the qualifying period for starters to receive unemployment benefits was increased from six to nine months). In addition, the price indexation was trimmed by 1.59% because the price increases of 'unhealthy' products such as tobacco, alcohol, and gasoline were no longer included – this caused a slower level of growth among future benefit levels.

Why are we able to characterize these reforms as incremental, compared to the Dutch reforms? Of course, considering only one reform package in Belgium (as opposed to a number of reform packages in the Netherlands), Belgian reform cannot equal the size of the Dutch intervention. However,

each single reform package in the Netherlands saved much more than the total amount of money saved in Belgium (even the unsuccessful TAV reform yielded the government 3.5 times as much as the cutbacks on Belgian social insurance in the same year – 1994). The Dutch reform process included numerous actions, but they were initiated in the wake of a single crisis narrative in 1991.

While the Belgian social partners had to accept the government as a new partner in the supervisory bodies of social security administration, the Dutch social partners were thrown out of the social security administration altogether and weathered a hostile takeover. The social security beneficiaries were hit more gradually in Belgium with the low levels of sacrifice applied to future *increases* of benefits. By contrast, the Dutch beneficiaries experienced a total freeze in 1994 and 1995, and also experienced cutbacks on their future benefit level of sometimes 40% or 50% (depending on age and employment record). In sum, even the systemic reforms in Belgium had a much more incremental character.

The divergent outcomes between Belgium and the Netherlands are not explainable simply by examining the varying depth of the problems each of these governments faced in the early 1990s. Neither the objective problems nor the crisis mood were any larger in the Netherlands than in Belgium. In order to identify the factors that can explain the difference in the reform outcomes, we need to probe deep into the black box of the reform process. The qualitative method employed in this book should lead to a deeper understanding of the reform events studied and of the relation between increasing rigidity and drastic change in reform processes. The crisis perspective helps to capture the interaction of many different variables that play a role with respect to policy change.

The following chapters reflect the findings of this study, with two chapters devoted to each case. The first chapter for each case includes both a description and an analysis of the institutional context of the reform process. The second chapter gives an in-depth view of the process of reform and an analysis of the factors that played a role in the different reform processes.

## 4 “Nothing as Permanent as a Temporary Arrangement”<sup>1</sup>: Belgian Policy Making on Unemployment Benefits

### 4.1 Introduction

‘I always point to Belgium as a good example when I lecture on Bismarck’s nineteenth-century plans to create occupational social insurance. Not only did the development of social insurance in Belgium closely resemble Bismarck’s plans at the time, in fact the old system is still pretty much intact’ (Klosse 030128). The Belgian system displays features of occupational insurance, characteristic of the industrial age it came from. Today, many of its attributes are unique in Europe, since in most countries, governments chose to restructure their social insurance system in response to a changing social, industrial, and demographic context. For instance, Belgian child and family allowances are still part of the occupational insurance system, just like health care costs, which in many other countries are part of a universal insurance plan since the risks covered are seldom related to the workplace. Trade unions transfer the benefits to the unemployed, while employers transfer the child allowances. The system’s policy making and implementation aspects are fragmented along traditional ideological cleavages: Catholic and secular, labor and capital, and, more recently, along a regional divide. The fact that the Belgian social insurance system displays so many characteristics of the highly industrialized society of a century ago, is enough to make us suspicious about the extent of the possible reforms. Is drastic reform an impossibility in Belgium, and if so, does that explain the resilience of its social policy institutions over the past century?

Suspicion of Belgium’s inability to reform does not hold when one considers the constitutional changes enacted over the past 20 years. In fact, the constitution has been turned inside out to meet the rising demands for more regional autonomy. Unlike many other federal states, Belgium became a federal state due to centrifugal tendencies whereby a unitary state divided into separate parts (instead of previously autonomous regions uniting into a federation). Reforms that took ages to materialize in the Netherlands and France, such as redrawing the boundaries of municipalities, were quickly realized in Belgium (Brans and Maes 2001; DeWachter 2001: 244).

If it weren't for post-industrialization, globalization, demographic changes, and social cultural changes that challenged the Belgian system, social policy reform would have been unnecessary. However, the Belgian budgetary and economic situation at the beginning of the 1990s was alarming. As a small open economy in the heart of Europe, the country was hit hard by shifts in the global economy, such as increased capital mobility and the rise of competition from newly industrialized countries (Pierson 1998). The welfare state had become a heavy burden on the costs of labor, and consequently on Belgian industrial competitiveness. The rigidity of the social security system in the face of a rapidly changing social and economic environment led to a variety of institutional contradictions in the social security system. Because it forms the main link between the welfare state and its citizens, the demise of the social security system could drag the legitimacy of the welfare state government down with it. Theories of state crisis have long predicted plummeting legitimacy caused by contradictions (Habermas 1975 and 1992; Offe 1984; cf. Hay 1996) or caused by evidence of un-governability and fiscal irresponsibility (Crozier et al. 1975; Douglas 1976; Rose and Peters 1978; Parsons 1982). According to these authors, a state crisis could induce a major overhaul of the system. However, the contradictions and subsequent crisis in Belgium did not cause a neo-Marxist revolution, nor a neo-liberal shift to a market economy.

This chapter will reconstruct how post-industrial changes affected the Belgian system and its constituent parts. It documents how, in this dynamic environment, an accumulation of contradictions crept into the system in interaction with an altered environment. This chapter will therefore contain a combination of description and analysis of the macro-economic and political contexts. It will take an additional chapter to analyze why major overhauls did not occur (chapter 5). First, I will argue that Belgian social policy reform has always taken place within the parameters of the system – not because anomalies or contradictions do not exist, but because these contradictions are self-reinforcing, allowing for only incremental changes. The next chapter illustrates how the crisis evoked in political rhetoric did not spill over into drastic change; it merely triggered a series of incremental budgetary measures instead. The foundations of the system are well preserved by powerful actors who have an iron grip on each other.



## 4.2 The Challenges of Post-Industrialism in Belgium

Advanced welfare states all over the world seem to be struggling with the transformation of the global economy (Esping-Andersen 1996; Swank 2002). The ability of multinational firms and financial institutions to shift capital across national borders forces both left-wing and liberal governments to reduce expenditures and roll back welfare state programs. The governments' responses to these global pressures have focused on inducing internationally mobile firms to either stay in their country or invest there. This policy response of creating a comfortable tax climate (by shifting tax burdens to less mobile capital) and more flexible and less protective labor market legislation threatens to undermine the past achievements of the welfare state (Steinmo 1993). The heart of the globalization thesis is 'essentially an argument about diminished democracy, or the declining capacity of democratic institutions to sustain public policies that depart from market-conforming principles in a world of global asset mobility' (Swank 2002: 3).

Along with other features of post-industrial societies, such as the rise of the service sector, its limited capacity of increasing productivity, the problematic industrial renovation of the mining sector, demographic changes and the high dependency on income transfers through the matured welfare state, this increased capital mobility must exert strong pressure on incumbent governments to radically alter their welfare state (Pierson 1998). This section addresses how these factors affected the Belgian welfare state in order to sketch the macro-economic context of policy reform.

In the period 1970-1980, Belgian GDP growth was halved, and export growth fell 75%. Having lost its profitable colony (Belgian Congo – now the Democratic Republic of the Congo) in 1960 (Bouveroux 1994), the Belgian state also lost the resources needed to fight the recession in a Keynesian way, with capital input into a declining economy. The declining demand for steel and coal had already hit Belgium as early as 1960. Belgium, essentially the first industrialized country on the European continent, began paying the price for its head start. The aging industrial infrastructure in Wallonia was destined to become obsolete. As in other western European countries, the immediate response to the 1974-75 recession and the 1977 oil crisis focused on rescuing ailing firms and introducing on-demand stimulation measures (Bovens, 't Hart and Peters 2001). The very industries that had been the largest sources of employment and productivity growth, such as steel, metal processing, chemicals, cars, and transport equipment, were now among the most vulnerable. Moreover, technological advances caused the employment rate to contract considerably in labor-intensive manufacturing industries such as textiles and coal mining (Visser, Hemerijck and Unger 1999).

In the 1950s and 1960s, before the recessions hit, Belgium had an important advantage in attracting foreign investment. The government provided favorable conditions to foreign firms who wished to establish industrial facilities in Belgium. However, most firms had agreed to conditions from which they could easily withdraw. When the golden years came to an end and Belgium's economic policies became more restrictive and labor comparatively more expensive, production sites were swiftly relocated to other countries (Vilrocx and Van Leemput 1998: 317). In the words of an interviewee from the Ministry of Employment:

Before, when a company decided to relocate a plant, it would take years. Now headquarters in Malmö or New York decide, and within two or three weeks, the new plant starts up in Poland. You can protest whatever you like, but it makes no difference. The board of directors in Paris doesn't care. Look at what happened to the Renault factory in Vilvoorde. This really influenced people. Workers are now anxious to engage in syndicalist protests and strikes. The golden sixties are definitely over (Van den Heule 030225).

The financial burden of the welfare state and the high wage levels that accumulated over the years increased the cost of Belgian labor. Belgian industry was forced to invest in labor-extensive production in order to bring down production costs. Technological innovation and investments in machinery replaced a large share of the workforce. Benefit dependency increased steadily as the labor market contracted. This development accelerated the spiral of unemployment and increasing wage costs, as it aggravated the burden of benefit expenditure, which in the Belgian system is directly translated into higher social insurance premiums on wages.

In contrast to other European countries in times of recession, the Belgian government pursued a policy focused on maintaining the value of their franc. Ongoing prices and wage increases (automatically indexed to price increases) were set in motion during the first oil crisis in 1973. Because of the importance of imports to the Belgian economy, fighting inflation became a primary goal. But this was an expensive exercise. National Bank reserves declined by one-third, while twice that amount was loaned out abroad (Verplaetse 2000: 4-5). In addition, bonds were issued domestically.<sup>2</sup> Not only did the costly monetary policy increase the high level of public debt, but hard currency made domestic investments expensive for Belgian companies (interest rates in Belgium were 5% higher than in neighboring countries). Massive redundancies followed.<sup>3</sup> Belgium, known

as the ‘sick man of Europe’ (together with the Netherlands) since the beginning of the 1980s, would prove to be a patient difficult to cure.

### 4.3 Belgian Politics

Belgium is often described as a ‘particracy,’ since party discipline is high, and party chairpersons are very influential. Political parties largely determine the formation, the coalition program, and the duration of a government (Dewachter 2001: 33; cf. De Pauw 2000). The three dominant parties in Belgium after the Second World War have been the Christian Democrats, the Socialists, and the Liberals (see Table 4.1). In the 1960s and 1970s, all of the larger parties split into Flemish and Francophone branches; the Christian Democrats split in 1968, the Liberals in 1972, and the Socialists in 1978 (Alen 1995: 28). Today ‘in fact... Belgium has two quasi-autonomous party systems, each with a different balance of power between the main parties’ (De Winter 2000: 301).

The Christian Democratic party family, CVP/PSC, has often been pivotal in the formation of government coalitions. The Christian Democrats have been part of the coalition in most of the postwar governments (Woyke 1999: 373). Historically, the choice of coalitions was between the center-left (including the PS/SP) or the center-right (including the PVV/PRL). This choice was not only based on electoral outcomes, but also on a balance between the

Table 4.1 Elections 1978–1999, Number of Seats per Party

		1978	1981	1985	1987	1991	1995	1999
Christian Democrats	CVP (F)	57	43	49	43	39	29	22
	PSC (W)	25	18	20	19	18	12	10
Socialists	SP (F)	26	26	32	32	28	20	14
	PS (W)	32	35	35	40	35	21	19
Liberals	VLD (F)	22	28	22	25	26	21	23
	PRL (W)	14	24	24	23	20	18	18
Greens	Agalev (F)	-	2	4	6	7	5	9
	Ecolo (W)	-	1	5	3	10	6	11
Nationalist right	Volks Unie	14	20	16	16	10	5	8
Radical right	Vlaams Blok (F)	1	1	1	2	12	11	15
	Front National (W)	-	-	-	-	1	2	1
Total seats		212	212	212	212	212	150*	150

Source: *Res Publica Belgica, Beleid en Besluitvorming 1980-2000*, see Appendix: A concise statistical overview, p. 126

\* In the 1992 constitutional reform, the Belgian national parliament was downsized to 150 seats

Table 4.2 Coalition Governments

Martens I	CVP/PSC + PS/SP + FDF	1979-1980	9 months	Center-Left
Martens II	CVP/PSC + PS/SP	1980-1980	3 months	Center-Left
Martens III	CVP/PSC + PS/SP + PRL/PVV	1980-1980	6 months	Mixed
Martens IV	CVP/PSC + PS/SP	1980-1981	5 months	Center-Left
Eyskens	CVP/PSC + PS/SP	1981-1981	5 months	Center-Left
Martens V	CVP/PSC + PRL/PVV	1981-1985	46 months	Center-Right
Martens VI	CVP/PSC + PRL/PVV	1985-1987	23 months	Center-Right
Martens VII	CVP/PSC + PRL/PVV	1987-1988	7 months	Center-Right
Martens VIII	CVP/PSC + PS/SP + VU	1988-1991	41 months	Mixed
Martens IX	CVP/PSC + PS/SP	1991-1992	5 months	Center-Left
Dehaene I	CVP/PSC + PS/SP	1992-1995	39 months	Center-Left
Dehaene II	CVP/PSC + PS/SP	1995-1999	47 months	Center-Left
Verhofstadt	VLD/PVV + PS/SP + Greens	1999-2003	46 months	Mixed

FDF Front Democratique des Francophones is a liberal party for Francophones, PVV is the predecessor of the VLD (Flemish Liberals).

Source: *Res Publica Belgica, 1980-2000*, Appendix: A concise statistical Overview, pp. 126-136

left-wing and right-wing groups within the CVP. The CVP is divided into ‘*standen*,’ institutionalized groups with a similar socioeconomic orientation such as workers, farmers, and the middle class of usually self-employed merchants. If the workers’ organization ACW (the umbrella organization of the Christian movement in Belgium that includes the Christian labor union ACV) was dominant in the CVP, a center-left coalition would be a likely outcome (Fitzmaurice 1996). Only recently, a coalition was formed without Christian Democrats for the first time in over fifty years. After the 1999 elections, the Belgian Parliament formed a ‘rainbow coalition,’ consisting of Liberals, Socialists, and Greens.

Belgian governments operate by consensus. Cabinets are collective bodies, and all the ministers have to support or agree on a policy before the cabinet decides. The ministers’ autonomy is thus also restricted by the cabinet policies within which they must operate. Intra-coalition disagreements are thus a frequent cause of the dissolution of Belgian governments (Fitzmaurice 1996: 93). There are instances where one coalition partner deliberately causes a split.<sup>4</sup>

Although the parties are grouped in party families based on programmatic distance, conflicts also arise frequently along north-south (Flemish-Walloon) divisions rather than along ideological lines. For instance, the Martens VIII government broke down in 1991 because the Francophone parties in the government coalition, the PS and PSC, supported arms exports to the Middle East and the Flemish parties, the SP and VU, morally objected

(Fitzmaurice 1992: 179). Particularly with respect to social security reform, the Walloon Christian Democratic Party PSC proclaimed that its ideas were closer to the Socialist Party than to those of the Christian Democrats in Flanders (*Le Soir*, 951220).<sup>5</sup>

The House of Representatives members are organized in two linguistic groups, irrespective of their party affiliation. The constitution provides an institution to maintain the balance between them: the so called ‘alarm bell procedure.’ For all legislation that affects the different regions or the division of power between the regions and the federal government, a majority of both language groups must be present, and must approve. The total number who approve must be at least a two-thirds majority (Van de Lanotte et al. 2000: 67). If the normal majority is required to pass a law, the ‘alarm bell procedure’ should prevent one linguistic group from overruling the other simply by outnumbering them in the normal voting procedure (since the number of mandates per constituency is based on population density, the Flemish dominate the Chamber). If they are outnumbered, the protesting members of Parliament (three quarters of a linguistic group) can suspend the legislation and consult the government. The government will advise within 30 days, after which the Chamber decides again on the matter (*ibid.*: 68). Dewachter (2001: 373) points out that Parliament, already hardly capable of deciding in normal procedures, places itself on the sideline through this ‘bombastic majority rule.’ The government will thus do anything to avoid the involvement of Parliament in decision-making procedures.

### Legislation

Parliament, formally the legislative power in Belgian politics, initiates only 15% of the legislation (Dewachter 2001: 19). Bills can be proposed either by the government (*projets de loi*) or by Parliament (*propositions de loi*), but the former have the priority, particularly when a government crisis is looming. Proposals initiated by Parliament have little chance of passing and ‘must be considered as kite-flying efforts to get an issue aired’ (Fitzmaurice 1996: 110). Fitzmaurice shows how Parliament proposed 229 bills in 1990-91, of which only 34 were adopted. In contrast, in the same period, all of the government’s 139 proposed bills were adopted. Other periods reveal similar results. The government is the ultimate ‘drive behind decision making’ according to Dewachter (2001). Between 1957 and 1996, government ruled by decree for a total of 80 months. In every decade since the Second World War, the Belgian government has ruled with special powers for at least nine months to one year of that period.

Parliament also lacks budgetary control. In the 1980s, only 7% of all budgets were approved by Parliament in advance. Typically, the government spent money, and Parliament approved *ex post facto*. The state reform in the early 1990s placed a tight time schedule upon the budgetary cycle. The new schedule would allow Parliament effective *ex ante* budgetary control. However, ten years after its implementation, the president of Parliament admitted that this control had become more a yearly symbolic evaluation of political trust in the incumbent government than a substantial assessment of finances (Dewachter 2001: 27).

The state reforms of 1993 were designed to increase the stability of government coalitions by introducing a ‘constructive vote of no-confidence.’ This means that Parliament can only force a government to resign when they manage to appoint a new prime minister at the same time. The increased political stability of the 1990s was not necessarily caused by this legislative change, however. After all, the frequent government rifts in the 1980s were usually caused by internal dissent among coalition parties and ministers within the cabinet. The compliance among coalition party members of parliament to support their representatives in the cabinet is high.<sup>6</sup> Research has shown that since the Second World War, Parliament only once urged the government to resign (Holvoet 1980; Biondi 2000, cited in Dewachter 2001: 223). A former CVP minister states: ‘Only a few members of Parliament dare to contradict the government. Within our party, only a few members dare to contradict Dehaene...’ (Lenssens, in *De Standaard*, 990222, cited in Dewachter 2001).

On the other hand, ministers are very powerful in Belgium, especially compared to other public positions such as MP, party leader, ontrade union leader, among others (Dewachter 2001: 28). When they take office, they bring their own staffs (cabinet) recruited from their political party or externally. These civil service cabinets are marked by their comprehensive approach to policy making, their high level of expertise and their decisiveness. They are a powerful source of support for the minister, whose accomplishments – to a large extent – depend on the quality of the cabinet. By contrast, the Belgian civil service only plays a small role in policy making (according to former Prime Minister Martens in *De Standaard* 891219; and Dehaene in *De Standaard* 000729). Highly qualified officials usually join a minister’s cabinet or find a more challenging job elsewhere. The others stay in what the incumbent prime minister has called ‘the worst performing part of government’ (VRT television, *De zevende dag* 010114, see Dewachter 2001: 322).

#### 4.4 Power in Practice: Social Partners

Belgium has a long tradition of institutionalized forms of negotiation between employers and employees, organizations (the most important interest groups in the Belgian political system). The Belgians seem proud of this tradition:

The uniqueness of Belgian industrial relations is characterized, on the one hand, by the pluralism of the unions and the high union density, on the other hand, by the subtle system of negotiations between representatives of employers and employees. These representatives are acknowledged by each other and by the government, negotiate with each other, and conclude agreements for companies, the sectors, and the inter-professional level. These characteristics together constitute the Belgian model, a model that appears to be of premium export quality (ACV chairman Peirens at a conference in Brussels 1989, cited in Dewachter 2001: 180, see also p. 174).

In the first postwar decades, the bipartite agreements of the social partners dictated socioeconomic policy. The social partners acted as the major articulators of social problems and advocated specific solutions, often in the form of social insurance (Deleeck 2001). When the negotiating parties disagreed about a specific policy, the state would often downplay the issues by meeting both parties' demands or by compensating one party for any advantage awarded to the other. Vilrocx and Van Leemput (1992; 1998) therefore describe Belgium as the 'compensation democracy.' For instance, after the Second World War, the Socialist union strongly advocated the idea of worker's control, by means of trade union delegation within companies. The Christian trade union, on the contrary, opposed this view. The Christian union emphasized the importance of collaboration between employers and employees – workers emancipation was best served via Catholicism, not by incorporating elements of conflict through workplace representation. In the end, both union delegations (in 1947) and the works council (in 1948) were introduced into Belgian companies, to accommodate demands from both sides. This result represents a *compromis a la belge*: instead of choosing one over the other proposition, both are implemented. 'Conflicts of interest were resolved by acceding to the demands of one interest group while at the same time providing additional resources to compensate the other groups involved.' For many decades, the state committed itself to footing the bill of these positive-sum arrangements (Vilrocx and Van Leemput 1998: 333).

## Institutions of Bipartite Negotiation

Negotiation takes place on different levels. At the national level, the bipartite Central Council of Industry (CRB) consults the government on general economic issues. The CRB consists of 22 representatives from employers' organizations and 22 representatives from trade unions. The National Labor Council (NAR), also a bipartite institution, consults the Minister of Social Affairs or the government on social policy matters. The NAR consists of 12 employers' representatives and 12 union representatives. On the sectoral level, negotiation among employers and employees takes place in 1) Special Advisory Committees, which advise on economic matters which are specific to an industrial sector, and 2) Joint Committees, which negotiate and decide on collective labor agreements for their sector or sub-sector, advise the NAR and CRB on sector-specific labor issues, and mediate in cases of labor conflicts between an employer and employee(s). Joint Committees are bipartite, but chaired by a government official from the Ministry of Employment. These chairpersons also take care of conflict mediation and negotiations in cases of industrial reorganizations and closures. On the organizational level, there are work councils, consisting of democratically elected members representing the employees, and an equal number of employers' representatives. The three largest unions select the candidates for the 'social' elections. These social election results provide a good indicator of the strength of the unions every four years.

The bipartite Committee for Safety, Health and Improvement of the Work Environment consults their company leadership on matters of work safety and health. In addition to worker's representation in the works council and the safety committee, the trade union delegation (in companies with more than 100 employees) plays a large role as the union's voice on the shop floor. Trade union delegates are appointed by the sectoral union, take part in enterprise bargaining, and supervise the implementation of labor law and collective agreements. Because of their syndicalist mandate and extraordinary position, they are extra protected by law against dismissal (see Vilrocx and Van Leemput 1997; Van Ruijsseveldt and Visser 1996). Unions have been arguing for several years that trade union delegations should be compulsory in small and medium-sized enterprises as well. This would give unions a firmer grip on the work environment and collective agreement compliance in an increasingly larger share of the Belgian industrial landscape. For that same reason, the employers vehemently oppose this idea.

Within the formal institutions, unions and employers' organizations also meet for informal, sometimes even ad hoc, negotiations. At the national level, the National Labor Council strives to conclude a bipartite multi-industry agreement every two years, the 'Interprofessioneel Akkoord' (IPA). The IPA sets the demarcation lines for negotiations at the sectoral and enterprise level. Between 1960 and 1976, these IPAs were strongly redistributive 'social planning agreements,' with a considerable impact on the construction of the welfare state. The agreements cover all workers because they are declared generally binding by royal decree. Sometimes years pass without any national agreements. The tradition of bi-annual central agreements resumed in 1986. The agreements were weaker in content, and therefore their impact has been largely symbolic (Vilrocx and Van Leemput 1997). In times of economic hardship, the government can convene an informal summit, called the National Labor Conference, which includes the leadership of all the trade unions and employers' organizations to discuss what needs to be done to cope with a recession. Usually these meetings take place behind closed doors (Van Ruijsseveldt and Visser 1996).



The compensation principle made cooperation and consensus in industrial negotiations possible. In fact, compensations provided the glue that held the diverging interest representatives together in one system. When a recession set in, it became more difficult to smooth collective decision making over with such an expensive lubricant. Between 1972 and 1981, the economy declined from a 5.1% GDP growth to a 1.0% decline. In the same period, strike incidence increased dramatically (Jones 2002). Belgian industrial relations entered a new era of negotiations under pressure. The tradition of central agreements came to an end in 1976. The social partners failed to agree on the social planning of the welfare state in the new context of austerity, since the state could no longer bear the financial burdens (Vilrocx and Van Leemput 1998: 336).

In 1986, after six years of imposed wage restraints, the social partners resumed the tradition of biannual central agreements. A new period of economic growth set in, and employers and unions managed to reach a consensus on the broad outlines of industrial and socioeconomic issues. However, according to Vilrocx and Van Leemput (1998: 337), ‘the most important aim... seemed to be to confirm their right to negotiate autonomously.’ These new-style agreements did not have the same impact and substance as the earlier central agreements. In addition, government still ‘took initiatives in areas that were previously the exclusive province of the social partners’ (Van Ruysseveldt and Visser 1996: 215). For instance, in 1989, the Competitiveness of Industry Act was adopted, in which government reserved the right to impose a wage norm. If the Central Council of Industry were to conclude that the competitive position of trade and industry in Belgium was lagging behind its three neighboring countries and primary trading partners – France, Germany and the Netherlands – the new act would allow government intervention. Intervention would only take place if the social partners appeared unwilling or unable to come to an agreement on wage moderation. However, the procedure to employ this act was so complex that it was doubted that this would ever be of any use to government (Van Ruysseveldt and Visser 1996).

### The rules of the negotiation game

Employers’ organizations and trade unions virtually monopolized the representation of interests in industrial relations at all levels of negotiation. Belgian law provides that participation in industrial negotiations is exclusive to ‘acknowledged’ interest representatives (Jones 2002). Only inter-professionally<sup>7</sup> organized unions and employers’ representatives, with more

than 50,000 members, who participate in the National Labor Council (NAR) or Central Council of Industry (CRB) are ‘acknowledged’ by law as official interest representatives. Ironically, organizations *can* only participate in the NAR or the CRB if acknowledged as an ‘interest representative’ by law.<sup>8</sup> This institutionalized access to four organizations, the three largest unions, ACV, ABVV, and ACLVB, and the employers’ organization VBO, effectively closes the door to potential ‘intruders.’<sup>9</sup> It is possible for other trade unions to obtain the status of ‘interest representative’ if they apply, meet the conditions (represent all sectors, and have more than 50,000 members), and if the other representative organizations agree. Employers’ organizations also need to have their application approved by the other representative organizations in the NAR, but they do not need to be inter-professionally organized (Van den Heule 030225).

The decision making in administrative bodies of the social security system is ‘functionally decentralized’: unions and employers’ organizations, who represent functional interests in a monopolistic way, are engaged in the implementation of government policy. The governing boards of organizations such as the National Pensions Agency (RVP), the National Employment Agency (RVA) and the National Agency for Sickness and Disability Insurance (RIZIV) are composed of 50% union representatives and 50% employers’ delegates. The government monitors the work of these boards and can overrule their decisions if they do not conform with the law or public interest. Belgium has a tradition of distrust toward state intervention (De Swert and Janssen 1996). Social insurance programs used to be private mutual insurance programs, and they have been brought under state authority only as far as necessary to secure financial means or to make outcomes of bipartite negotiations binding by law. Corporatism in Belgium is not, as Hemerijck (1994: 27) and Crouch (1986) suggest, defined by the capacities and willingness of the state to share its authority, but rather the other way around: The degree of corporatism is defined by the capacities and willingness of the social partners to yield up their autonomy (Dewachter 2001: 179; Van Ruysseveldt 2001: 326).<sup>10</sup>

Likewise, the fundamental principle underlying negotiations is that social partners decide autonomously on matters of industrial relations. The government is kept at arm’s length. Deleeck (2001) argues that the underlying assumption of growth and expansion that stimulated and fueled socio-economic negotiation processes during the ‘Golden Age’ (1950-1960) continues to play a role today. After the Second World War, negotiations were a means of dividing the profits equally. In times of recession, negotiation and consensual decision making are by definition much more difficult. As a

result, the Belgian government frequently intervened to impose cutbacks and reforms that had ended in a stalemate. The social partners still often prefer negotiation to conflict, as conflict brings with it higher costs and risks. Destabilization of the system needs to be avoided. Besides, public participation in conflicts diminishes the influence of the elite on the decision-making process. Unions and employers' representatives would rather fight their way through negotiations, with a chance of failure, but with the option of being restarted in another time and place (Dewachter 1994: 90; Dewachter 2001).

### The unions

Three labor unions are represented in national negotiations: the Socialist Labor Union (ABVV), the Christian Labor Union (ACV), and the Liberal Labor Union (ACLVB).

The ACV is the largest of the unions, both in terms of membership and results during social elections. Traditionally, the union prefers cooperation with employers through negotiations above conflict escalation and strikes. Although it has strong political and ideological ties with the Christian Democrat CVP, the ACV sees socioeconomic negotiations as a matter between social partners and will not accept state intervention unless there is a crisis or a lack of funds (Vandenputte 1987: 31). More than 60% of the ACV members live in Flanders (Billiet 2000: 148). The union's organization is based on both professional and regional pillars. The professional sub-unions or sector unions comprise an important part of the organization. They have

**Table 4.3** Relative Strength of Labor Unions in 1990

	ACV	ABVV	ACLVB
No. of Union Members	1,430,571	1,029,000	213,098
% of votes*	51.5	37.9	7.5
Growth since 1950**	2.25	1.63	2.82
Growth since 1960**	1.88	1.46	1.91
Growth since 1970**	1.49	1.26	1.72
Growth since 1980	1.07	0.93	1.06

Source: Dewachter, 2001: 237-241

\* Data from work council elections 1991

\*\* Data on 1950, 1960 and 1970 from Martens (1985: 35), own calculations

two-thirds of the votes in the decision-making processes of the ACV at the national level and half of the votes in the regional ACV organizations. However, unlike their very autonomous ABVV counterparts, the ACV sector unions are subject to central decision making and supervision on the national level (Vilrocx and Van Leemput 1998).

The Socialist ABVV clearly has its roots in Marxism. To this day, its charter refers to the abolition of social classes through revolution as one of its principal objectives. The ABVV has close ties with the Socialists in the Belgian government, specifically with the Walloon *Parti Socialiste* (PS). Like the ACV, the ABVV organization is based on both professional and regional pillars. The professional sub-units constitute the grassroots of the union. They enjoy substantial autonomy, as they control their own finances (strike funds, for example), collect and set the level of membership fees, and are capable of initiating strikes independently (Vilrocx and Van Leemput 1998).

By contrast, the liberal trade union ACLVB rejects Marxism and finds its inspiration in issues of human rights. It strongly advocates free negotiations between employers and unions without government intervention or regulation. The ACLVB does not have a dual structure like the other two unions. It is organized on an inter-professional level and its main organization represents many sectors, and decentralization occurs through its regional and local sub-units (Vilrocx and Van Leemput 1998). Because the Liberal political party VLD rejects corporatism, no special relations exist between the liberal union and the VLD (Billiet 2000).

### The employers

The largest employers federation, the Belgian Employers Organization (VBO) represents some 50,000 of Belgium's 180,000 enterprises, which employ 85% of the workforce. The VBO competes for the membership of small and medium-sized enterprises with the National Organization for Christian Entrepreneurs (NCMV), the Organization for Liberal Entrepreneurs (LVZ) and the Farmers Organization (BB). Cohesion among employers' representatives is lower than in the Netherlands. This is due to their competition in the representations of small and medium-sized business interests, and because of rivalry in representing federal versus regional interests (Van Ruijsseveldt and Visser 1996).

Belgian employers are also organized at the regional level. In Flanders, employers' interests are represented by the Flemish Economic Association (VEV), which has increasingly established itself as an advocate of Flemish interests as opposed to federal interests. Since Flanders is economically more

prosperous, the VEV pursues a very liberal policy with regards to reduction of wage costs and social security expenditures. They also advocate for greater regional autonomy in terms of socioeconomic policies (Vilrocx and Van Leemput 1998). Employers in Brussels (VOB) and employers in Wallonia (UWE) also have regional interest organizations but the Flemish VEV is stronger and more influential (Van Ruijsseveldt and Visser 1996: 220-1).

Typically, the VBO participates in negotiations at all levels, including the national level in such institutions as the National Labor Council, and the Central Economic Council. Like the trade unions, employers' representatives are also engaged in the implementation of social security policy, since they administer the child benefits and the annual holiday allowances. The unions believe that employers would be very unwilling to give up this responsibility (De Swert 041004). A respondent from the employers' side denies this saying, 'It would be no problem for us to give up this responsibility, provided that the unions also relinquish some of their administrative involvement in social security... but we will not seek a confrontation on this issue' (De Koster 030224).

### Challenges to the system

In the early 1990s, the Belgian negotiation model came under severe pressure. The social partners, traditionally engaged in dividing the growing prosperity of the country's economy, suddenly had to negotiate a retrenchment and wage moderation plan. In 1989, the Competitiveness of Industry Act was approved by Parliament, which gave the Belgian government the right to intervene 'in terms and conditions of employment if warranted by the erosion of the competitive position of trade and industry, and if the social partners are unable or unwilling to take the necessary measures' (Van Ruyseveldt and Visser 1996: 215). Because of the highly complex procedure required to impose wage constraints by enforcing this law, it did not raise high expectations initially (*ibid.*).

The Liberal Democrats (VLD) wanted to further limit the influence of the social partners. VLD leader Guy Verhofstadt never ceased in asserting that the primacy of the legislative (as opposed to the increasing influence of both the governmental and non-governmental executive) needed to be restored. In the early 1990s, the Liberals enjoyed an increase in popularity. In 1993, the Liberals won 30% of the votes in Flanders, and 9% in Wallonia (DeWachter 1994). At the same time, the ongoing economic adversity made socioeconomic negotiations more difficult and less effective. There was a growing trend toward criticizing the functionality and efficiency of the system, and not only among its 'natural' enemies, such as the Liberal party.

Non-governmental organizations such as employers' federations and trade unions have always been firmly embedded in the decision-making structures and social security administration. They were ideologically attached to the most important political movements and served as a helpful link between the state and its citizens. The organization's specific expertise made them influential negotiating partners in social policy formation. However, justification of this influence depended on the way these organizations fulfilled their roles as ideological partner, grassroots link, or as an expert negotiator. Their very growth and bureaucratization undermined their legitimacy, because the governing boards of the unions appeared to be losing touch with their rank and file (Deleeck 2001: 359). DeWachter (2001: 162) also notes that the elite representation in the Belgian negotiation system is liable to Robert Michel's iron law of oligarchy. The leadership of the social partners gradually drifted away from its constituency, and became 'a stable and irremovable front.' DeWachter points to the fact that companies do not always recognize themselves in the position of the employers' federation VBO, and unions maintain an ambiguous position as representatives of both employees and the unemployed.

#### **4.5 The Evolution of Social Security Policy**

Workers and employers – based on either Socialist or Catholic ideology – initiated social security arrangements in Belgium, not the state.

The social security is not the state's, it is ours. Through our social organizations we [the Belgian people] developed a social security system with a pluralist and autonomous character, which functions within a legal framework. It is not part of the state. This is a guarantee for each citizen's well-being, because they are by definition in an impotent and subordinate position versus the state (Deleeck 2001: 436).

Unemployment funds initiated and administered by the trade unions were first subsidized in 1907. After the First World War, these subsidies proved insufficient in times of mass unemployment. Therefore, the National Crisis Fund was founded in 1920 for the unemployed who were ineligible for union unemployment funds. It took 25 years before a compulsory national social insurance system emerged out of this patchwork of arrangements because political dissent blocked fundamental change (Van Steenberge 1987).

A massive general strike spontaneously broke out in June 1936, in the port

of Antwerp. The unions seized the opportunity to initiate a grand debate between the social partners and the government, resulting in the first National Labor Conference (NAC). Soon, the role of unions and employers' organizations as partners in national negotiations on employment and social policy institutionalized (De Broeck 1989).

### A social pact

During the Second World War, a clandestine elite study group worked out a 'Social Pact.' One element of their discussion was the Beveridge Plan. This group of employers and union organizational leaders showed exceptional solidarity in the face of a common enemy and a concern for the post war reconstruction of their country's economy. After the war, on 28 December 1944, the Social Pact became law. The defenders of the state monopoly on social security and the advocates of the subsidiary principle agreed on the organization of a national social law. The law authorized non-governmental actors to administer the benefits (among the unions and the sickness funds). In addition, public agencies were created to implement social policy for those not affiliated with a union. The original privately initiated 'system' was not replaced but complemented by public arrangements. 'From that day on, the welfare state was extended gradually without any structural reform, in spite of all attempts at constructive discussion on a comprehensive approach' (Van Steenberge 1987: 31).

In 1945, the National Employment Agency (RVA) was founded. The employee's rights on unemployment insurance were hereby officially granted, regardless of one's destitution, and without duration limits. The National Social Security Service (RSZ) collects all contributions on wages from both employers and employees. The RVA decides on the eligibility of individual claims for unemployment benefits and allocates the financial means to the benefit administrators, i.e., the three unions and one public unemployment benefit administration. In 1971, it was decided to switch from flat-rate benefits to individual compensation (60% of one's last wages). 'The benefits were by and large publicly financed; only a very small portion of the benefits was financed by contributions on wages' (Van Steenberge 1987: 36). Throughout the economic recession of the 1970s and 1980s, the social security system for employees continued to depend largely on government support (*ibid.*: 53).

The Welfare Act, instituted in 1974, provided means-tested benefits at a subsistence level for those not eligible for any other form of income compensation. Subsistence level is the living standard which the government

guarantees to its citizens in order to prevent poverty. This act completed the creation of the social security system in Belgium by filling the final gaps that occurred in a patchwork system based on private initiatives and mutual insurance policies per sector (Van Steenberge 1987: 45). The social security system had originally been constructed during an economic boom, but ironically, the economic tide turned soon after its completion. The system is based on the assumption of full employment, but almost immediately the unemployment insurance system had to absorb a structural influx of workers who would never return to the labor market. Unemployment rose from 104,720 in 1974 to 228,537 in 1976, and increased steadily until the mid-1980s.<sup>11</sup> In 1978, the government optimistically proposed a series of labor market interventions with the ambitious title: *Objective 70,000*. This objective would never be met (Jeurissen 1995). Because they interpreted the increase of unemployment as a temporary phenomenon, successive governments financed their Keynesian investments with budget deficits, running up a huge public debt in the 20 years to follow (Van Langendonck and Put 2000: 28). The unemployment and early retirement programs served as a smooth way to reduce the labor market supply and restructure Belgian industry (Deleeck 2001: 432).

In the 1980s, successive Christian Democratic and Liberal cabinet coalitions enforced a so-called ‘crisis policy,’ using emergency mandates.<sup>12</sup> The crisis policy consisted of selective restraints without systematic institutional reforms (Deleeck 2001: 433). To fight both the alarming unemployment situation in the early 1980s, as well as increased costs, a range of benefit reductions, solidarity contributions, higher premiums on wages (more financial responsibility for employers and employees), arrangements for early retirement, and employment activation programs were instituted. Due to attempts to disperse the burden of cutbacks as much as possible, the social security legislation became more complex and obscure than ever before (Van Steenberge 1987: 48). The Belgian unemployment insurance can – more than any other social security arrangement – be characterized as an incrementally constructed policy in which consecutive interventions and amendments accumulated rapidly (De Lathouwer 1996).

#### Security on shaky legal foundations

Instead of being constituted by law, the unemployment insurance in Belgium is largely based on the Royal Decree of 20 December 1963 (regarding unemployment insurance and employment service), and the Ministerial Decree of 4 June 1964 (on unemployment insurance). Decrees rank lower than



### The 1992 Unemployment Benefit Scheme

Only available for employees in the private sectors (civil servants and self-employed do not run the risk of unemployment). They are eligible if they are involuntarily unemployed and have an employment record of 78 days in the past 10 months or 624 days in the past 36 months. The program has four types of benefits:

1. income providers with dependent families: 60% of former wage (up to a certain max.)
2. singles (no dependent families): first year 60%, 43% per subsequent year
3. secondary income providers (people who work but do not provide their family's primary income, often married women): first year 55%, second half year 35% (to be extended by 3 months for each year of previous employment), then a low flat-rate benefit.
4. starters (recent graduates dropouts who do not have an employment record, but are unable to find a job when they do finish school): a low flat-rate benefit, dependent on their age and family situation.

The unemployed are obliged to actively seek work, but the Belgian system provides many exceptions to this rule: for those who study, who take care of young children, who are over 50, etc. Secondary income providers with an unusually long duration of unemployment (twice the local average) can be suspended by means of article 143 of the Royal Decree on Unemployment Insurance.

laws and do not need specific parliamentary approval if a cabinet or a minister decides to change them.

The unemployment benefit scheme is not very generous in terms of outlays, but unlike other countries, the Belgian system is characterized by an unlimited duration for most categories. Furthermore, employees can choose to withdraw from the labor market for six months or a year (sabbatical), or choose to turn their full-time job into a part-time appointment (max. five years). In both cases, they can complement their income loss with unemployment benefits (SCP 2000: 29).

Secondary income providers (usually married women) receive a small unemployment benefit which often serves as additional income for a family. They have little financial incentive to accept a job if it is not full time, particularly in low-income families. When a single-income provider receives an unemployment benefit, the strong family bias in the unemployment scheme discourages partners from seeking a part-time job or low-wage employment because this has repercussions on the unemployment benefits received (Hemerijck, Unger and Visser 2000). Together, these factors are a disincentive for female labor participation in low-income families. The Belgian social security benefits are more and more geared toward single-income families (Cantillon 1999). In recent years, the double-income household has become the welfare standard. The targeted benefit schemes try to prevent a growing discrepancy between traditional single-provider households and

more prosperous double-income families. This could also be seen as an indirect state payment for private household work in single-provider families. Despite calls by large organizations such as the OECD and the EU to stimulate labor participation among women in order to decrease the alarming inactivity rates, Belgian social policy seems to do precisely the opposite (Cantillon 1999: 173).

Due to the already huge public debt, successive Belgian governments since the 1980s had less financial resources to spend. They wanted to fight poverty by all means necessary, and thus introduced a distinction among the various family situations. Basic entitlements remained intact, but benefit levels were differentiated. Only breadwinners could obtain full benefits, all other beneficiaries were entitled to minimum income compensation or low flat-rate benefits. This policy change saved the government a considerable amount of money, as more than half of all entitlements refer to minimum flat-rate benefits.

#### **4.6 Policy Reactions to Adversity<sup>13</sup>**

The decade between 1980 and 1990 saw nine different Belgian cabinets, eight of which were presided over by Christian Democrat Prime Minister Wilfried Martens. Most government coalitions fell due to linguistic squabbles, such as the language conflict in the municipality of Voeren, a predominantly Francophone town in a Flemish region. In addition, the center-right coalitions' austerity policies characterized the early 1980s. The Martens V cabinet (1981-1985) requested emergency mandates from Parliament in order to enforce a 'recovery' policy. Over the next four years, the cabinet would (most of the time by decree) pursue a hard-line budgetary restriction policy and push through many cutbacks to get the Belgian economy back on track again. The Emergency Mandate Act was formulated with broad objectives, such as economic recovery, increasing economic competitiveness, and restoring a financial balance to the social security system. The Act gave the government much freedom to fill in the policies to achieve these goals. In this regard, the government and the Central Bank decided to devalue the Belgian franc by 8.5%. If government spending had not been contained during this period, it would have accelerated inflation in the long run. This necessitated a very strict budgetary policy. Besides imposing wage moderation and freezing the automatic indexation mechanism, the government decided to impose extra levies such as the 'solidarity contributions' for the social security schemes and cutbacks in all departmental budgets.

In the second half of the 1980s, Belgium experienced a period of economic growth. This created budgetary possibilities to fight poverty among the unemployed and benefit-dependent people at the subsistence level. Until 1988, the center-right Martens VI and VII coalitions had initiated expenditure-increasing adjustments on several fronts: expanded the eligibility rules for starters, increased minimum level of benefits, allowed accumulation of benefits from different sources, and guaranteed the eligibility rights of those whose benefits were the sole family income. After the austerity period of the early 1980s, they decided to compensate the cutbacks to those in need. This was in part possible because of the improved economic situation.

The center-Socialist-regionalist Martens VIII coalition (1988-1991) continued the adjustment policy. Government spending increased again as did labor costs due to wage increases. In order to control expenditures, Martens VIII focused on reducing the abuse of the unemployment insurance program by more strictly controlling entitlements and willingness to work. For instance, it used Article 143 of the 1963 Royal Decree, which allows the administration to suspend the benefits of someone structurally unemployed after a certain period of ‘abnormal unemployment duration.’ This is only possible if their benefits are the secondary family income and they cannot prove that they have been ‘actively seeking work.’

In 1991, the old Royal Decree that comprised the legislation on unemployment insurance was replaced by a modernized Royal Decree (*Belgisch Staatsblad* 911231). Several articles were slightly altered, regrouped, redefined, or elaborated upon. Strangely enough, this major legislative operation was not seized upon as an opportunity to embed the unemployment insurance policy in the law – instead as merely a new Royal Decree. Royal Decrees are not decided upon by Parliament, but fall under the direct jurisdiction of the responsible minister and the cabinet. However, other ministers in the cabinet are very often uninformed on the highly complex social security system and its changes.

The accumulation of small changes did not end with the ‘renovation’ of the Royal Decree on unemployment insurance in 1991. On the contrary, the new Royal Decree was but a few weeks old when the first adjustments were already being announced. Within five years, 79 out of the 180 original articles of the November 1991 Royal Decree would be adjusted, 8 would be abolished and 11 new ones added (Holvoet 1996: 706). The unemployment arrangement became the most complex component of the Belgian social insurance system. Even for those dealing with it on a daily basis it became ‘totally unclear and inaccessible’ (Baeck 1991: 398).<sup>14</sup>

Another recession hit Belgium in the early 1990s. The growth of the

Table 4.4 Unemployment Figures Belgium\*

	1992	In % of labor population	In % of insured
Total population (in 1990, source: Deleeck, 2001: 142)	9,947,782		
Total labor population (15-65)	4,237,239	100.0	
Insured against unemployment risk (excluding civil servants and self-employed)**	2,995,940	70.0	100.0
Full time, job seeking, unemployed	410,682	9.6	13.7
Older unemployed (not seeking work)	74,295	1.8	2.5
Other unemployed (not seeking work)	38,665	0.1	1.3
Family reasons	(33,131)		
Educational reasons	(5,534)		
Pre-pension (early retirement/unemployment scheme)	136,963	3.2	4.6
Part-time unemployed	176,195	4.1	5.8
<b>Total unemployment benefit dependency</b>	<b>836,799</b>	<b>18.8</b>	<b>27.9</b>

Source: *RVA Year Report*, 1993, own calculations

\* This table does not include people on temporary leave. There are two categories of temporary leave. One is a sabbatical arrangement, which allows an employee to take a leave of 6-12 months under the condition that the employer replaces employee with an unemployed person. The employee on leave receives an unemployment benefit. A total of 58,423 employees used this arrangement in 1992. The other temporary leave situation allows a company in financial trouble – because of decreased demand for its products or services – to temporarily release redundant blue-collar workers. These employees receive an unemployment benefit until their employer has new work for them. Another 52,996 employees were temporarily unemployed through this arrangement.

\*\* All employees except civil servants are insured against the risk of unemployment. This means that they pay a contribution on their wages to cover the expenses of the collective unemployment insurance. Civil servants or the self-employed do not run the risk of unemployment and therefore do not benefit from the arrangement, therefore they do not contribute. Consequently, the costs of unemployment are a heavy burden on the shoulders of active employees (total civilian employment was 3.7 million people in 1992, OECD economic survey 1993-1994).

Belgian economy slowed down and even saw a downturn in 1993. This resulted in an explosive increase in unemployment: 6% more unemployed in 1991, 14.4% more in 1992, and an increase of 15.9% unemployed people in 1993. The total unemployment figures were unprecedented (see Table 4.5).

It should be noted that ten years earlier the government had decided that the unemployed over 50 were no longer obliged to actively seek employment. The over-supply of labor made this seem a wise strategy in an attempt to enhance the chances of young people and to lay off redundant older workers, who had already been working for nearly a lifetime and who were unlikely to find another job anyway. In the beginning of the 1990s, the gov-

**Table 4.5 Evolution of Number of Beneficiaries in Different Categories of Eligibility**

	Regular Full-time unempl.	Pre-pension <sup>1</sup>	Older unempl.	Part-time unempl.	Career inter-ruption	Exempted unempl.	Temporarily unempl.	Total
1975	177,367	4,402	0	3,343	0	0	82,541	267,653
1980	321,895	93,095	0	12,253	0	0	80,347	507,590
1985	476,629	124,708	32,417	97,887	0	209	67,302	799,152
1990	347,932	140,823	72,431	204,495	48,563	36,230	37,917	888,391
1993	475,867	136,963	74,295	165,975	53,528	30,477	64,127	1,001,232

Source: Cantillon et al. (1999b) *Sociale Indicatoren 1976-1997*, CSB Antwerpen, p. 48

<sup>1</sup> The pre-pension consists of an unemployment benefit plus a supplement at a level closer to the preceding income level.

**Table 4.6 Benefit Dependency 1970-1990 (in 1000s)**

	1970	1975	1980	1985	1990	Increase in % 1970-1990
Unemployed	111	220	504	857	898	709.0
Pension	917	1,103	1,230	1,289	1,404	53.1
Disability	92	121	147	165	163	77.2
Family allowance	883	956	1,009	1,011	1,015	14.9

Source: De Lathouwer, 1996: 17

ernment turned this causal relation around. The cabinet stated that because the over-50 unemployed were not seeking employment, they should no longer be included in unemployment statistics. After all, the Ministry of Employment had to focus its active labor market policy on those beneficiaries still obliged to (seek) employment, the ones who really ‘counted’ as unemployed. The unemployed who no longer seemed to ‘count,’ were thus ‘cleansed’ from the statistics.

Because of the low level of benefits, the total cost of unemployment insurance was modest compared to the cost of other benefit programs.<sup>15</sup> Despite the one million who were part of unemployment benefit scheme, the unemployment insurance actually only accounted for 21% of total social security expenditures. This is relatively little compared to pensions and health care expenses. Policymakers state that it was an inexpensive, though effective means of fighting poverty. Of all the families dependent on unemployment insurance, 46% of the household incomes would fall below subsistence level if it was not for this benefit (Deleek 2001: 378).

#### 4.7 Effects of Adjustments: Ever Deeper Trouble?

This section describes how reforms during the 1980s have *reinforced* the latent contradictions between the Belgian social security system, more precisely the unemployment insurance, and its more demanding post-industrial environment. In addition, anomalies popped up within the system as new arrangements conflicted with the original policy objectives, and as policy results ran contrary to policy principles. The contingent event selected as a starting point for our analysis dates back to 1944. The ‘social pact,’ foundation of Belgian social security legislation and its postwar industrial relations, seemed to be the best place to get a good vantage point. Back in 1944, after four years of German military occupation, the social partners decided on how they were going to proceed with the rebuilding of their country. Choices were made about the organization of social security administration and the extension and legislative basis for the preexisting insurance arrangements. Although some decisions included simply continuing existing practices, these were choices nevertheless – at a time when the political vacuum and opportunities to choose otherwise were greater than ever. The development of the system created at the time of the social pact has been analyzed to pinpoint the accumulation of contradictions.

The growing distance between an old-fashioned system and a rapidly changing environment, combined with half-hearted incremental changes (lacking an overall vision) lead to systemic anomalies. Over the years, the system of insurance against risks of income loss due to disability, sickness, unemployment, and old age had evolved into a system that served as a universal welfare provider on insurance conditions. The government’s wish to reduce expenses and the unions’ desire to preserve the system and to protect the social rights of employees, had led to compromises on cutbacks within the confines of the present system. For example, the unlimited duration of entitlements remained by and large intact, but at the expense of the benefit levels, which came down markedly.

##### A vicious circle: labor market contraction and increasing labor costs

Since the recession of the 1970s, Belgian governments have invested in arrangements to create opportunities for starters on the labor market. The labor market was cramped because of the increasing supply of workers from the then maturing baby boom generation and an emancipated reservoir of female labor. Belgian policymakers did not focus on the creation of government financed employment, but on the reduction of the labor supply

(Cantillon 1999: 173). The Christian Democrats favored the ‘mother at the hearth’ principle, which means that they advocated arrangements that would allow female employees to stay home after they had children, in order to take care of the family. The Socialists favored early-retirement arrangements for older workers, allowing them a generous exit out of the labor market after a lifetime of hard work.

Both policy options found their way into the system. The first pre-pension arrangements date from the mid-1970s (CAO 17, 741217), and were extended and consolidated in the 1980s (Baeck 1991: 401-403; Masyn 1987: 550-553). The Royal Decree 155 of 27 February 1985 released the unemployed from the obligation of having to actively seek work if they had family obligations that required them to stay at home (such as taking care of children) (Baeck 1991: 400). In addition, unemployment benefits in Belgium are of indefinite duration and not means-tested, which allows many families to have an unemployment benefit as a second income for the family.

Belgian unemployment insurance can be likened to the Ponte Vecchio in Florence. A bridge whose original purpose was to allow people to cross the river, became the location where many houses were built. These houses eventually became businesses because so many people passed by on their way through town. Trade turned the bridge into a marketplace, and for those who just want to cross the bridge, it has become rather useless as a bridge since they have to fight their way through the crowds. The Belgian unemployment insurance scheme began as a bridge between a former job and new employment, a temporary arrangement for those faced with an acute loss of income. Over time, policymakers used it as the basis for other arrangements such as early retirement, family care, study leave, etc. Not only have the number of arrangements expanded, so have the number of beneficiaries.

Pre-pension plans were meant to be a temporary arrangement, but it seems to be a permanent part of the system. Time and again the government decided to extend the benefit period (first until December 1985, then December 1987, then December 1990 – see Masyn 1987: 550 and 1991: 345). It still exists today. Under new circumstances, policymakers focused on restricting the terms and conditions of pre-pensions. This was vetoed by the unions, who saw pre-pension as one of the main social policy achievements and were very unwilling to give this up. In every single interview conducted for this research, reform of the pre-pension system was described as a ‘taboo,’ equal to ‘political suicide.’

The government’s struggle is reflected in the process of gradual adjustment described in the box below. The heavy opposition apparently allows

### Two Steps Forward, One Step Back

- The Royal Decree of 30 August 1985 set the minimum age for pre-pension at 55, except for companies in economic distress (minimum age pre-pension: 50). In case of replacement, the redundant employee would receive 60% of the former gross wage.
- The Royal Decree of 20 August 1986 states that new collective labor agreements for pre-pensions can be valid no longer than two years. The minimum age is set at 57, except for those people who were entitled otherwise by a collective labor agreement from before 31 May 1986, and except for companies in distress. Pre-pensioners are now allowed to conduct some profitable employment in addition to their pre-pension.
- The Royal Decree of 7 August 1987 allows new collective labor agreement on pre-pensions a three year validity. In addition, it requires that new collective labor agreements (after September 1987) set the minimum pre-pension age at 58, except for companies in financial distress. Collective labor agreements not in line with new conditions will be terminated.
- The Royal Decree of 20 October 1987 postpones termination of existing collective labor agreements. It sets the minimum age for new arrangements at 58, starting from 1 January 1990, except for companies in economic trouble.
- The Royal Decree of 12 January 1989 allows employers to depart from the minimum age requirement until 1 January 1991. The Royal Decree of 16 November 1990 demands that each employee for whom a pre-pension is claimed by his/her employer has to be replaced by a new employee. This does not apply to companies in economic trouble. However, the replacement requirement had been the reason for introducing the pre-pension 15 years ago. The assertion of this requirement in the 1990 Royal Decree signals how replacement had been a low priority in the years prior. Baeck (1996: 766) shows that even after the requirement has been reasserted, in practice only 40% of the cases actually met the requirement when employees were laid off in pre-pension arrangements. Most companies are exempted from the replacement condition by one of the many exceptions to the rule. A company is officially 'in economic trouble' when it has budget deficits for two years in a row or when it has to release more than 10% of its employees to prevent deficits. A government committee decides on the eligibility of requests for this special status (Kemps, 030320).

the government to restrict the policy only if they simultaneously make exceptions to the new rule and offer concessions in other respects. The gradually accumulating restrictions correlate with a 0.7% decrease in the total number of pre-pensioners per year between 1990 and 1993 (Baeck 1996: 781). However, this probably occurred because many pre-pensioners who became eligible when the recession peaked in the 1980s reached the legal retirement age and left the arrangement in the early 1990s (Baeck 1996: 766).

The chronology above shows that whenever the government tried to restrict the arrangements, exceptions were added, expirations of old rules were postponed, and new favors had to be offered, such as the possibility for employees to find gainful employment in addition to their pre-pension. In



1990, the replacement of every pre-pensioner became a strict requirement – which had been the original purpose of the arrangement 15 years prior, but was never realized.

Another house on our Ponte Vecchio is the unemployment benefit scheme for those whose partner already earns a full wage. During the 1980s, around 65% of the unemployed received so-called partner benefits, which means that their partner provided the household with another, higher income (Deleeck 1991). The unemployed portion of the population who receives a partner benefit is predominantly female. In many cases, unemployment benefits are implicit compensations for housewives to care for their children instead of engaging in paid employment (Cantillon 1999: 239). To reduce expenditures on unemployment insurance, the government systematically began lowering the unemployment benefits (see next section), particularly for the category of household partners. However, since policymakers did not want to push these households under a subsistence level, targeted exceptions and fiscal advantages were introduced at the same time in order to prevent increases in poverty. This decreased the incentives for low-educated unemployed people to seek employment, since the difference between an unemployment benefit (combined with fiscal advantages and higher family allowance) and a statutory minimum wage was minimal.

However, the very same category of low-educated workers soon became too expensive to employ. They priced themselves out of the market because their wage costs were too high. Since the social insurance scheme was financed by premiums on wages, wage costs increased when social insurance expenditures increased. The growing burden of social security costs weighed heavily on the salaries of employees. Budgetary deficits in particular forced the government in the 1980s to stop financing increases in social security deficits and set the government contribution at a fixed level. The rest would have to be financed by premiums on wages yielded by employers and employees.

Partly because of these high wage contributions, Belgian hourly wage costs were among the highest in the world. This meant increases in productivity were necessary to make labor more cost-effective. Productivity increases are facilitated by capital investments. Many capital investments lead to capital-intensive (and labor-extensive) production processes. The unions considered it unfair to moderate wages since Belgian salaries are so high because the employees work hard and have a high level of productivity. The Socialist labor union instead proposed the introduction of levies on capital investment to compensate for the high labor and social security costs (Clauwaert 030514). The industrial negotiations ran into a stalemate since

the unions asserted that high productivity rates were worth good wages and that cutbacks and levies should be imposed on capital. Employers, on the other hand, argued that labor costs had become so high, that employment had become too expensive. Productivity increases were not necessarily the result of hard work by the employees, but could also be viewed as the result of capital investments. The unfortunate consequence of these capital investments was that they crowded out employment. If employment growth was necessary, then the employers demanded a reduction in labor costs. However, earlier experience with labor-cost reduction in the 1980s had not yielded the expected result of employment increases, which made the unions very suspect of this particular argument.

### The high price of a good bargain

One of the unique features of Belgian unemployment insurance is the unlimited duration of benefit eligibility. The well-preserved characteristic of unlimited benefit duration is the result of many concessions on other fronts.

From the first instance there was an implicit consensus that benefit levels did not need to remain so high, on the condition that their duration would be indefinite. Therefore, cutbacks have been introduced, while the duration remained indefinite in principle. This compromise will be increasingly hard to reverse (Everaert 021205).

Even employers' organization interviewees admitted that 'the benefit levels are fairly low. But people manage to hang on in there forever' (De Koster 030224). The benefit levels in the unemployment insurance scheme have become almost equal to the subsistence level of means-tested social assistance benefits. People who receive social assistance live just above the poverty level. A couple receiving an average unemployment benefit receives only 10% more than that, however, whereas the unemployment benefit is supposed to reflect one's former wage rate. The main difference between the two types of benefits is that social assistance is means-tested while unemployment insurance is not.

Although reforms always focused on the lowering of benefit levels, the government prevented benefit decreases from impoverishing beneficiaries (by making exceptions for certain categories, which allowed them to receive supplementary benefits). The system slowly but surely evolved into a more universal social security system, since it allowed not only workers, but all citizens to become eligible for benefits. In addition, the benefits gradually

became very similar to social assistance, whereas the contributions remained high, because so many people had become dependent on one benefit or another. The original insurance character of the system got lost along the way. High-salaried employees pay very high income-based contributions to social security, whereas the benefit they receive in the event of their becoming unemployed is so low that the relation to the former wage is difficult to find.

Over the years the objective of unemployment insurance has shifted. What used to be insurance for the period between losing and finding a job, evolved into a means for fighting structural poverty risks. Respondents in interviews emphasized that ‘we would of course never want these people [unemployed] to end up in social assistance schemes’ (Everaert 021205). The unemployment insurance system indeed successfully kept people away from social assistance. Unfortunately, the insurance did not have much more to offer than the subsistence level offered by social assistance.

#### Suspension instead of termination

Since partner benefits are not means-tested, and, as explained in the section above, they allow a family to receive a benefit in addition to other sources of income, they often still serve as a welcome supplement to family income. Cantillon (1999) concluded that many families need these supplementary benefits to maintain a minimum living standard. Besides the fact that (predominantly) female beneficiaries have little chance of finding employment due to their limited work experience and education levels, child care needs, and long-term unemployment records, they often do not actively seek employment or even desire to. Statistics show an unusually high level of persistent, long-term unemployment.

In order to cut expenses and bring down the number of unemployed, the government introduced Article 143 to suspend the ‘abnormally long-term unemployed’ from the unemployment insurance system. When someone is already receiving a partner benefit and has been unemployed for a period twice the average unemployment period in his/her region, the administration can decide to suspend him/her from the benefit scheme.

Every year when the budget for the next year was being negotiated, one of the issues on the agenda was the unlimited duration of unemployment benefits. Every year it was calculated how much we would save if we limited duration to two or three years. They never decided to place limits on duration, however. But it was a continuous possibility. Article

143 was commonly used to ward off the arguments for limits on duration. Article 143 was the palliative used to protect the system from being fundamentally restructured in this way. Whenever employers said ‘we need to limit duration,’ the unions would say ‘we already have limited duration, since Article 143 allows people to be suspended.’ Annual suspension records show ups and downs. Each time the threat of limiting benefit duration rose, suspension rules and implementation were toughened up a bit (Schollen 030108).

Suspension measures were met with ideological opposition, both nationally and regionally. It appeared to be difficult to enforce suspension rules within the policy’s implementation possibilities. The unemployed benefited from the complicated suspension procedure required to suspend someone. A single failure by the administration could lead to postponing the suspension procedure by two years, or even totally prevent the suspension in a particular case (Baeck 1991: 401). Additionally, regional agents often refuse to strictly enforce suspension rules, which makes legislative enforcement very problematic (Smet 030203).

How can you deny someone a benefit because he has been unemployed for too long? It would be like denying someone his pension when he has been retired for too long. If unemployment rates are 30% due to economic misery in Charleroi, can you blame individuals there for being long-term unemployed? (Wyckmans 030207).

The average unemployment rates on which the criteria for suspension have been based have not been updated since 1984, as a respondent from the National Employment Agency pointed out (Schollen 030108). If they were, the number of people qualifying for suspension would gradually increase since any suspension would reduce the average duration of unemployment in a region. Until now, policymakers have hesitated to adjust the figures to the current reality (Schollen 030108). Consequently, suspension is strictly applied only to those who have been unemployed twice as long as the average employment duration in the worst periods of recession.

Adverse incentives for officials who enforce sanction policy also play a role. Since educational policies were decentralized to the regional level, an organizational split was created between policy making on income transfers and activation policies. If the National Employment Agency (RVA) wants to sanction someone, they need information and assistance from the regional employment offices, which carry out their own activation policies at the

same time, and thus have no desire to scare off possible job-seekers by serving as the watchdog for the RVA (Baeck 1991). The regional employment offices define activating and coaching the unemployed as their primary tasks and consider enforcing sanctions for the national government an obstruction to their main objectives. Besides, the profits of any sanctions return to the national and not the regional government. Regional governments direct the employment offices and are uninterested in national performance results regarding sanctions and suspensions.

Although suspension shielded the unemployment insurance system from other forms of retrenchment, its effects in practice are more limited than theory would suggest. It does affect the remaining room for negotiation on policy reform, though. If policymakers wished to reduce the number of beneficiaries by limiting the duration of entitlements or by restricting eligibility criteria, they would face fierce opposition. Trade unions and left-wing politicians have offered many concessions on the benefits level to protect other aspects of the unemployment insurance plan. Retrenchment on these other aspects has become totally unacceptable.

#### Self-sustaining complexity

After the Second World War, the social security arrangements based on private initiatives were not replaced. Instead, they were complemented by various public arrangements. 'The welfare state was extended gradually without any structural reform, despite all attempts at constructive discussion on a comprehensive approach' (Van Steenberge 1987: 31). The result was a patchwork system that evolved out of private initiatives and mutual insurance per sector (Van Steenberge 1987: 45). The government's task was to fill the gaps left by the social partners.

Cautious reform efforts led to gradual adjustments instead of wholesale comprehensive change. Conflicting interests often enforced a *compromis a la Belge* – a positive-sum situation in which each interest group was compensated for the others' gains (Vilrocx and Van Leemput 1998). Many veto points in the system ensured that no proposal would reach the end untouched or unaltered. The fact that the total unemployment insurance was based on a set of Royal Decrees instead of an actual enforceable law, defined that the scope of new measures could not exceed the scope of change a minister was allowed to take (without parliamentary consent). The rapidly multiplying changes of the existing fragmented arrangements produced the complex and inaccessible system of today.

The lack of consensus on structural reforms resulted in the uninterrupted

growth of all of the existing arrangements. All of the political reform plans failed because of the defensive attitude of the social partners. ‘They see social security as their autonomous domain and they believe they are better than the others at managing it and guarding the concrete interests of their constituencies’ (Deleeck 2001: 256). In fact, for a long time, the trade unions were the unrivalled experts on social security matters. Involved in initiation, decision making, and the implementation of social policy, they did have the expertise and experience in many respects where policymakers lagged behind. For instance, policymakers seldomly come into any contact with the unemployed. The unemployment insurance system distinguishes two statutes, three phases of benefit dependency, four categories of beneficiaries concerning benefit level, seven categories of job-seeking requirements, and many exceptions to these rules. This shows an impressive record of average annual legislative change. Royal Decrees concerning unemployment insurance and its implementation have been changed or introduced 45 times per year in the period 1985–1990.<sup>16</sup>

Royal Decrees change frequently. It is a lot easier to change a Royal Decree than to change legislation in the parliamentary procedure. Parliamentary questions can be asked about the unemployment insurance, but no decision regarding the matter was ever taken there (Wyckmans 030207).

The pace of change in unemployment arrangements is probably at the high level it is because no elaborate and time-consuming parliamentary procedures are required, and thus vetoes can be circumvented. It is possible to submit a proposal for an unemployment insurance law that would be submitted to a parliamentary vote, but this has thus far never happened.

The legislative route available by Royal Decree forms a low institutional threshold for incremental change. The government does not seem to have any incentive to invite Parliament to participate in the already complex decision-making process, which also involves consulting all of the social partners. According to the Administrator-General of the Government Agency for Employment (RVA), the policy is therefore characterized by incrementalism. In this way, government tries to realize conflicting goals. ‘Very seldom does one single, clear measure suffice to meet an objective. Time and again, exceptions are added’ (Baeck 1991: 400). The Court of Audit complained in 1987, ‘with social security one needs to find one’s way through a labyrinth of 3,000 laws, decrees, and arrangements. The public agencies involved cannot adequately handle this complex web of lasting ad hoc arrangements,

and as a consequence, deal with permanent juridical uncertainty' (Rekenhof *143ste boek* 1986-1987: 19; cf. Dewachter 2001: 327). Of all of the social security arrangements, Deleeck (2001: 463) points to unemployment insurance policy as 'the most incremental, subject to rapid changes.'

### The Belgian boomerang

The fact that Belgium allowed and stimulated increases in trade union organization and power because the government could use union representation at the time, turned out to backfire.

In order to play the role allocated to them in the construction of the welfare state, the social partners, and more specifically the trade unions, had to be strong and reliable actors. But the generous allocation of resources directed to that purpose enabled the social partners to establish themselves as relatively autonomous power centers, with the capacity to destabilize the state. The state thus became, in a sense, a prisoner of the dynamic it had initiated, and was forced to maintain the involvement of the social partners in the functioning of the welfare system (Vilrocx and Van Leemput 1998: 332).

In the end, these unions were able to use their powers against the government – and they successfully did so – whenever their organizational autonomy was threatened. This section outlines how and why the unions were able to effectively protect the welfare state against retrenchment, and how they managed to maintain their position in the face of economic downturns.

The impact of Belgian labor unions on politics is still vivid, though less strong than some decades ago (DeWachter 2001). Research on political power in Belgium by Dewachter and Das (1991) concludes that labor union leaders are the fifth most powerful players in the hierarchy behind 1) the prime minister, 2) the vice-prime minister, 3) the leaders of the largest political parties, and 4) the ministers.<sup>17</sup> In a similar study done in 1967, union leaders placed third. An example of the situation would be the collapse of the Martens VII cabinet, which is often said to have occurred while the Christian trade union were coercing their Christian Democratic allies in the government to break with the Liberals. The unions were allegedly fed up with the leader of the Flemish Liberals, the ambitious, young right-wing politician Verhofstadt, who was inspired by the Anglo-Saxon new public management methods. 'Verhofstadt had rabid ideas at the time, and Houthuys (the ACV chairman at the time) was afraid he was going to ruin

Belgian society, so it was decided to dump the Liberals' (Everaert 021205). Under the guise of the linguistic conflict, the government fell because the chairman of the Christian union could 'no longer stand the pretensions of that greenhorn' (Houthuys in Dewachter 2001: 31).

In practice, the unions were dictating the expansion of the welfare state (Deleek 2001). They created the first occupational insurance and mutuality policies, which would later evolve into state-subsidized mandatory social insurance. The 1954 productivity agreements between the social partners ensured that the gains of productivity increases as a result of technological innovations and capital investments would benefit both workers and employers. This committed employers to go along with a wide range of social policy initiatives and ongoing expansion of the welfare state (Vilrocx and Van Leemput 1992). In the National Labor Council, five-year planning agreements were concluded, which also defined a large part of public policy, since the state made the agreements binding for all workers. The National Committee for Economic Expansion (NCEE), established in 1960, formally included the trade unions in the institutionalized national concertation on economic planning (Vilrocx and Van Leemput 1998). The social partners played a leading role in social policy making, whereas the government could be characterized as assenting (Deleek 2001: 433).

The state had delegated important domains of public policy to the social partners. This functional decentralization not only served to strengthen the social partners as actors in later bargains on retrenchment, it also put them in the best position to defend the status quo both as pressure groups outside of politics and as administrators from within. Since the unions both administered and distributed the benefits, this reinforced their position and attracted new members. One third of the union membership was either retired or unemployed. The fact that unions seem to 'give' benefits to the unemployed is symbolically advantageous because it portrays the unions as welfare angels, even though the burden of the costs is not theirs. Moreover, Belgian trade unions 'have developed a clientelistic approach towards union membership, appealing to fundamental worker motives and supplying selective goods' (Van Ruysseveldt and Visser 1996: 232).

In large companies, unions are not only democratically elected, but also represented on the shop floor. They have developed into the caretakers of all workers' needs. Most social security arrangements have become very complex due to a continuous flow of marginal adjustments and specifications,<sup>18</sup> and the unions serve as specialists to help their membership understand the details.



For a long time, the unions were the unrivalled experts on social security legislation. They implemented the law, they saw its results directly, they were in contact with beneficiaries, they knew what's going on. Only recently, and slowly, government jurists started to learn the tricks of the trade (Everaert 021205).

The government pays the union membership contribution for civil servants. Only officially 'recognized' unions qualify for this financial compensation. Collective agreements state that employers also pay a fee for each employee to the social fund of their respective sector. For instance, the Collective Labor Agreement for Department Stores (KB 990429) stipulated that employers in that sub-sector had to pay 4,900 Belgian francs (121 euros) for each employee to the Social Fund for the Department Stores, which is managed in a bipartite manner. The social fund remits 3,700 Belgian francs (92 euros) to each union member employed in the sector, as compensation for their union membership fees. In this fashion, most employers help to fund union membership and the union's administrative costs. The government uses the same method (*Moniteur Belge* 030117; KB 800926, art. 1b and 4, 2°). The government paid out 40.3 million euros in 2003 to finance the membership contributions of its employees for the two previous years (Ministerial Decree 021218: *Moniteur Belge* 021224). The financing of syndicalist premiums could be seen as 'the ransom for social peace' (Blanpain 030307).

The government allowed the social partners to take care of the administration of benefits since the early years of the social security system. As the head of research from the Christian trade union stated, these tasks are important to both unions and employers' organizations.

All of the social partners are involved in the administration of social security. They are each responsible for their own aspect of social policy implementation. This is the iron ring that surrounds the social insurance system. You might ask, why should employers pay out family allowances, what do they have to do with their employees' children? But if we want to change that, to improve the service or quality, we meet with resistance. Employers don't want to give it up, and resist our suggestions by criticizing our administration of unemployment benefits. It is an iron grip we have on each other (De Swert 021004).

Workers who choose to remain unaffiliated can obtain unemployment benefits from the state service for unemployment benefit administration. This state service only plays a marginal role ( $\pm 15\%$ ) in the total administration, however.<sup>19</sup>

The unions have established a quasi-monopoly over the administration and payment of unemployment benefits. Non-union workers may face a host of procedural impediments if they try to obtain unemployment benefits. The high percentage of organized workers in Belgium, and particularly the relatively high percentage of unemployed or disabled workers and pensioners who remain or become union members, is in part attributable to the union role in the social security system (Van Ruysseveldt and Visser 1996: 234).

Rothstein (1992) studied how European unions in the 1930s differed only marginally in terms of union density and compared this to the situation in 1990. It appeared that unions involved in administrative tasks grew much stronger over the years than their colleagues in other countries who merely represented workers' interests in negotiations. For instance, Belgian and Dutch union density rates were fairly equal before the Second World War. Belgian union density increased from 30% in 1930 to 74% in 1988 (Rothstein 1992: 42-44). Meanwhile, as unions in other countries saw their membership rates decline in times of recession, Belgian trade unions flourished during economic downturns. Between 1970 and 1990, the three unions grew 49% (ACV) 26% (ABVV) and 72% (ACLVB) (Martens 1985: 35; Dewachter 2001: 237-241).

In addition, unions receive financial compensation from the government for their administrative work. In 1993, the total administrative costs paid by the government to administrators of unemployment benefits, amounted to almost 118 million euros (RVA annual report 1993: 6.36). The financial compensation that the unions receive from the state for doing the benefit administration is an important source of income for them (Vilrocx and Van Leemput 1998: 332). The unions emphasize that the benefit administration is not a profitable activity, and that syndicate administrative branches do their work more cost-efficiently and offer better guidance than their public counterpart (see interviews: De Swert, Geerts, and Verboven). The unions, together with employers' organizations, are responsible for the management and are also represented in the governing board of these public benefit administrations (so-called *Hulpkassen*). It is, therefore, important to note that union respondents admitted that the bipartite management of those public benefit agencies did *not* have a profound interest in improving its service and efficiency.

The costs and benefits of the system are distributed in a way that strengthens the trade unions' position in negotiations. Union membership is advantageous to the employee, but financed by the employer. Benefit admin-

**Table 4.7 Administration Fees for Each Actor in 1993**

	ACV	ABVV	ACLVB	Hulpkas
Administration costs (million euros)	50.4	39.7	8.9	18.6
As % of total (100)	43.0	33.8	7.6	15.6

Source: *Annual report RVA 1993*: 6.40, costs in million euros

istration is valuable to the unions, but financed by the government. Unions have expertise on social security legislation and feedback on its effects, which enables them to successfully defend their exclusive access to this information. Finally, unions have monopolized interest representation, which assures that competition for resources and influence remains limited. Any proposals to change the status quo that might harm the unions' position will face strong opposition. 'It would be unwise to rule against the unions in cases of social security reforms' (Everaert 021205).

#### **4.8 Conclusion**

The characteristics of the unemployment policy and the sector governing it have been reproduced over time. The institutional reproduction that led to a system full of contradictions has itself erected many barriers to change in Belgium. The sheer number of unemployment benefit recipients increased the electoral risk of radical retrenchment. It also increased support for trade unions as defenders of the status quo, and it increased labor market productivity among the employed population (precluding reintegration of low-skilled and long-term unemployed workers). Legislative amendments have made social law in Belgium inaccessible and complex, further increasing the likelihood of incremental adjustments instead of drastic change. Political compromises generated a tight coupling between different elements of the system, so that one part cannot be substantially adjusted without seriously affecting another part of the system. Delegation of benefit administration to the unions gave them bigger organizations, more capital, information advantages, and exclusive access to policy making. Trade unions became undisputed and indispensable experts on social security, and they came to dominate social policy making. Curtailing union influence by setting up alternative modes of benefit administration would require massive and costly reorganizations, placing administrative burdens on a government that

lacked staff. These reproduction processes will be discussed further in the next chapter, when we investigate a Belgian reform process at the beginning of the 1990s.

Demographic evolution, post-industrialism, globalization all hit Belgium just as hard as any other country on the European continent. Problems mounted and pressures increased as Belgium found itself in a very unfavorable situation with a financially unsustainable social security system, rising public debt, declining competitiveness, and negative economic growth. The Belgian situation exemplified the notion of ‘welfare without work,’ and since the burden of costs became unbearable for the active population and with the government in debt, drastic intervention seemed necessary. In spite of this, the Belgian welfare state withstood the winds of change. Until 1990, reforms remained within the parameters of the old system, but caused unforeseen and unwelcome contradictions. The protective shield around the unemployment insurance system appeared to be a strong one, composed of mutually reinforcing parts. Although lip service was paid to ideas on activation policy and ‘the third way,’<sup>20</sup> over a million people remained unemployed and benefit dependent.

The next chapter will address whether the looming crisis occurred and whether it would suffice to allow for more than incremental reform. The launch of the ‘Global Pact’ will be analyzed, an effort by Prime Minister Dehaene to restructure the social security system in Belgium and prepare it for the challenges of the next century. The effects of the crisis narrative on actors’ positions and the institutional influence on the possibilities of reform will be analyzed.

## 5 Global Pacts and Crisis Plans

*Politicians seeking solutions are entitled to act behind the scenes.*

Jean-Luc Dehaene, *Knack* 93 1222

### 5.1 Introduction

In 1993, the tide began to turn in Belgium. The government and the social partners would introduce a new social pact. The former pact, which dated from 1944 and constituted the Belgian welfare state, proved to be no longer tenable. The new pact would restructure the social security system and prepare it for the twenty-first century.

The old system was unsustainable because systemic contradictions had accumulated over time. Every open-ended social policy commitment by the government needs an effective gatekeeper to assure that only the truly needy have access to benefits. Gatekeeping can be performed by those who administer the benefits, or those who need to activate and check the work-willingness of the beneficiaries. In Belgium, neither has a profound interest in strictly applying the rules and in limiting access to the benefit system.

In a residual social security system, benefits are means-tested and very low, which guarantees that only those with absolutely no other possibility for making a living receive benefits at the survival level. Occupational social insurance systems, by contrast, are based on acquired rights since contributions have been paid to ensure the worker an earnings-related compensation for income loss. In the Belgian case, the price of insurance rose to free market levels, whereas the benefits dropped to the residual level. Collective social insurance plans are arrangements designed to overcome market irregularities and economic downturns. Since the Belgian system was overcharged, it seemed to cause market irregularities, and consolidate economic downturns by absorbing yet another segment of the labor population. The costs of social security were reflected in contributions on income, causing the lower-educated to be priced out of the market first, inducing a spiral of increasing social insurance costs and unemployment growth.

The mounting problems called for drastic reform, but a tradition of incrementalism had come to define the boundaries of future retrenchment. The fragmentation of the system required adjustments on several fronts for each

policy change. The legislative process by Royal Decrees also marginalized the scope of reforms. The increasing complexity made it difficult to keep an overview and to pursue reform with a consistent vision on what social insurance in Belgium should offer. The many potential vetoes along the road of each of the reforms assured an elaborate compromise with many exceptions and compensations for each restriction.

The actors that took up the task of defending the status quo of the social security system did not stand with their backs to the wall like trade unions in other European countries. Economic downturns and high unemployment did not undermine their influence, but, actually in part strengthened their position. The Belgian unions are strong actors, subsidized by employers and the government for their service to society as guardians of social peace and welfare to all. The administrative tasks assigned to them guaranteed a vast clientele and a reliable source of income. Their position as managers in the bipartite boards of social security institutions, and as exclusive representatives of labor interests in official negotiation settings, allowed them to effectively safeguard their interests, and those of their constituencies. The unions' influence on government and informal bonds with their ideological counterparts in politics assured that policymakers would only marginally adjust the existing social policy arrangements. The lack of structural reform was combined with a rapid succession of incremental changes and expansion of additional categories and measures to meet new societal demands. The policy density minimized the room for maneuvering in later negotiations. In addition, the system became so complex that only the unions knew where the holes were in the maze and they were the institutionalized advisors when it came to social policy making.

These contradictions put increasing pressure on Belgian unemployment insurance policy. Policy reactions mainly resulted in a reinforcement of the existing contradictions. In the early 1990s, exogenous pressure (EMU entry, global recession, international criticism) compounded the endogenous problems in the Belgian system. This case offers fertile empirical ground for Hay's theory (2001) on accumulating contradictions, crisis construction, and structural transformation. As contradictions piled up within the Belgian unemployment insurance system and problems mounted, we could expect a crisis to occur and drastic reforms to be pursued. We now need to probe deeper into the case by studying a specific reform process, this time at the micro level. If problem pressure<sup>1</sup> combined with crisis construction still does not induce reform, this in-depth case study must enable us to reveal what institutional factors block change and generate path-dependency.

In this chapter, the crisis construction will be studied preceding the launch

of the ‘global pact,’ as the new treaty was called. The analysis shows how institutionalized access to resources and venues influenced the contents and outcomes of the pact (section 5.3). The argument that those institutions bound reform plans to the parameters of the existing system and gave actors little room to leave the loop, will be explained in section 5.4. Conclusions on theory and on the case will be drawn in the final section (5.5). The analysis of this chapter will focus on why the crisis accompanying the launch of the global pact did not induce large-scale reform, in spite of accumulating contradictions and mounting problem pressure. Why did the Belgians continue on their incremental path?

## 5.2 Contradictions and Crisis

‘It sure was a crisis. We faced the sharpest economic downturn in 20 years’ (Vandenbroucke 030527). ‘The crisis of 1993 was exceptional because there was negative GDP growth for the first time in years’ (De Swert 021004). ‘Not only was the economic situation alarming, but the budgetary situation as well. Something had to happen’ (Smet 030203). ‘In addition, Belgium experienced a period of extreme monetary instability in the fall of that year’ (Van Rompuy 030204). ‘Crisis? Hmmm, I prefer to call it a *Crisette*’ (Verplaetse 030115).

In 1990, Minister of Employment Van den Brande presented a report concerning the near future of unemployment insurance. The report basically stated that, even in the case of an ongoing economic boom, unemployment insurance needed fundamental revision. Figures from the late 1980s show that, despite employment growth, there is only a slight decline of benefit dependency in the unemployment scheme. Instead, a rising number of unemployed workers received benefits without having to actively seek employment (the elderly unemployed, and unemployed with social care duties). They comprised an increasing part of the total unemployment population. In its conclusions, the report asserted that a recession would basically preclude any fundamental changes of entitlements and the duration of benefits (Van den Brande 1990). The report was released just as the recession of the 1990s was slowly setting in.

In early 1993, the International Monetary Fund was critical of Belgian unemployment insurance policy. It was noted that the Belgian unemployment system should not only be reformed because of budgetary deficits, but also because it would undermine labor market flexibility and employment

as well as activation policies. The OECD country report (1994: 17) stated that the downturn of the Belgian economy was more pronounced than in other EU countries. Especially the labor market, known as ‘one of the weak points of the Belgian economy,’ had suffered severely from the economic downturn, causing cyclical unemployment to become structural. Just as Van den Brande, the OECD pointed out that, even during the economic upswing of the late 1980s, the number of people in unemployment programs such as part-time unemployment, special leave, and pre-pension, continued to increase (OECD, *Economic Survey 1993-1994*).

A year earlier, in 1992, the Belgian government had committed itself to the ambitious Maastricht criteria for entrance into the European Monetary Union. These criteria stipulated that public debts must be below 60% of the GDP and have an annual government deficit of 3%. In Belgium, the annual government deficit was still more than twice as high as allowed in 1993 (7.2%). The total public debt was proportionately 135% of the GDP, which meant that the debt was continuing to rise because of accumulating annual interest and deficits (Verplaetse 2000: 16). The road to the EMU entry appeared to be a long one and time was running out.

Belgium was to assume the presidency of the EU in the second half of 1993. It had drafted an ambitious EU agenda, with an emphasis on nations earning their membership to the Monetary Union in 1996 (*Knack, 930609: 52*). This meant, of course, that Belgium was strongly committed to meeting the criteria of the Maastricht agreement domestically. To do so, drastic interventions in wage policy and serious cutbacks on social security seemed necessary. These objectives meant that the government would have to impose very unpopular measures with no budgetary room for compensation. Cutbacks would have to be made on all fronts simultaneously. While the government was debating how to economize on public expenses, the recession led to a further decrease of the state budget. In 1993, the growth of the Belgian economy turned negative for the first time in years.<sup>2</sup> The economic decline resulted in less tax revenues on profits and wages, and higher expenses on social security benefits.

The Central Council of Industry described the decline of Belgian competitiveness as ‘alarming.’ This decline of competitiveness was related to the high wage costs of Belgian labor. The increased wage costs were largely due to the contribution that had to be paid to finance the social security system. The loss of competitiveness had always been the greatest concern and most prominent agenda issue of employers’ organizations (Peirens 2000).<sup>3</sup> They stated that a decrease in social contributions together with a moderation of real wages was a prerequisite for economic recovery.



The unions opposed the idea of handing in wages with no guarantee of employment creation, nor any compensation in terms of work time reduction. Their experiences with wage moderation in the 1980s had made them suspicious, both toward employers' organizations and the government (Peirens 2000: 115). Attempts of work time reduction and wage moderation in the 1980s had only occurred in a fraction (12,000) of the possible 80,000 jobs. Besides, it remained unclear whether this minor job growth would not have occurred anyway (*Knack* 030908).

The unions posited themselves more and more as conservative defenders of the status quo with regards to government reform plans. There was room for slight adjustments but the basic premises remained untouchable (author's conclusion from several interviews). On the other hand, as the newspapers noted, both the employers' organizations and the unions became increasingly dissatisfied with the continuous cutbacks and asked for a Pact on concerted action to achieve structural solutions.

#### From pact to plan

In his inaugural speech in the summer of 1993, Belgium's King Albert II summoned the social partners to join forces in the fight against unemployment and economic decline, and show solidarity 'as if the country was at war.'<sup>4</sup> A month later, Prime Minister Dehaene launched his ideas to conclude a Global Pact. With the term 'Pact,' Dehaene was referring to the 1944 Social Pact, which constituted the basis of the Belgian welfare state. The idea of a 'Pact' therefore has a high symbolic value in Belgian politics and industrial relations. Its only precedent – the Pact of 1944 – was a classic example of trust and solidarity, and defined the basis of the current Belgian social security system. A new pact would mean a new foundation for the welfare state for the coming century.

The prime minister established a special committee, chaired by the governor of the Belgian Central Bank, to investigate the possibilities of reform to solve the problems of unemployment, budgetary deficits, and the decline of competitiveness. The Verplaetse Committee (named after its chair, Alphonse Verplaetse) was comprised of various economists, each with a link to a specific political party. It was very unusual that no direct representatives from unions or employers' organizations were included. The committee presented an extensive report, in which it pointed to several options regarding cutting expenditure. Although the report presents 'a new social economic model,' it proposed only concrete changes that would not affect any characteristics of the existing 'model.'

Dehaene's proposal for a 'Global Pact on Employment, Competitiveness and Social Security' was based on the recommendations of the Verplaetse Committee. It began: 'Belgium is in one of its deepest crises since the Second World War... We have to make decisions to prepare this country for the future ... which will be very different from our situation today... Unemployment appears to be structural and persistent... which presents us with a socially intolerable situation.' The proposal asserted that the government and the social partners should agree on the objectives of the social security system (collectively insuring the population against social risks, and solidarity for the poor by guaranteeing a minimum subsistence level). It stressed the rising and inevitable need for re-orientation of certain elements of the social security system in the light of social, economic, and demographic changes (*Nota Dehaene 1993*). Dehaene proposed:

- a reform of the structure and administration of the social security system (including a distinction between personal and occupational insurance plans; and the introduction of more government involvement in formerly bipartite structures);
- increasing selectivity of the system and limits on expenditures;
- restoration of the financial balance of the system.

This so-called public *nota* (note, or concept proposal) was a very broad outline, stressing needs more than specifying interventions, and identifying objects of possible change rather than defining the contents of change. The proposal, made public 20 October 1993, was not only based on the Verplaetse report, but also on informal talks with the leadership of the unions and employers' organizations. It reflected a synchronic balancing act within the coalition.

#### The end of strife?

When formal negotiations with the social partners started, the employers' organization vBO rejected the proposal since it interceded too much in the autonomous sphere of the social partners, which involved wage negotiations and collective labor agreements. The unions stressed that their priorities seemed to be missing from the proposal and that Dehaene's plans were totally unacceptable.

I maybe misjudged the situation there, also because we were under severe time pressure. We had to act immediately. The plans for the Global

Pact had been discretely discussed with representatives of capital and labor before they were made public. We moved toward consensus, but the trade unions had lacked the time to put on a show for their militant grassroots. They could impossibly tell their rank and file that we had already come to an agreement behind the scenes (Dehaene 031126).

The ABVV reacted furiously to the proposal, which involved breaking up existing collective labor agreements, as well as index jumps and cutbacks on social security benefits. By contrast, the ACV was willing to renegotiate the proposal, and presented their own plan for structural reform (ACV plan 1993).

On 21 October 1993, the ABVV walked out of the negotiations. Its sector unions immediately pleaded for inter-professional strikes and demonstrations. When it appeared that efforts to again include the ABVV in negotiations seemed futile, Dehaene asked Parliament for a special mandate to pursue his reform plan as outlined in the Global Pact (*De Standaard* 931025). ‘Now that the social partners have failed to negotiate a Pact, we should not allow politics to fail as well,’ he stated on 25 October (*De Standaard* 931026). With the parliamentary mandate in his pocket, Dehaene could (theoretically) continue without consulting the social partners or political party representatives any further. The first ABVV demonstration against the government plans took place on 29 October 1993.

Although the ACV leadership had hoped for a continuation of negotiations (‘We have to try and save the Belgian negotiation model,’ said ACV leader Peirens, *De Standaard*, 931022), bottom-up protest threats against the government plans increased. ‘It is a tried and tested strategy of our Socialist sector unions, to convince ACV members on the work floor that strikes are the only answer. “Sensitizing” we call it. It is then up to the membership to work on the union top’ (Verboven 030328). When the ACV realized that the government was only willing to consider the sacrifices (not the returns) of their proposal in the ACV plan, they decided to join the ABVV in the protests. Both unions planned so-called ‘warning’ strikes, starting mid-November. The success of these warning strikes would be a critical indicator of the government’s chances with its reform efforts (*De Standaard*, 931112). The calls for strikes gradually were slowly heeded, first in Wallonia, the Flemish metal industry sector and the Antwerp harbor, and later, nationwide (*De Standaard* 931016). United, the Belgian unions had the ability to mobilize more than half of the entire labor population, and thereby practically ‘shut down’ the country.

To the Socialist ABVV, cooperation with the ACV is a precondition for a

successful national strike. Socialist union members in Flanders are outnumbered by ACV members. ‘We cannot successfully pull off a strike on our own in Flanders. The risk of isolation in our striking efforts is too big there – we have to prevent that from happening’ (Verboven 030328). Against all odds, in mid-November 1993, the typically moderate ACV recommended a continuation of the strikes, while the ABVV considered a break in order to possibly restart negotiations (*De Standaard* 931118-19). However, when the Socialist union confederation tried to call off further actions, its militant sectors declared their own strikes (*De Standaard* 931119). This occurred when the Dehaene government presented its Global ‘Plan’ (instead of a Pact), and imposed wage moderation and a wide variety of austerity measures. Incapable of controlling their militant grassroots, the ABVV leaders at their national congress in Liege on 19 November 1993 decided to declare a ‘*Vendredi Rouge*’ – every Friday would turn ‘red’ (the banner color of the ABVV). The ACV considered it important to make sure that the *Vendredi Rouge* would also be ‘green’ (the ACV banner color) since visibility during demonstrations is an important electoral factor in the competition between the unions.<sup>5</sup>

On Wednesday, 24 November, 75% of all public transport workers went on strike, no mail was delivered, air traffic was considerably delayed, most schools (65%) were closed, as well as the banks, industrial plants, and the textile, chemical, and automobile industries (*De Standaard* 931125). Together the unions organized the first inter-professional strike since 1936 on Friday 26 November 1993, virtually paralyzing the country. On that day, daily electricity consumption dropped by 18%, industrial zones were blockaded so that even willing workers could not get to work, mass demonstrations were held in every Belgian city and Prime Minister Dehaene was held hostage in his own car until 25 policemen came to his rescue (*De Morgen* 931127).

### The government prevails

The storm of critique and protests that blew over the heads of the Belgian government did not, however, destroy the global plan. The coalition did not fall apart and Dehaene’s proposal remained basically intact. By the end of October 1993, Dehaene had successfully shifted the blame for the failure of the Global Pact onto the social partners. After all, he had been consulting them all along. When he came up with a non-binding proposal, a draft based on a report of experts and on informal talks with the social partners, the social partners suddenly walked out of the negotiations. Insisting that

### Contents of the Global Plan

The global plan comprised wage restraints for 1995 and 1996; a trimmed down price index of wages in the future (-1.59%); a decrease of social security premiums (with 2,480 euros/year per employee) if employers hire an unemployed starter, a lower-educated employee or in cases of work-time reduction; starters work against 90% of the full wage in the first year; increased struggle against moonlighting; public employment creation; a rise of VAT tax by 1%; a rise of levies on gasoline (+ 1%) and tobacco (+6%); increased taxes on real estate (except for inhabited private home); increased tax on capital income (+3%); decrease of the highest pensions (max 2%); an increase of the qualifying period for starters to receive an unemployment benefit (nine months instead of six); a 1% solidarity tax on the higher pre-pensions; a slight decrease of family allowances, electricity costs decrease for 1994 by 49 million euros. This cutback operation would save the Belgian government 70 billion Belgian francs (1.7 billion euros) in 1994, 89 billion in 1995 and 110 billion in 1996 (Dehaene *Globaal Plan* 931117; *Knack* 931125; *De Standaard* 931118). According to the Belgian newspaper *Financieel Economische Tijd* (931120), this would cost the average Belgian family 2.9% of their annual income.

The only institutional change included in the package was the new 'global management of social security financing'. The social contribution, which used to be separate for each social insurance, will now be collected as one single contribution and centrally disbursed among the social insurances to pay out the benefits. The distribution formula will be adjusted annually after an evaluation of needs. This global financing structure would be governed by a board consisting of both social partners and the government (Dehaene, *Globaal Plan* 931117). The tripartite character of the new governing board was a novelty in Belgian social security. But the distribution of finances was hardly new as the social insurance schemes traditionally patched up each others deficits (for instance, the family allowance sector used to have surpluses which were diverted to the deficits in the health care, unemployment insurance or pensions (Van Steenberge 021004).

Parliament cannot allow politics to fail in times of economic crisis, the prime minister obtained a mandate to pursue his plotted course. The coalition of Socialists and Christian Democrats stood firmly behind the government plans. On 10 December 1993, the unions decided to lay down their arms and accept defeat. On 24 December, the 'Global Plan' measures (not a Global Pact) were enacted by Royal Decree.

The Global Plan consisted of a wide range of savings measures. The Liberal opposition described it as 'a short-sighted, bigoted package of measures without any perspective or prospects for improvement.'<sup>6</sup> The plan did, in fact, have a rather incremental character. Notwithstanding these changes and the various 'cheese slicer' cutbacks, the structural transformation of the Belgian welfare state remained forthcoming. The unemployment insurance system remained almost intact.<sup>7</sup>

The increase of employment expected from the global plan would amount

to 40,000 jobs in the next year. The program for the under-26-year-old unemployed was indeed a spectacular success: in the first six months, employers used the new rules to provide 20,000 new jobs. Critics, however, asserted that the new beneficial arrangement to employ the young, contained perverse effects for the just-over-26-year-old unemployed and the older unemployed who saw themselves being replaced by a subsidized younger labor force (*De Standaard* 940418; 940706). Besides, studies by labor market research institutes at the University of Leuven (HIVA) and Louvain-la-Neuve (IRES) pointed out that only 12–15% of the new jobs were actually created by the government's policies. The rest of the jobs would have either been created anyway, or were replacing already existing positions (*Trends* 961003). The jobs that would have existed anyway were also subsidized, which made the policy relatively expensive compared to the net effect.<sup>8</sup>

The crisis did not help produce drastic reforms and no actual pact was concluded between the social partners and the government. It broke down as the unions, employers, and the Dehaene cabinet disagreed on how to pursue structural transformation and how it should look. Dehaene obtained a parliamentary mandate giving the government the authority to pursue drastic reforms, which it used to pursue a package of incremental measures. The plan was global in the sense that almost every Belgian citizen was affected by the cutbacks, albeit sometimes only marginally. No social security sector was spared, but the reforms did not include any fundamental changes.

The next section will explore which institutionalized resources enabled or disabled actors from exerting their influence on the reform process and to what extent. The exclusive access to decision-making venues will be analyzed to see who was able to use those resources to their advantage.

### 5.3 Actors' Resources and Venues

Because of the considerable pressure of the problems at hand, the social partners' inability to devise their own agreement, and with a full parliamentary mandate and a strong call for reform in their pockets, the change-oriented actors seemed to have free reign. The institutional venue Dehaene used was a powerful one; the emergency mandates obtained from Parliament allowed the cabinet to bypass the formal legislative procedures. The crisis construction that accompanied the launch of the Global Pact together with the argument that the social partners should not be allowed to obstruct the Pact's creation (later Plan), convinced Parliament that exceptional executive powers were justified. Theoretically, the emergency mandate allowed

the prime minister to pursue drastic change at full speed. ‘We needed emergency mandates because we had so little time to pursue this Global Plan’ (Dehaene 031125). This raises questions about the possibilities that opponents of change had to challenge the reform process and whether crisis construction affected their position.

The speed and scope of the reform process was not solely dependent on the venue. Actors with considerable interests in preserving the status quo soon mobilized against the plans. Two types of actors in particular deserve our attention for their ability to block change: the trade unions and the political parties. Their resources, such as societal support, informal channels of influence on political allies in office, and the powerful organizational backing for their leaders (research departments to provide support for their arguments, membership rates to support the legitimacy of their interest representation, and capital in the strike funds to financially support the participants in strikes) were fully exploited. As the following section will show, the use of these resources did have its limits in the end. Access to resources and venues does not guarantee success because eventually, Dehaene’s opponents lost the battle in the political arena.

### Union power

The actors that opposed change were powerful, but only as a united front. The effectiveness of interest representation by the unions is based on their ability to mobilize their rank and file in protest actions (Crouch 1993). Thus, one of the main resources for the labor movement is grassroots support. With several unions representing the labor force, cooperation is necessary to ensure a powerful statement. In Belgium, not only did union federations disagree on the potential and directions for action, but the unions were also divided internally. The first cracks in their solidarity soon became visible.

In 1993, we had a more nuanced judgment on the global reform plans than the other sector unions. We were convinced we could not win by going on strike. Therefore we argued that we could not ask our members to cease work. One should not mobilize for a lost battle. It made no sense. And it turned out to come true... (Wittevrongel 030516).

The ABVV textile union chaired by Donald Wittevrongel did not want to go on strike. Because the socialist union federation headquarters needed to be unanimous concerning nationwide inter-professional strikes, this deviant

position caused considerable disagreement within the union leadership (Verboven 030328). As Wittevrongel explains ‘A lost battle is very damaging to union credibility... We did not want to take that risk. In 1993, the reform package was so broad that it was difficult to mobilize against it.’ (Wittevrongel 030516).

Other Socialist sector unions utterly disagreed with this pragmatic point of view. They felt that their central office had already left them in the dark for far too long about what Dehaene had informally discussed with the union leadership. Information trickled in now and then, making the grass-roots representation suspicious of what they could expect. The *Algemene Centrale*, or general sector union, was the first to go on strike. ‘When Dehaene presented his draft proposal in 1993, the fat was tossed into the fire. The negotiators had to be called back. The headquarters initially desired a continuation of negotiations, but we could not allow that’ (Clauwaert 030514). When the sector unions decided to strike, the Socialist union federation soon followed. Union leaders Janssens and De Vits left the negotiation table after two hours. The Christian Trade Union also rejected the proposal but intended to continue negotiations by making a counter-proposal (*De Standaard*, 931016). The Walloon members of the Christian Trade Union (CSC) decided to follow the ABVV by totally rejecting further negotiations, as did the liberal trade union ACLVB (*Belang van Limburg* 931022; *FET* 931022). The ACV followed later when it became apparent that Dehaene just wanted union concessions without any compensation (Geerts 030115). The ACV ultimately decided to strike because

... it had been enough. We had had it up to here. There was a general sense of uncertainty, a feeling of unrest. An inter-professional strike cannot be organized around something specific or technical. It was provoked by a general feeling of insecurity. It had to be, for otherwise it would have been impossible to evoke such solidarity among the militants (Peirens 030123).

It was early November when the ACV decided to join forces with the ABVV. Again, this would also result in an unstable union front. Later, ACV Chairman Peirens even spoke of an open union competition in the organization of the strikes (Peirens 2000). By mid-November the Socialist union ABVV showed some reluctance to continue their actions. Meanwhile, the more moderate ACV resolutely vowed to continue their protests. The ABVV leadership expressed a willingness to suspend actions for a week when it seemed that the government would respond to union actions (*De Standaard*



931118). The ABVV was incapable of controlling wildcat actions by their rank and file, however. It took the militant ABVV grassroots only two days to force their leadership to declare a national strike. Though some actions were well-coordinated, such as the nationwide inter-professional strike on 26 November, the ACV-ABVV union front did not hold in the end.

Disagreements between sector unions and the union leadership on the timing and organization of strikes is more characteristic of the Socialist syndicalist movement than it is of the ACV. By issuing strikes, the ABVV sector unions can force their leadership to take a more radical stance, as shown in the examples above.<sup>9</sup> Each Socialist sector union has its own strike fund and autonomously decides when and where to strike. The ACV strike fund, meanwhile, is centralized and thus the leadership has much more control over strike actions and the coordination among the various sector unions. Since the union federations each have their 'gravity center' in one of the regions – the ACV controls Flanders while the ABVV controls Wallonia – forming a front is a prerequisite for a successful strike (Verboven 030328). Because the sectors often initiated the actions, it was difficult for their respective leaderships to unite their own movement, let alone among one another.

The whole thing came about quite spontaneously. And it was so intense, it did not need much mobilization. People went on strike to release their general dissatisfaction, not because of specific issues. They were angry about the state of misery they saw around them, at all levels. That was both the strength and the weakness of the movement. The demands people made were so diverse that it was very hard to control the actions and satisfy the rank and file in the end. It caused great disillusionment among the syndicalist militants, that lasted for years (Clauwaert 030514).

Apparently, this particular set of events provoked profound discontentment among the grassroots members.

#### Political strings

Union leaders also attempted to manipulate their allies in the government. However, the bonds between the CVP and the Christian union movement had weakened seriously over the past decade. Until the mid-1980s, it was common for unions to be very involved in politics and policy making at all levels. But the 1990s were

... a different time. Dehaene and Peirens were completely other men than the Christian Democratic leaders of the 1980s, Martens [CVP prime minister] and Houthuys [ACV chairman]. Dehaene was a left-wing CVP man, much more so than Martens. Peirens, on the union side, was less a political man than Houthuys before him. Peirens maintained a distance between the union and the party more than Houthuys ever did. He was more socially combative than Houthuys. In the fall of 1993, however, he changed his tune once the contents of Dehaene's plans became clear. He joined us in the protests against the government's plans (Verboven 030328).

The government also knew how to use its links with the society in general. Prime Minister Jean-Luc Dehaene came from the left wing of the Christian Democratic movement and once worked for the ACW's research department (1965-1972),<sup>10</sup> before becoming minister of social affairs.

Dehaene was a man who came from the Christian workers movement. He had his own social network in the union. He knew all the ins and outs of the social security system. Therefore, he was able to hit it at its weakest links, and he found them unerringly (Everaert 021205).

Dehaene had been minister of social affairs between 1981 and 1988,<sup>11</sup> during the austerity period of the Christian Democrat-Liberal coalition. In those years, he became known as 'the plumber,' the man who could fix things. 'A plumber, however, is someone who repairs things but does not do any major reconstruction of a building. After all, a plumber is not an architect' (Van Steenberge 021004). Others note that this is a central feature of Belgian politics: 'In Belgium, politics is the art of possibility, much more than the art of desirability. We are the Masters of Compromise' (Verplaetse 030115).

The masters of compromise fit well into Lijphart's concept of pillarization, which generally characterized policy making in the Lowlands: the differences that divide society were bridged at the elite level, while governing coalitions sought compromises. The strength of the mutual bonds within the pillars may have diminished gradually, but the pictures they had of each other did not necessarily match. The Socialists saw Christian democracy as an all-encompassing monstrous conglomerate of powerful organizations (as PS Chairman André Cools cried out during heated negotiations in 1980: '*Vous, avec vos Kredietbanks, avec vos Boerenbonds, votre église, votre si*

*et votre là..!*). At the same time, the Christian Democrats saw themselves as a problematic, carefully balanced network, but ultimately considered the Socialists to be ‘the machine, the great powerhouse that rules Wallonia’ (cited in Dewachter 2001: 360-361).

The unity in this powerhouse was not self-evident, however. When Dehaene negotiated his Global Plan with his allied political parties, the negotiator from the Parti Socialiste (Guy Coëme) was frequently restrained by his own party. The syndicalist members of the Socialist party (such as Jean-Marie Dehousse, Minister of Scientific Policy) literally pulled Coëme out of the negotiation room to implore him to veto parts of the proposal they objected to (*Knack* 910273 and 931117). This is how they influenced the negotiations between the political parties. Walloon Socialist consent was crucial for Dehaene since the PS, along with the Flemish CVP, were the backbone of the coalition. They also dominated the French language group in Parliament. ‘In Belgian politics one cannot get around the *Parti Socialiste*’ (Van Steenberge 021004).<sup>12</sup>

The Socialists also had a desire to compromise, however. One of the main impediments in the negotiations was the proposal to freeze or perhaps even abolish the sacrosanct indexation of wages to price increases. In the fall of 1993, this was considered one of the unique lavish features the Belgian labor market that could no longer be afforded (*Knack* 931006). The Walloon PS, the strongest indexation advocate, ‘saved the index’ by suggesting that the government could eliminate unhealthy products, such as tobacco, spirits, and oil. This would lead to a more complex compensation of wages to prices, no longer including excisable goods in the price increase calculation. The unions were outraged by this proposal: ‘Today tobacco and wine, tomorrow our bonbons and Flemish fries’ (*De Standaard* 931123). Their influence, however, seemed to have its limits. Some Socialist MPs showed a slight reluctance, however, all but three members approved the plan in the end because the Walloon Socialists were eager to maintain the coalition. The Liberals had become popular in the polls and several Socialist MPs had even abandoned their own party to join the Liberals<sup>13</sup> (Deruette 1994: 296).

The PS found itself in a very difficult situation. Since the alternative was a center-right government, they chose to remain and cooperate. Ironically, what really helped us, was the fact that the Flemish Liberals employed a very conservative liberal discourse. They raised a frightening specter of themselves that we could refer to as the alternative when we had to convince our grassroots (Vandenbroucke 030527).

The unions also recognized this dilemma:

If we had continued our strikes in January 1994, the government probably would have fallen. The Liberals had a very strong position at that moment, and they would have seized their chance. We had to choose the lesser of two evils. Either we cease protesting against the plans we were fiercely opposed to, or continue our protests and unintentionally aid the cause of the Liberals. In the latter case, the reforms would have been far worse than Dehaene's (Verboven 030328).

Dehaene himself steadfastly disagrees, noting that 'There was no real threat that the government was going to fall. The unions just needed an excuse for their grassroots' (Dehaene 031125). Regardless, the union leadership felt it could pursue its demands only to a certain point with their allies in the Socialist Party.

#### **5.4 Institutional Obstacles to Change**

If there was indeed a crisis and the opponents of change ultimately gave up their protests in the end, then why did structural transformation not occur? The institutionalized disposition of capital and information, and access to decision-making venues ultimately affect the possibilities of changing the status quo in a policy sector. As we have seen in section 5.3, reform opponents found it difficult to mobilize their resources successfully in response to the reform proposal. The unions had to terminate their strikes while the political parties had to compromise in order to avoid a crisis within the coalition. And yet, the Global Plan reforms that were ultimately implemented were very incremental. In this section, we will analyze what institutional factors induced the government to pursue incrementalism in contrast to what their crisis rhetoric seemed to portend. After all, in his attempt to draft a proposal for a Global Pact, Prime Minister Dehaene had to steer a course among various institutions that could cause severe damage to both the Pact and the government. However, even the initial proposal in the early negotiations contained only a variety of small adjustments to the existing system in a very detailed reform package.

Institutions shape not only an actor's strategies, but the goals as well. Strategy consists of the choices actors need to make among the options, which are limited or facilitated by the institutional context. Institutions also have an influence on goals because institutional structures define what

is feasible and desirable in a given situation. As such, institutions structure political situations and influence political outcomes. They do so through the conduct of actors. Both reform-oriented actors and opponents of change are influenced by the institutional context in which they interact. In the Belgian case, there is the question of what possibilities policymakers had in pursuing non-incremental reforms. Prime Minister Dehaene constructed a crisis and launched a Pact, but in the end, the accomplishments in terms of policy change were quite modest.

This section will investigate the strategy Dehaene adopted to confront his allies and opponents in the struggle to alleviate the pressing socioeconomic problems in the early 1990s. The contents of the reform proposal seem to have reflected and anticipated the institutional barriers to structural change. The incremental contents of the Global Plan, prevent us from employing a theoretical model that shows how a 'reform wave' hit the rocks of institutionalized conservatism. The proposal was clearly toned down in advance. This section, then, focuses on how Dehaene anticipated the strength of conservative forces and the presence of various veto possibilities.

#### The federal issue: veto possibilities

More social insurance revenue is raised in Flanders than in Wallonia because the Flemish economy is stronger. Wallonia is still suffering from the decline of its mining and steel industries, which was once the primary source of Wallonia's prosperity in the after war decades. Benefit dependency is thus higher in Wallonia, as the region continues to suffer from high unemployment, disability, and high absenteeism due to sickness. If one divides each region's social security revenues by their expenditures, the Flemish score 1.15 (they pay more than they cost) while the Walloons score 0.73 (they cost more than they pay). The Brussels region also scores positively with a 1.13 (Dethee 1991: 35).

Flemish regionalist politicians have frequently raised the notion of splitting social security into separate Walloon and Flemish systems. After all, besides the King and the army, social security remains one of the few national assets. The Walloons definitely fear a federalized social security system, since it would do considerable financial damage to the region. Any proposal that even hints of federalizing social policy is sure to meet with strong Walloon opposition (*FET* 93 1020). 'In Wallonia, people see in every suggestion to change the financial organization of the system a disguised attempt to federalize social security' (Van Rompuy 030204).

When federalization actually became law in the spring of 1993, in the

famous ‘St. Michiels akkoord,’ the Flemish political parties demanded that the so-called ‘transfer issue’ finally be dealt with. The transfer issue is delicate because it highlights the economic dependency of one region (Wallonia) on the more prosperous other region (Flanders) (Deleek 1991). In January 1993, the Flemish government assigned a group of scholars to study the financial transfers between Flanders and Wallonia (De Weerd 1994: 235). Philippe Moureaux, the Francophone minister of social affairs, immediately declared that he would not cooperate with this initiative.

When the Verplaetse Committee prepared the Global Pact, it recommended that non-insurance social security arrangements such as health care and family allowances be financed by general taxes and not by labor contributions (report Verplaetse 1993; *FET* 931020). In further negotiations, the Christian trade union, ACV, supported this idea, since an overhaul of the system in this manner might guarantee the future sustainability of, for example, unemployment insurance (ACV Plan 1993). The social security system would then be divided into two pillars, a universal social security benefit paid out of general revenues (the family allowances and health care) and a social insurance benefit to cover income compensation in case of unemployment, disability, or old age.

Our friends at the Christian Mutuality opposed this plan since they argued that financing through general taxation increases the risk of a state take over of the social security system. Our Walloon union members stated that this would be the first step towards decentralization of the family allowances and health care systems to a regional level. They argued that if the government gained control of financing this would increase its political grip on the system and would mean risking a gradual split up of social security among the regions (Peirens 030123).

The final version of the Global Plan did not include this fundamental rewriting of the social insurance system, even though Flemish solidarity had reached its limits, regional parties proposed dividing the system, and ‘going Dutch’ gained increasing support. Any shift from contribution-based financing to general tax financing or from national to regional competences in social insurance met with fierce resistance from the Francophone parties, who believed this would put the entire system’s solidarity at risk. Since Belgian parliamentary decisions require a majority among the various language groups, the broad mandate Dehaene requested (governing by decree to pursue his plans) would not have been granted if it included such measures.

The proposals for reform ‘sank in the federalist quagmire’ (FET 931020) and never made it into the formal plan. A Belgian government consists of an equal number of Walloon and Flemish ministers plus the ‘neutral’ prime minister who assures that the interests of both regions are guarded equally. In addition, legislative decisions that affect the interests and competences of the regions follow a special parliamentary procedure, which allows the Walloon minority in Parliament to veto the reform by using the ‘alarm bell procedure’ (Van de Lanotte 2003). As Vivienne Schmidt notes in her research on political discourse in welfare state reform:

In Belgium, given the increasingly significant linguistic divides on top of the political, social and religious differences, a veritable cacophony of voices in two or three languages was increasingly raised on any and all issues. Most importantly, moreover, those voices were primarily focused on the linguistic divides themselves and on the federalization of Belgium, rather than on the pressing economic issues. The country was, in the words of Michel Albert, attending to ‘linguistic squabbles’ while the ship was sinking (Schmidt 2000: 290).

#### Precluded unity among the unions

The Belgian government did not follow Macchiavelli’s adagium ‘divide and rule.’ They, in fact, adapted the opposite strategy. Division is a fact of life in Belgium, it does not need to be stimulated. Instead, the government had accomplished the draft of the Global Plan, which deprived the unions of a mobilization target. The burden of the cutbacks was across the back of many players. Each proposed cutback did not totally abolish any prior arrangement, instead it always contained partial adjustments. Therefore, the unions ended up disagreeing on potential courses of action.

The reform proposal was technical, complex, and detailed. ‘Dehaene of course never said “Let’s abolish the index”.’ He is not stupid. Then we would have totally destructed the plan with our strikes’ (Wittevrongel 030516). Instead the government presented a revised version of the price indexation system that excluded price increases on excisable goods. ‘The proposals were so detailed because we needed to turn them into executive decisions right away. Besides, difficult negotiations like the ones in 1993 better be detailed and thorough, otherwise you have to start all over again when implementation leads to disagreement’ (Dehaene 031125).

The complexity of the detailed proposals did have a restraining effect on various mobilizations, however. Complex reforms like an increase in the

eligibility qualifying period for unemployment benefits, or the ingeniously trimmed down price-indexation plan made it difficult to arouse strong protests among rank and file. In this way, the reform proposal never offered protesters a unifying issue. In the end, the issues people went on strike for remained unspecific. The general feeling of dissatisfaction and insecurity as a result of the government policies seemed to require a strike as a safety valve (interviews Wittevrongel, Clauwaert, Peirens). The fact that strikes and protests were not mobilized around a single, clear target also made it difficult to bring the various actions to an end. Without a target, success is difficult. Without a specific goal to achieve, it becomes increasingly difficult to justify further strikes.

### Maintaining the political balance

To Dehaene, maintaining the balance between Christian Democratic and Socialist interests was of the utmost importance. Opinion polls in the autumn of 1993 concerning the government's actions with regard to the Global Pact, showed that three out of every four Belgians were hoping the government would collapse. In Wallonia, more than 80% of the people were fed up with the Dehaene government (*Gazet van Antwerpen* 93 1120). The government's plans had a direct negative effect on the average family's income levels with new taxes, an increase in the VAT, fewer wage increases, increased social contribution payments and a decline of purchasing power. Many Belgians considered this to be the limit: 'enough is enough' was a very popular slogan on the many November 1993 demonstration banners.

Dehaene's first cabinet had been formed as a temporary coalition between the Socialists and the Christian Democrats. Both political parties experienced heavy losses in the 1991 elections. Those elections saw the first major victory for the extreme right-wing *Vlaams Blok*, which proclaimed Flemish separatism and openly campaigned against immigration. The Christian Democrats had grudgingly agreed to govern again with the Socialists since both parties wanted to pursue federalization of the Belgian state.

Officially, the cabinet was not expected to last any longer than that... In the meantime we became increasingly aware of the serious budgetary problems and the deteriorating economic situation. The decision to do something about that injected new life into the coalition after the reform of the state institutions (Vandenbroucke 030527).



When Dehaene formed his government in 1992, he insisted that Philippe Moureaux (a heavyweight Walloon Socialist) join his cabinet. 'I knew I needed a strong representative from the PS when Spitaels decided to withdraw to the Walloon regional government' (Dehaene, cited in Dewachter 2001: 214). By the time the Global Plan was negotiated, Moureaux had already left his position as Minister of Social Affairs. Since party leader Busquin was in China during the negotiations of October 2003, Vice Prime Minister Coëme had to defend PS interests in the coalition. According to *Parti Socialiste* headquarters, Coëme was 'not up for the task.... The influence of Jean-Marie Dehousse overshadows him here... Dehousse and the president of the Walloon FGTV [French name for the ABVV] cooperate very closely, and draw one line' (*Knack* 931027). In the same article, a member of Dehousse's staff explains: 'This issue is all about Wallonia, in fact. Governing Wallonia without the PS is out of the question. The PS wants to keep it that way to avoid ending up like the French Socialists. Therefore, the party needs to consider the Walloon FGTV's objections very seriously' (*Knack* 931027). Polls at the time gave the Walloon Socialists only 35% of Wallonia's votes, compared to 44% when they took office (*Knack*, 931103). This meant the party had to remain on good terms with the union.

The CVP was also faced with deteriorating relations with its traditional allies. In September, the farmers turned their backs on the Christian Democrats because of the government's plans concerning the manure issue. The Christian union for the service sector, LBC, had recently abandoned its affiliation with the CVP, and many LBC members favored the Greens instead. If the ACV federation were to follow their largest sector union, the CVP risked losing a large share of its natural constituency (*Knack* 931027).

Dehaene had to bend over backwards to create some consensus. In his introduction of the Global Plan, Dehaene described it as 'the most difficult operation of his political career' (DeWeerd 1993: 252). The political bargains were very difficult. The prime minister would later state: 'In the period after 24 November, I asked myself: 'What am I doing?' But that was the only time in my entire career' (*Knack* 931222). That he described the Global Plan as his most difficult moment is all the more striking because Dehaene had already accomplished the state federalization reforms in early 1993.

In the end, both Christian Democrats and Socialists had little choice. Statistical prognoses signaled a self-reinforcing budgetary deficit for social security, rising to 4% of GDP by 2010 (Verplaetse 1993: 3.2). Interest payments, like the growth of the public deficit, would just increase the debt even more. Besides, 'the pressure on the Belgian franc was enormous. Our interest burden soared. We had to give the currency market a clear signal that we

were seriously going to tackle our problems' (Dehaene 031125). The social security system had become financially unsustainable, and the unemployment rates were unprecedented. The need for reform was by and large indisputable. The reason why nothing drastic occurred can be found in the very small margins, defined by the actors who at the same time were simultaneously opposed to and aligned with each other.

### The monetary touchstone

The EMU provided an external pressure to force back the deficits to a maximum of 3% of GDP in the shortest term possible' (Van Rompuy 030204). Plus the Belgian franc was very unstable at the time, and Belgium risked serious monetary trouble if it didn't improve its domestic budgetary situation soon (*Knack* 931006).

The participation criteria for the European Monetary Union were a very important argument for reform. However, we did not need EMU to know that we had to cut back on expenditures and bring the budget into balance... EMU or no EMU, we had to bring down the public debt (Vandenbroucke 030527).

The government seized the argument wholeheartedly to underline the necessity of a Global Pact. However, the EMU criteria dictated an emphasis on budgetary restrictions and restrictive monetary policy, instead of a dramatic overhaul of the social security system. 'In fact, the Global Plan was defined by the Maastricht challenge' (Dehaene 031125).

The Verplaetse Committee was assigned to study the socioeconomic situation and prepare a report that could serve as the basis for a Global Pact. 'Although Belgium proudly managed to reduce its annual deficit by a mere 7%, our new assignment in the early 1990s was to reduce it by another 3%. The big question was how to do this in a socially acceptable way' (Verplaetse 030115). In the end, the EMU criteria were met with the annual budget deficit being reduced from 7.2% of GDP in 1993, to 1.9% of GDP in 1997. The ratio of the overall government debt that had to be reduced to around 60% of GDP remained large, but declined steadily. The total public debt was 135% in 1993, and decreased to 121.92% in 1997 (Verplaetse 2000: 16). Despite its large public debt, Belgium was accepted as one of the 11 EMU member states, which eventually adopted the euros.

To this end, the committee was comprised of financial and economics experts.<sup>14</sup> Its chairman was the governor of the Belgian Central Bank. Its mis-

sion was to make the social security system financially sustainable, to find revenues that would not burden the cost of labor.

We did not pay attention to issues such as benefit entitlement in the Committee. We focused on the financing of the social security, the improvement of Belgium's competitive position and the budgetary restraints necessary to qualify for the Maastricht criteria. We managed to do that, but *au fond*, the system has not changed fundamentally (Van Rompuy 030204).

Despite the crisis rhetoric and the suggested urgency of fundamental change in the social security system, the committee charged with drafting the Global Pact focused on restrictive fiscal policy arrangements. The committee recommended precise fiscal measures, such as an increase in the value added tax, real estate taxes, and on capital investment profits. When it came to the foundations of the social security arrangements, recommendations remained unspecific and prudent, such as 'it is advisable to re-examine the statutes of social security to see if it is possible to define more clear-cut arrangements that are congruent to the contemporary labor market situation' (Report Verplaetse Committee 1993: 41). The committee apparently did not wish to burn its fingers on delicate issues such as structural social policy retrenchment or drastic change. After all, it would primarily be judged on its results in terms of immediate budgetary improvements, since the European Commission was waiting to check the books.

The concrete solutions proposed by the Verplaetse Committee focused on budgetary restrictions. Dehaene officially received the recommendations on 20 October, and presented his own reform proposal the next day. Time to elaborate on the prudent and vague advice concerning more structural social security reforms was clearly lacking, and Dehaene's proposal reflected this. The concrete recommendations that were directly adopted into the reform proposal had already infuriated the unions, which immediately ruled out a consensus on even more drastic interventions.

#### Long-lived problems and short-term possibilities

The cutbacks on social security had to total 76 billion Belgian francs by 1996 (FET 931118) if Belgium was to meet the Maastricht convergence criteria by 1997.<sup>15</sup> Dehaene, supported by the Verplaetse Committee, managed to find room for such cutbacks within the existing social security arrangements. In addition, the austerity policy imposed extra taxes and

levies on income, excisable goods, and profits. The cutbacks and extra revenues did not provide the required budgetary room to meet the convergence criteria all at once, so the Belgian government decided to make up the difference with capital gains from the privatization of public enterprises and gold sales by the Belgian National Bank (Verplaetse 2000). The extra money that the Belgian government managed to squeeze out of these measures disappeared into the black hole of the national public debt.

If Dehaene had chosen to abolish some of the institutionalized structures, such as the benefits administration by the unions or the wide variety of unemployment categories, costs would have soared in the short run. A re-organization of the administrative structure would have been a massive operation, because almost a million unemployment insurance files were being administered by the unions annually. Assigning or creating a government organization to do the job instead would take too long and involve high investments and considerable uncertainty (as the Netherlands later experienced when their social insurance administration was reformed in the mid-1990s). The Belgian government had already spent almost 10 billion francs (almost 248 million euros) annually on administering unemployment benefits (RVA Year Report 1993: 6.40). This figure would have certainly run into double digits as policy routines were transferred to new administrative structures – whether as a consequence of policy changes or as a specific goal. The Belgian government simply could not afford these extra costs in the early 1990s.

These obstacles were incorporated into the reform proposal. Social policy making, a domain controlled by a small number of actors, involves more than making political decisions on social legislation. It is a continuous balancing act, which requires a specific background and expertise to have access to invaluable information. It involves country-wide disputes, corporatist commitments, and informal contacts. The right allies at the right moment seem essential, just as the right enemy can be helpful to make the step to a consensus in the coalition smaller. Institutionalized access to resources and venues both forced and allowed Dehaene to sail between the Scylla of a rift between coalition partners, ideological alliances, or federalized regions, and the Charybdis of social security and state bankruptcy.

## 5.5 Conclusion

Why didn't the Belgian social security crisis induce drastic policy changes and institutional reform? How did the crisis narrative serve to facilitate

reform attempts by the Dehaene government and what factors are involved in the ongoing influence of institutional reproduction?

### The crisis narrative

The crisis narrative appealed to the norms of solidarity that lay at the root of the Belgian welfare state. In 1993, Dehaene called for the same solidarity that committed societal actors to cooperating in the face of economic distress in 1944. Crisis creation was therefore not directed at interrupting institutional reproduction or disabling key actors who opposed change: 1) The government did not blame the social partners in order to bypass them. Instead they were invited to help hammer out a pact, which emphasized the importance of continued corporatist governance over social security. Their exclusive access to policy-making venues was left fully intact. Only after the Global Pact negotiations failed did Dehaene turn to the 'obstruction' of the social partners to obtain a parliamentary mandate. As soon as the social partners called off further actions, they were invited back to the negotiation table; 2) the cabinet decided to govern by decree through emergency mandates instead of finally replacing the complex web of Royal Decrees by proper and simplified legislation; 3) the basic distribution of benefits and the administration of social insurance policy remained beyond discussion.

The crisis narrative pointed mostly to the consequences of recession such as skyrocketing unemployment, declining industries, and negative economic growth. Only two features of the social security system were identified as primary causes of economic misery. One of these was the way social security represented a heavy burden on labor costs, which left Belgium at a competitive disadvantage with its neighbors. Thus, the proposal was aimed at shifting the burden from social security premiums on wages to indirect taxes such as excise taxes. The second contradiction concerned the insurance character of the system. The social security system covered all kinds of arrangements that were to be paid out of general revenues and not workers' insurance dues, such as child allowances. Other indications of contradictions inherent to the system were not pinpointed as causes of the crisis, such as the fact that for an insurance scheme, it was costly and yet ended up delivering very little, meanwhile, seen as an instrument for controlling the labor market, the system in general only generated inactivity.

In the wake of the crisis, Dehaene did manage to create one powerful venue to pursue drastic change: the emergency mandates. Yet in practice, the mandates were used to push a package of incremental adjustments. Not

only was the outcome of the reform process cautiously formulated, but so was the government's opening proposal, which suggests a variety of minor adaptations rather than an overhaul of the social security system. The first proposal suggested splitting up the social security system into two parts: insurance and welfare.<sup>16</sup> This could have been a non-incremental reform, but it did not survive the process. The outcome of the Global Pact contained only a modest change (even if it was on all fronts), and the proposal to split the social security into various parts was postponed indefinitely.

### Resistance to change

In the absence of a crisis narrative that discredited their influence, the opponents of change had many opportunities to block undesirable changes in the system. Resistance to change primarily came from the trade unions and from the political parties in Parliament. The union federations proved capable of mobilizing resistance, sometimes the grassroots did not even need to be prodded, initiating wildcat actions of their own accord. The federations managed to organize mass demonstrations and mobilized a large share of their 2.7 million members – more than 60% of the total Belgian labor force (OECD 1994: 10). They used their resources such as information and exclusive representation to present their own proposals for reform and to campaign behind the scenes. Nevertheless, when the government presented its plans, it provoked the first general nationwide strike since 1936, which practically shut down the country for a day. However, according to respondents interviewed during this research, the strikes were largely ineffective and the proposals changed very little as a consequence of the protests (see interviews: Peirens, Verboven, and Clauwaert). It remains unclear what specific influence the union actions had on the government's plans, but the government remained persistent and pressed on with its reform plans.

The political parties regularly pressured their representatives in the government to make sure not to upset their constituencies. Any decision that might lead to a disadvantage for Wallonia, such as splitting up the social security system, remained taboo. The Walloon Socialist ministers in the government had little leeway during the negotiations with other cabinet members because their party leadership kept them under a tight reign. The opposition parties in Parliament had fierce clashes with the cabinet regarding its plans, but coalition supporters eventually outnumbered opponents. The Socialist leadership considered the Liberals' campaign a blessing since it strengthened support for the coalition among the Socialist members of Parliament – it was made very clear that a Liberal government was a bad alter-

native. They were forced to agree with some plans they had their doubts about, such as adjustment to the indexation mechanism.

The unions showed their teeth, the political parties pulled their strings, but their ability to have an effect on the reform process was limited. There was little alternative to cutbacks that appeared to be a prerequisite for the financial survival of the social security system. A coalition rift would give the Liberals a chance to pursue an economic austerity program ten times worse than the one being pursued with the Global Plan. The Global Plan after all remained within the parameters of the existing system as a consequence of the strategies and opportunities of the change-oriented actors, i.e., Dehaene and his cabinet.

### Reform strategy

What must we consider to understand Dehaene's incremental approach and the rejection of more drastic reform plans? First, the cabinet had established EMU entry as its first priority for the remainder of their term. The EMU criteria required a sound budget but even without this requirement, Belgian politicians were well aware of their country's monetary and budgetary situation and the austere measures it needed. All of the financial and economic experts pointed to the necessity of instant cutbacks, extra taxes, and wage restrictions. Dehaene and his cabinet drafted a reform plan that was dictated by EMU criteria and by the Belgian National Bank's need to save the Belgian currency. The generation of the necessary revenue to tackle a large-scale restructuring or systemic innovation was not an option at the time.

Second, because of veto points in the parliamentary decision-making process, the proposal could not deal with the 'federal issue.' The government had to shun delicate subjects in its plans, such as advantages for Flanders at the perceived expense of the Walloon economy. Any change in the system that resulted in a disadvantage for any one region had no chance of passing, even if the entire country as a whole stood to benefit. Not only did the desire to maintain the coalition limit the power of political parties to exercise their influence on the government, it also limited the government's ability to draft its plans, which were based on a carefully negotiated compromise. Dehaene could not push his cabinet members too far.

Third, a complex and detailed reform proposal had more chance of surviving than a bold statement. Carefully formulated suggestions and ingeniously dispersed cutbacks deprived the unions of a clear target for their actions. The detailed proposal prevented the unions from being able to exploit their resources to the fullest, while leaving their position as experts on the increasingly complex system intact.

To summarize, the crisis narrative did not successfully point to contradictions in the system and it did not discredit the opponents of change. The imminent and later manifest power of the unions, the threat of a coalition rift and the tight coupling of the social security problems with delicate political issues of federalization forced the Belgian government to stick to the status quo as much as the EMU criteria allowed them to. Because the Maastricht convergence criteria dictated monetary and budgetary viability rather than structural change, the crisis of 1993 resulted in an austerity program, not in a new 'social pact.' The Global Plan did not affect the mechanisms of reproduction that caused the contradictions in the Belgian social security system. Many of the contradictions analyzed for 1993, remain much the same as the ones that continue to afflict the Belgian welfare state to this day.



## 6 The Sticky State and the Dutch Disease

### 6.1 Introduction

Within a few decades, the Netherlands had transformed itself from one of the smallest European welfare states to one of the largest (Cox 1993: 3-4). The crown on this welfare state consisted of a social security system that guaranteed all citizens a minimum income if they were unable to work. The single largest jewel on this crown was the 1976 law governing disability insurance (Visser and Hemerijck 1997: 126; Andeweg and Irwin 2002). The disability insurance scheme, called WAO (*Wet op de Arbeidsongeschiktheidsverzekering*), ensured income-related benefits to every employee unable to work due to sickness or impairment. The universal character of the disability insurance was unique in the Western world and neighboring countries praised its progressive and bold legislative design (Noordam 2001). However, the very elements that made the Dutch welfare state unique were almost abolished in the early 1990s.

Policy termination rarely occurs and is difficult to achieve. Policies are designed to last a long time. They include concessions on other fronts as well as investments in institutionalization. Termination involves brutal conflicts. Not all policymakers have the stomach to fight often powerful anti-reform coalitions (Bardach 1976). This was especially the case for policies that granted benefits that almost 10% of voters were directly dependent on. Green-Pedersen (2002) claimed that disability benefit programs were more difficult to retrench than benefits for the unemployed, for whom it can be said have some agency in their situations. The disabled, on the other hand, do not have a hand in their fate, which makes cut backs in this area very difficult and unpopular. And yet, in April 1991, the Dutch minister of social affairs proposed exactly this, the abolition of the very popular disability insurance program. This strategy would have meant a major overhaul of the disability insurance plan, mass public protests, unprecedented media attention for social policy and an electoral disaster in the next election. Although

the policy as a whole was not scrapped, major retrenchments that no one could have anticipated did eventually happen (Green-Pedersen 2002).

This case study tries to grapple with the question of why the Dutch government engaged in enforcing drastic changes and how it succeeded in making cut backs in such a popular program. As in Belgium, the problem pressure on the system increased in the Netherlands in the early 1990s. However, unlike Belgium, this problem pressure was followed by large-scale reform. Institutional structures that inhibited change in Belgium, were swept aside in the Netherlands. Accumulating contradictions in the system were strategically identified as crisis indicators. Crisis construction proved a successful tool for change-oriented policymakers, who managed to convince Parliament that nothing could cure the problem other than drastic retrenchment.

This chapter will be devoted to highlighting the institutional embedding of the Dutch disability insurance program. It quickly became clear in the early years after the institution of the disability insurance program that many more people were claiming disability benefits than policymakers had ever imagined. It would take more than 20 years to enact any significant changes. In the meantime, incremental measures had to curb the explosive rise of insurance expenditures. Path-dependency will be analyzed insofar as measures that confront undesirable outcomes actually reproduce the existing institutional fabric of the sector during the 1980s. Did the policy's design inhibit change? Does this explain the accumulation of contradictions in the policy system? First, we must turn to the macro-economic challenges the Netherlands faced in the early 1990s, to establish whether problem pressure was indeed mounting. The international context affected both Belgium and the Netherlands similarly, but not identically. An analysis of the context serves to explore whether the crisis on disability policy was a storm in a teacup or the epitome of a welfare state in distress. Section three and four provide a brief description of the Dutch institutional landscape in which social policy is embedded. The specific problems of the disability insurance system will be discussed in section five. Section six offers an analysis of how these problems came about and how institutional reproduction reinforced contradictions in the system over time. The following chapter investigates the Dutch reform process that followed the crisis.

## 6.2 Post-Industrial Challenges to the Dutch Economy and Its Society

When the recession hit Europe in the late 1970s, conditions of full employment were no longer being met. Both demographic developments such as the maturation of the baby boom generation, and societal developments such as female emancipation, produced a labor supply that could not be absorbed by the labor market. The labor market population increased from 4.8 million people in 1970 to 6.2 million in 1988 (SCP 1990: 121), many of whom did not find work. More and more people claimed their social benefits based on their unemployed or disabled status. The transfer-oriented welfare states of the European continent had always revolved around income replacement and targeted male breadwinners in order to preserve traditional family patterns (Esping-Andersen 1999). Active labor market policies did not exist. Benefit dependency and social security expenditure soared during the recession years. In the Netherlands, the number of working age beneficiaries per 100 workers rose to 51. More than a quarter of the GDP was spent on benefits (including old age), and as a result, the average tax wedge between gross labor costs and net pay was about 40% (De Jong 1999). The Netherlands exemplified Europe's main illness: high structural unemployment, and slow productivity and employment growth rates in private services (Hemerijck and Visser 1999).

The large budget deficits of the Dutch government and the expansion of the welfare state were financed by the export of one of its natural resources, gasoline. Since the price of gas was linked to the price of oil, government revenues rose exponentially after the first oil crisis (Vermeulen 1992: 67). This allowed it to maintain its hard currency policies despite deficits in government spending. However, the expensive Dutch guilder hampered the export of industrial goods (Delsen 2000). Most of the extra revenues were spent on purely 'consumptive' outlays, such as subsidies and income transfers, instead of structural investments. In the mean time, the automatic coupling of prices and wages included the increased costs of oil and gas, which further increased wages and made employment very expensive. Companies were already facing higher costs for fuel, and were also threatened in their struggle to survive with increasing labor costs along with problems that came with an economic downturn (Vermeulen 1992: 65-67). Between 1975 and 1985, unemployment figures tripled. Paid employment stagnated at 4.8 million jobs in the mid-1980s, whereas 649,000 people (13%) were unemployed (Visser and Hemerijck 1997: 129). The negative spiral of hard currency, slackening industrial growth, and rising unemployment became known as 'the Dutch disease.'

Gas exports did not cover all of the increasing expenses of the Dutch welfare state. The government was forced to borrow money to balance its annual budget and for long-term investments. Social policy expenditures structurally outweighed revenues. The public debt rose to unprecedented levels, from somewhat under 150 billion guilders (68 billion euros) in 1982 to 339 billion guilders (approximately 154 billion euros) in 1991. In roughly the same period, 'interest payments on debt rose from about 2% to almost 6% of GNP, a figure considerably higher than the average of the five larger EU countries' (Andeweg and Irwin 2002: 189).

Because the level of the benefits was linked to wage increases, each wage increase in collectively negotiated agreements automatically drove up government expenditures. At first, all efforts were focused on restricting wages and decreasing benefit levels. By the end of the 1980s, the government had to conclude however, that it had reached the limits of what wage and price controls could do. Policy needed to focus on reducing beneficiary volumes (SCP 1990: 118). It was not only benefit dependency that was problematically high. Inactivity made Dutch society vulnerable to economic downturns and the upcoming problems of demographic aging. A small portion of the employed would bear the burden of an expanding welfare state, including social security for a growing elderly population.

Before we probe deeper into the Dutch government's policy reactions to the adversities, a short introduction of Dutch politics and policy making will be presented here. This also serves as an outline for the basic institutional structures of the social policy sector.

### 6.3 Politics in the Netherlands

'Dutch politics used to be so reliably dull...' the *Economist* lamented, just as the Netherlands was witnessing the resignation of its government, the rise of new right-wing political parties, and the conflicts between leaders in the traditional parties (*Economist* 020504). In the week after its publication, the *Economist* also reported on the first political assassination since the seventeenth century in the Netherlands (*Economist* 020511). But before that fateful day, Dutch politics could indeed be described as very stable. Though it used to be a federal republic, based on consensus, cooperation and decentralization between the seven united provinces, the Netherlands has been a constitutional monarchy since Napoleon left the Lowlands. The consensus-seeking attitude that served as a basis for cooperation in the old republic, seems to be built into the fabric of the Dutch government (*Econo-*

*mist* 020504). The head of state is Queen Beatrix, who assumes various political duties. She represents the nation abroad, signs laws (with a countersignature by the prime minister, who is politically responsible), and nominates the *informateur* and *formateur* of coalition government building after a national election (Neelen et al. 1999). The head of the government is the prime minister, who, along with his coalition cabinet report to the democratically elected Parliament.

The Dutch have always had a multi-party system because of the ‘pillarization’ of their society, which basically meant that society used to be segmented along ideological differences (Lijphart 1968). The oldest major political parties long represented tightly organized social groups or subcultures (pillars) that structured not just national politics, but nearly every aspect of social life. The pillars were not ordered along a single ideological dimension, however because religion and social class both played a role. Pillarization has weakened since the 1970s, but continues to play a role as political parties and societal institutions maintain formal and informal relations based on their common ideological perspective (Keman 1996: 212). The main parties since 1980 are the Christian Democrat CDA, the Social Democrats PvdA, and the conservative liberal VVD.

Additionally, the small<sup>1</sup> conservative parties SGP, GPV and RPF represent religious minorities within the *Gereformeerde* and the Dutch Reformed pillar. The small progressive CPN, PSP and PPR were not based on religious denomination, but partly on social class (CPN is the communist party) and on progressive political ideas regarding environmental protection, women’s emancipation, anti-proliferation, etc. They later merged into *Groen Links* (or Green Left). On the far left, we find the Socialist party SP. In 1966, the political party D66 was founded, as a ‘progressive liberal’ party with a middle-class, left-wing constituency. It strives for the institutionalization of democratic values in governance, such as the introduction of a popular referendum.

Since the Dutch political system is a system of proportionality, it is possible to have many, smaller parties represented in Parliament. The seats in both Houses of Parliament, as well as in provincial and municipal countries, are distributed in proportion to a party’s share of the votes. The portfolios in the cabinet and provincial and municipal governing bodies are also distributed in this manner among the parties in the ruling coalition. The Dutch political system is often described as a very stable system, although it is very segmented. Lijphart (1975) explains this by referring to ‘the politics of accommodation’ at an elite level. Very segmented societies are governed by consensus between the elites of each ideological segment, or ‘pillar.’ Instead

Table 6.1 Political Parties and % of Votes at Parliamentary Elections (on a Left-Right Scale)

	Green Left	PvdA	D66	CDA	VVD	SGP RPF GPV	Other	Coalition after elections
1986	3.1	33.3	6.3	34.6	17.4	3.6	1.6	CDA/VVD
1989	4.5	31.9	7.9	35.3	14.6	4.1	2.1	CDA/PvdA
1994	3.5	24	15.6	22.4	19.9	4.8	8.8	PvdA/D66/VVD

Source: Keman, 1996: 219

of competition, the Dutch political elite have a tradition of cooperation, based on principles such as executive power sharing or a grand coalition and a high degree of autonomy for each of the segments (Lijphart 1977; Andeweg and Irwin 2002). Lijphart's theory of 'consociational' democracies has been challenged particularly when 'accommodationist' practices continued, despite the crumbling pillars. In this study, Lijphart's theory is only presented to briefly point out some characteristics of Dutch politics, however, without considering it as the only possible interpretation.

Because of the system of proportionality, political parties never have a majority in Parliament unless they form a coalition. They usually form a coalition with two or more other parties.

There used to be a tradition of dualism between the cabinet and Parliament. Ministers were not members of Parliament, because Ministers had a special mandate with the country and not their party, and in general there are no close daily contacts between ministers and party representatives in Parliament (Daalder and Irwin 1989). Executive-legislative relations have become more 'monistic' since the 1960s, however. Because the decision-making process in the cabinet has become increasingly more political rather than functional in recent years, 'today's ministers wear two hats and this does complicate decision-making from time to time' (Andeweg and Irwin 2002: 119). Dutch cabinets are now 'both a board of departmental ministers and a coalition of political parties' (Andeweg and Irwin 2002: 120).

Party discipline has increased in Parliament as well. The Proceedings of the Second Chamber typically record the party votes rather than the individual votes in Parliament. The government can usually count on its 'own' parties, which is a majority by definition. The opposition is powerless unless a wedge can be driven between the coalition parties (Andeweg and Irwin 2002). The Cabinet is legally structured as a collective entity; members of the cabinet 'sink or swim together,' bound by the doctrine of collective responsibility.

Even though they may debate issues vigorously in cabinet meetings, once a cabinet decision is taken, it becomes cabinet policy. Every cabinet member is then bound not only by it, but also to defend it in public, even if he or she had violently opposed it in private. If a minister cannot abide by a cabinet decision this way, then he or she must resign or face dismissal (Gallagher, Laver and Mair 1992: 27).

The coalition program largely determines most of the cabinet's decisions. In order to form a coalition after the elections, the participants must come to a government agreement. This entails broad policy guidelines and more detailed compromises on controversial issues. The government agreement has become steadily more important since the 1960s.

The Netherlands has a bicameral Parliament. The First Chamber, or Senate, has to approve a proposal after a majority in the Second Chamber has supported it. It seldom rejects a proposal that has already been approved by the Second Chamber. It does not have the power to initiate or amend legislative proposals. It is primarily a chamber of revision. The Senate can informally threaten to reject a proposal however, and by doing so, force the Second Chamber to make suggested amendments beforehand (Neelen et al. 1999). Officially, the Senate has to swallow its critique or reject the proposed bill entirely. Because the Senate cannot make amendments, there are no differences between bills that pass the Second Chamber and bills adopted in the First Chamber (Andeweg and Irwin 2002).

Both the Second Chamber of Parliament and the government can introduce legislative proposals. In practice, most bills originate in the cabinet. Members of Parliament can amend the proposal during the readings. Amendments introduced are adopted or rejected by simple majority votes. When the Second Chamber approves an entire proposal in the final vote, it is referred to the Senate for approval. Once adopted, both the responsible minister and the queen sign the bill (Andeweg and Irwin 2002).

An important part of the policymaking process in the Netherlands is characterized by the interplay between the government and the social partners. Since this relationship is based on exchange (influence for support) and has a cooperative character, Dutch governance could be called 'corporatist' (Andeweg and Irwin 2002; Siaroff 1999). The next section explains how the relationship between the state and representatives of labor and capital is organized and what position the social partners take towards each other.

#### 6.4 The 'Polder Model': Industrial Relations and Socio-Economic Policy Making

Who would have dreamed in the early 1990s of all the praise that the Dutch would receive in the latter years of the 1990s, when both the German and British prime ministers spoke admiringly of the 'Dutch miracle'? (Hendriks and Toonen 2001). Suddenly, the Dutch 'polder model' of industrial relations became an example of cooperation and harmony that proved to be very effective in curing economic misery and producing jobs (Visser and Hemerijck 1997). The contrast with the situation five years earlier could not have been any more dramatic. The same institutions being praised in 1997, were considered inert and dysfunctional in the period of our study. This section will discuss these institutions and how they became major players in the field of social security policy making.

The influence of the social partners came at a price: the Dutch have a long history of statutory wage control. Immediately after the Second World War, the Dutch government pressed for extensive central control over wages and price increases to help the gravely damaged national economy on the road to recovery. Employers and trade unions agreed that reconstruction was the first priority. The Dutch government pursued wage restrictions to stimulate the postwar economy, and create a competitive advantage over other European countries. Until the 1960s, it could count on the compliance of the social partners. Leaders of the trade unions and employers' organizations could rely on an acquiescent rank and file, which made these agreements very effective. As part of the bargain, the employers and the unions could exert their influence on macroeconomic policies through institutions such as the SER and the Star. In the meantime, the government created a system of social security policies that eventually formed one of the most comprehensive welfare states on the European continent (Van Ruijsseveldt and Visser 1996). In spite of low union density and the absence of the Social Democratic party in many postwar governments (Visser 1992), the Dutch welfare state continued to expand. This expansion was granted by the Dutch state in return for the compression of wages.

The imposed wage restrictions would continue until the mid-1960s. The tight labor market made the recruitment of personnel in combination with wage compression difficult. Employers increasingly tried to circumvent the wage limits by including bonuses and premiums as part of one's wages to create some semblance of informal wage differentiation. The government noticed how insufficient discipline and compliance rendered the national wage determination system ineffective. In 1970, the Wage Bargaining Act was implemented, which approved free collective bargaining between employers and union representatives (Van Ruijsseveldt and Visser 1996).



## Institutionalized Negotiation in the Netherlands

The Netherlands has a tradition of institutionalized forms of negotiation between employers and employees organizations, the so-called 'social partners.' Negotiation takes place at various levels. At the national level, the tripartite Social Economic Council (SER) is consulted by the government on general socioeconomic issues. The SER is composed of one-third union representatives, one-third employers representatives, and one third independent 'crown-appointed members,' (often academic) experts appointed by the government. The bipartite (social partners only) Foundation of Labor (Star) takes care of multi-industry bargaining at the central level, and also advises the government on socioeconomic policy. Both institutions were created soon after the Second World War to facilitate and stimulate postwar reconstruction of the Dutch economy (Hemerijck, 1994). The law stipulates that the incumbent government has to consult the SER on every important socioeconomic policy change. In addition, the socioeconomic council advises the government on its own initiative regarding policy topics. The council also annually presents macro-economic advice to the incumbent. In the Star, social partners strive to conclude a 'Central Accord' that serves as a framework for collective agreements at the sector level for the next year. The members of the Star meet twice annually with the cabinet to discuss the terms of employment for the coming year. When the Star advises the government on a policy issue, the SER is often consulted on the Star's advice. When the SER gives its advice, the cabinet decides and again consults the social partners involved in the administration and represented on the Social Insurance Council. "I admire the will- ingness and persistence of those representatives who have to discuss the same matter for the sixth time in yet another bipartite advisory body" said Wöltgens, the Social Democrat party leader at the time (Smit, 1992: 21).

When the SER was established, unions and employers were expected to organize tripartite consultation and representation units for each sector, the so-called industry boards. These boards flourished only in some sectors, such as food, retail, and agriculture. Industry boards are the venues through which collective labor agreements for sectors are negotiated. In other sectors, sector representatives of the trade unions and employers' organizations convene annually to bargain on the sector's wages and working conditions. This results in collective labor agreements (CAO) per sector, which the minister of social affairs and employment can make mandatory ('binding') for all people working in that sector. Unions negotiate these collective agreements with employers' organizations. The 1937 Law on Extension and Nullification of CAOs stipulates that the minister can also declare an agreement legally binding for non-organized employers and non-affiliated workers, if the agreement already covers a 'substantial majority' of the employees in that sector (Visser & Hemerijck, 1997: 89).

Unions are grouped into federations. Each federation has no exclusive jurisdiction over specific sectors, topics or collective agreements and therefore they have to cooperate at the bargaining table. Trade unions represent the interests of employees in an industrial sector. Some sector unions merged to create a multi-sector representative, such as the union for industry, metal, trade, and agriculture (FNV bondgenoten), which negotiates more than 800 different collective agreements. Other trade unions focus on a single sector or profession, such as the hairdressers, union and the union for journalists.

Employers must apply collective agreements to all employees equally, which includes members of unions who did not participate in the bargaining and non-affiliated workers. Unions that reject a negotiated agreement run the risk of being excluded – when the other unions involved in the negotiation sign the collective agreement, it applies to all. However, unions that do not sign an agreement are also not bound by the no-strike clause that is normally included in legally binding collective agreements. Employers thus have a strong incentive to involve all of the unions in the agreement (Visser & Hemerijck, 1997). Exclusion of a union does not happen often, but often enough to pose a realistic threat to both employers and unions who all seek to avoid this situation. This practice has a moderating effect on demands from both sides in the collective bargaining process (Rojer, 1996).

The first time they met under this new wage bargaining act, trade unions and employers came to an agreement on wage issues. The government had to impose a wage freeze no less than seven times during the 1970s. All of the parties agreed that change was necessary, but they disagreed on the nature of those changes. Between 1972 and 1982, the social partners never managed to reach unanimity on the annual macro-economic policy advice offered by the Social Economic Council (Hemerijck and Van den Toren 1995: 192). Alarmed by soaring unemployment figures and threatened by the imposition of wage restrictions by the new Lubbers government, the labor unions agreed on voluntary wage moderation by signing the Wassenaar Accord in 1982. In exchange, the employers, who also signed the accord, relented on the issue of reduced working hours. This agreement would form the basis of a restrictive wage policy that was later seen as one of the distinctive features of the celebrated ‘polder model’ (Visser and Hemerijck 1997).

In the 1980s, the corporatist institutions were increasingly criticized and held accountable for the dramatic employment losses. They were accused of having a paralyzing effect on economic development (Therborn 1986). The bipartite and tripartite institutions were accused of being insufficiently capable of realizing the compliance necessary to support government decisions to cope with the economic recession (Delsen 2001). Procedures to consult the social partners were time consuming and – in the eyes of many – becoming increasingly obsolete. Consultation procedures that involved the social economic council were in fact used as a means of delaying decision making on social policy dilemmas (Klamer 1990). The prime minister at the time, Ruud Lubbers, believed that ‘[t]he Social Economic Council is like a buffer that slows down everything, and it produces many nuances but not the discernment necessary for real change’ (cited in Klamer 1990: 146). In the onset of the 1990s, there was no sign of the later celebration of concertation.

#### Union and employer’s federations

Like the structure of the Dutch political system, the industrial organizations were also affected by the divides in society between Socialists and religious groups and between Protestants and Catholics. In 1981, the Catholic union and several Socialist unions merged to become one Social Democratic trade union federation, the FNV. The protestant union became an all-Christian organization, the Christian Union Federation CNV, after some non-affiliated Catholic unions joined them. Clerical and managerial employees organized themselves separately, as the federation for white-collar staff MHP.

Table 6.2 Unionization

	1950-63	1964-73	1974-79	1980-84	1985-89
Union density (avg./period)	39.1	36.8	34.4	28.0	23.5
Strikes (avg. no./yr.)	68	42	36	13	35
Strike involvement (annual avg. no. of employment days lost per 10,000 workers)	298	317	227	196	91

Source: Visser, 1992, p. 335

The FNV is by far the largest union, representing about 60% of total union membership, whereas the CNV represents 20% and the MHP seven or 8% (Visser 1992: 328). In the period of our study (early 1990s), the FNV represented slightly more than a million members, the CNV 0.3 million and the MHP 0.12 (Ebbinghaus and Visser 2000). All are recognized as representative unions, which means that they participate in the Social Economic Council and the Foundation of Labor. The unions do not have formal ties with political parties, though the principles of the FNV are closer to the Social Democratic ideology of the PvdA, and the CNV's principles naturally come closer to those of the Christian Democratic CDA. Both attract blue-collar as well as white-collar workers, although the CNV has relatively more white-collar members (Andeweg and Irwin 2002).

Union density is rather low in the Netherlands compared to other European countries, but this should not imply a lack of support for unions in Dutch society. Most employees have a positive opinion of the unions as the representative of their interests. Almost three-quarters of the Dutch unaffiliated employees see unions as a collective good for which they are not obliged to pay. After all, collective agreements are generally extended to cover an entire industry (Van Ruyseveldt and Visser 1996: 230). Freeloader behavior allows Dutch employees to benefit from union negotiations without becoming union members. The institutionalization of the advisory and bargaining tasks increased union security and gave them a prominent place in social economic decision-making structures (Visser 1992).

The employers' representatives are less fragmented (than the trade unions), and well-organized. Almost every medium-sized or large firm (30 or more employees) is affiliated. The employers' representative VNO-NCW is the largest organization to represent industry.<sup>2</sup> It also represents trade interests abroad and is a member of the European employers' organization UNICE (Visser 1997). Together with the representative for small and medium-sized

enterprises MKB, the VNO-NCW participates in both the Social Economic Council and the Foundation of Labor (Van Ruysseveldt and Visser 1996). Multinationals such as Philips and Ahold negotiate their own in-company labor agreements with the trade union representatives, and also lobby the government directly. Since 1973, VNO-NCW has a resistance fund to reimburse firms that become the target of strikes. This enhanced the organizational cohesion of the employers' federation (Van Ruysseveldt and Visser 1996).

Dutch employers seem to have a strong preference for sector bargaining, or rather, they have been eager to keep union presence and activity out of their firms. The large firms that chose to negotiate their own collective agreements do so at their headquarters, since 'management is keen on avoiding competition and union presence in their plants' (Visser and Hemerijck 1997: 89). More than 85% of all employees are covered by a collective labor agreement (Van den Toren 1996: 60).

The employers are obliged to pay the trade unions a small sum of money for every employee they employ. The so-called *vakbondstientje* ('union tenner,' roughly 13 euros) serves as a contribution for all those unaffiliated employees still represented in negotiations by the unions. The unions also do the work for them since the collective agreements they negotiate cover both affiliated members and other employees. This payment obviates the freeloader effect that flows from the fact that collective agreements apply to all workers. The employers' contributions cannot be used against them as unions are not allowed to divert that money to strike funds (Delsen 2000: 13).

Dutch unions and employers' organizations seem to display an extraordinarily close relationship, further enhanced because cooperation between the social partners and the government was celebrated so cheerfully in the mid-1990s. The consensus that drove the social partners to sign the Wassenaar accord of wage moderation in 1982 was not the product of perfect harmony, however. It was a pragmatic decision to agree on what would be worse: government imposition of a wage freeze or voluntary wage moderation (Hemerijck 1994). The period immediately following would witness a continuous polarization between employers and unions. Their incorporation into bi- and tripartite policy-making institutions led to protracted stalemates on policy change, since both sides could use their veto to block unwanted developments (Andeweg and Irwin 2002). Though the effects of wage moderation and government austerity policy became positively clear in the long run, in the beginning it increased animosity among the key actors in socioeconomic policy making. Instead of a 'model,' Dutch policy making

has long been described as sticky, suffering greatly from ‘its own complex structure of decision making that tied everything in with everything else’ (Hendriks and Toonen 2001: 7). It was the sticky state rather than the model nation that was confronted with its self-created, ever-increasing disability problem that threatened to bring down the sustainability of the entire social security system in the early 1990s.

## 6.5 The Runaway Social Security System

### Evolution of social arrangements

Rooted in the mutual insurance schemes created by medieval guilds, social arrangements for income compensation in case of injury, disease, or death go a long way back (Veraghtert and Van Widdershoven 2002). By the end of the 19th century, the first law on poverty relief was enacted, and legislation inspired by German Chancellor Bismarck would soon follow. In order to meet the demand for relieving worker’s miseries and suppressing possible labor protests, Bismarck pursued a legislation package on social security to insure the working population against occupational risks. In this social insurance legislation, employers and employees paid the insurance premiums together, and the insurance covers essentially all work-income-related risks. Similar to private insurance schemes, these social security arrangements were characterized by a direct relation between premiums, total contributions, risks and benefit levels. The first formal occupational insurance system in the Netherlands was the Work Injury Act of 1901, followed by the Disability Act (1919), and finally, after 25 years of parliamentary squabbling, Sick Pay (1930) (Goudswaard, De Kam and Sterks 2000).

Like their colleagues in neighboring European countries, informal representatives of Dutch politics, labor, and capital met during the Second World War to design the first blueprints of the postwar society. After the war, a blue ribbon committee was assigned to draft the new social legislation. The ideas of the British economist Beveridge (1942), inspired the committee members to introduce social arrangements based on the ‘solidarity principle.’ This meant that the benefit level was equal for each beneficiary, but the premiums varied with relation to income. The government collected premiums through taxation and paid benefits to each citizen in need. These insurance plans covered the entire population and not just workers. Based on these principles, the general insurance plan for the elderly (a universal pension for each Dutch citizen over 65), the survivors pension, the child

allowance, the insurance for special health care costs, the social assistance program, and disability insurance were enacted. The Dutch state took the lead over private initiatives and thereby took the ultimate responsibility for the care of the deprived (Goudswaard, De Kam and Sterks 2000).

The disability insurance program, as stated in the introduction, was ‘the jewel in the crown of the social security system’ and was introduced as social insurance for employees in 1967, and expanded eligibility to all citizens in 1976. It was the brainchild of the Christian Democrat Minister of Social Affairs, Veldkamp, who decided to replace both the existing occupational injury act and the existing disability act with one disability insurance program. The national Disability Insurance Act (WAO – *Wet op de Arbeidsongeschiktheidsverzekering*) was the merger of these two disability programs. It constituted a benefit scheme that would cover any employee with capacity loss as a consequence of sickness, accidents, injuries, etc. The capacity loss was measured in terms of income loss, compared to the earnings before the impairment. A benefit would be granted to all those who could not continue their former occupation or a similar occupation, no matter what caused their impairment.

The new insurance was progressive and provocative, winning admiration both domestically and abroad (Noordam 2001: 303). Its design was so special because it integrated the ‘best of both worlds’ from the two arrangements it replaced. The universal eligibility rights and the solidarity principle characteristic of the old disability act were combined with the generous income replacement and the subtle scheme of disability categories (ranking from 15% income loss to 80-100% income loss) typical for the occupational injury act that served to hold employers accountable for work injuries. The idea was that it should not matter what the cause of injury was (work-related or private) since the result is the same: physical or psychological impairment and loss of income. ‘While other OECD countries distinguish people with a disability by whether the impairment occurred on the job (*risques professionnelles*) or elsewhere (*risque sociaux*), only the consequence of impairment is relevant for the Dutch program’ (Aarts and De Jong 1996: 23).

Social insurance should cover for this income loss, regardless of causation. The state thereby admitted liability for any cause of impairment to any of its citizens. Theoretically, the new insurance plan was a paragon of social justice. Minor impairments such as the loss of a couple of fingers would cause income loss, for instance 15-25%. This would be compensated by the new disability insurance and allow the impaired employee to find a job or continue working for a lower wage (related to the remaining work capacity) without drastic income loss. The insurance therefore would serve as a wage

subsidy that allows employees to find work and still earn a reasonable income in spite of their impairment.

The budget for the disability insurance of 1967 (for employees only) was based on estimates of 155,000 beneficiaries. Despite 'explosive' increases in the number of claimants in the early years of the disability insurance program, it was decided to expand the eligibility rights to non-employees (self-employed, starters) as well. As a high-ranking civil servant from the Ministry of Social Affairs put it, 'the political pressure to expand [these eligibility rights] was so high that the minister said he could not postpone or obstruct the expansion process.'<sup>3</sup> When the eligibility rights expanded to the entire population in 1976, it was estimated that an additional 130,000 people would become eligible (*Sociaal Cultureel Rapport 1990: 117*). Yet by 1980, reality had surpassed every estimate into insignificance because in total, more than 600,000 people had claimed a disability benefit. And this number would continue to grow steadily in the years to come (SCP 1990).

#### Disability insurance under pressure

In the Netherlands, the disability insurance scheme became the solution to the increasing unemployment of the 1970s and 1980s. Because the benefit system absorbed redundancy from closing or downsizing plants, it smoothed the industrial reorganization that took place in secondary sectors such as the building trade, the shipyards, and the steel industry. In the beginning of the 1990s, almost a million people (of a labor population of five million) received a disability benefit and were thus written off as being unable to work without any rehabilitation in sight. Here is a brief description of how this insurance plan worked until the early 1990s.

Sickness benefits covered income loss in the first 52 weeks of sickness/work incapacity. Until 1985, the coverage was officially 80% of the previous wage (later 70%), but usually topped up to 100% in collective labor agreements among social partners. No distinction was made between work-related (occupational injury and disease) or non work-related labor incapacity (such as illness). Disability benefits were a follow-up income compensation for those who could not return work after the first 52 weeks of sickness. Seven classes of partial disability were distinguished, which are related to the degree of income loss (minimum 15%). The system lacked a minimum reference period, which meant that coverage did not depend on how many years one worked before the disability occurred. Disability benefits were paid until statutory retirement age, unless one recovered from the injury or illness. Like sickness benefits, full disability benefits comprised

80% (after 1985: 70%) of the previous wage, up to a fixed income ceiling. Most collective labor agreements increased the benefit rates considerably (to 90 or 100% of the former income).

The sickness benefits and disability insurance were administered by the industry boards (*Bedrijfsverenigingen*).<sup>4</sup> Disability assessments were made by a separate medical-vocational body, the Joint Medical Service (GMD).<sup>5</sup> The social partners (employers and union representatives) ran both organizations. After the first year of work incapacity (covered by the sickness benefits), the disability benefit application and assessment by the Joint Medical Service were automatically prepared. The Law stipulated that in the assessment of disability it should be taken into account whether people with a partial disability might encounter difficulties in finding commensurate employment (Van der Veen 1990). Because impairment was hard to measure, this led to a situation where

Insurance Associations solved this problem by assuming that poor employment opportunities result from discriminatory behavior, unless the contrary could be proven. The ensuing administrative practice was to treat partially disabled applicants as if they were fully disabled (Aarts and De Jong 1996: 26).

As a consequence, minimum income losses due to a low degree of work incapacity in practice entitled people to full disability benefits. The mandatory consultation of the Joint Medical Service by the industry boards became just a *pro forma* announcement of application. The disability assessment no longer served as a thorough examination of the degree of disability, but as a stamping machine that approved almost every application that came in (Aarts and De Jong 1996).

Because the disability program started to become too expensive (like all other social security schemes), the Christian Democratic-Liberal government (Lubbers II) decided to cut its entitlements. In 1985, the coverage of income loss was cut from 80 to 70% of the former wage. Additionally, several wage freezes and the de-indexation of the benefit schemes gradually eroded the average income compensation offered by those benefits. The purchasing power of the social security benefits deteriorated drastically during the 1980s. The coverage rate of an average full benefit compared to an average full income decreased from 71.8% in 1975 to 51.6% in 1998 (Aarts, De Jong and Van der Veen 2002: 39). The average disability benefit remained 10% below the gross minimum wage into the early 1990s (*ibid.*: 38).



## 6.6 The Dutch Disease and Policy Remedies

The problems of the Dutch welfare state in the 1980s known as the ‘Dutch disease’ referred to expensive and unsustainable welfare policies in general. In reaction to the recession of the late 1970s, the Dutch government at the time opted for a Keynesian strategy of fiscal stimulation, expecting the economic decline to be temporary. Increased government spending was financially covered by gas export profits. However, the consequences of the spillover between a hard currency, high real wages, indexation, lower profits, decreasing investments, and growing unemployment were known as the ‘social security trap.’<sup>6</sup> When disability benefits became an exit route for redundant employees, the notion of the ‘Dutch disease’ was given new meaning (Aarts, Burkhauser and De Jong 1996). Between 1970 and 1985, the labor force participation rate dropped from 57% to 48% of the labor force, and the number of social security benefit recipients per 100 workers rose from 44 to 85. The disability volume reached 11% of the labor force (De Jong 1999: 2).

By the end of the 1980s, the Netherlands began experiencing gradual economic recovery, which resulted in decreasing unemployment rates. Nevertheless, the number of disability claimants continued to rise. In the early 1980s, policymakers had tolerated a high disability rate because everyone knew that employment chances for redundant older workers were minimal in times of recession. Now that the recession was over, and the labor market situation improved considerably, it became painfully clear that the disability policy was leading a life of its own.

In addition to the full disability benefit, the disability insurance scheme recognized six partial disability categories. This broad availability of disability benefits, combined with relatively generous replacement rates stimulated the incidence of disability in the Netherlands. In the early 1990s, 10%

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**Table 6.3** Disability Benefit Recipients per 1,000 Workers

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	1970	1980	1990
Netherlands	55	138	152
USA	27	41	43
Sweden	49	68	78
Germany	51	59	55

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Source: De Jong, Philip (1999) "Reforming Social Policy: Learning from the Dutch Experience," *Swiss Journal of Economics and Statistics*, vol. 135 (3), pp. 253-271

Table 6.4 Social Welfare Indicators

	1975	1980	1985	1990
Employment (in 1000 FTE*)	4772	4950	4730	5664
Social security benefit recipients (in 1000 FTE)	1097	1458	1993	2160
Of which (in 1000 FTE):				
Survivor pensions	158	165	168	185
Early retirement	-	11	21	39
Disability benefits	311	611	703	790
Sickness benefits	280	306	257	346
Unemployment benefits	348	365	844	717
Disability beneficiaries as % of all social transfers	28%	42%	35%	38%
All recipients of labor income and social transfers together:	5869	6408	6723	7280
Percentage social transfers	19%	23%	30%	29%

Source: De Jong, Philip (1999) "Reforming Social Policy: Learning from the Dutch Experience," *Swiss Journal of Economics and Statistics*, vol. 135 (3), pp. 253-271

\* FTE means full-time equivalents. The figures do not refer to numbers of workers, but to full-time eligibility (of work/benefit dependency)—so, for instance, all part-time work is recalculated to a total number of full-time jobs.

of the Dutch citizens of working age were receiving some form of disability benefit, and almost half of the workers between 55 and 64 were receiving full disability pensions. The average Dutch disability claimant was rather young (43) and most were expected to remain on disability until they died or reached the statutory retirement age of 65. Labor market activity rates in the Netherlands lagged far behind most industrialized countries (20%), and the relative percentage of disability benefit recipients was nearly three times as high as in countries such as Germany or the U.S. (Graetz and Mashaw 1999: 217-18).

Many unintended consequences resulted from the Dutch disability insurance situation. Some of these problems were built into its ambitious design by benevolent policymakers to whom it never occurred that they were sowing the seeds of uncontrollable trouble. For this reason we take the introduction of the WAO in 1967 as the starting point of the analysis. At that time, the new disability insurance was introduced as a break with the past.

Though it was based on elements of existing legislation, this existing legislation did not predetermine the choices made for the new legislative design. In fact, the chosen arrangement was unprecedented in any other welfare state in the way it combined insurance for occupational injury and insurance for private causes of disability. Our starting point could therefore be qualified as contingent and serves as the onset of a path-dependent sequence – which will be examined in the analysis that follows.

## **6.7 Reforms Enforced, Contradictions Reinforced**

This section will show how policy developments during the 1980s have deepened and widened the latent contradictions between the Dutch social security system – more precisely the disability insurance scheme – and its more demanding post-industrial environment. Policy adjustments were incremental in meeting the challenges of the global recession and did not change fundamental institutional characteristics that had actually created the policy problems. Anomalies popped up within the system as adjusted arrangements came into conflict with original policy objectives, as well as when policy outcomes ran contrary to policy principles. Reforms did not target the source of these anomalies but instead reinforced them. The veto power of the social partners on large-scale reform proposals and the government's simultaneous efforts to meet different objectives (cost reduction, fighting unemployment, precise assessment of disability), left the policy's foundation untouched and allowed institutional structures to consolidate over time. Meanwhile, the accumulation of contradictions would create a situation that would later be framed as a 'crisis.' In this section, we will first analyze how these contradictions came about.

### **A bit unfit**

Graetz and Mashaw (1999) point to the impossibility of distinguishing between different categories of disability. Compensating income loss due to partial disability will automatically lead to problems:

Our principal reason for leaving partial disability out of the disability insurance portion of our social insurance scheme however is derived less from fears of administrative or fiscal crisis than from a conviction that partial disability is not conceptually distinguishable from a host of other factors that may make a person less successful in labor markets. Low

educational attainment, poor cognitive skills, low motivation, demoralization due to personal losses, changes in the work environment, declining energy levels – all may contribute to low wages, a decline in wage levels or repeated bouts of unemployment. An attempt to separate out the existence and role of partial disability in contributing to these occurrences and to compensate them in a partial disability scheme seems to us an unnecessary, if not a hopeless, task (Graetz and Mashaw 1999: 218).

Indeed, the Dutch scheme ran into trouble concerning the assessment of disability. The majority of the people who visited the Joint Medical Service received a full disability benefit (82% in 1987, according to Van der Veen 1990: 245), whereas the full benefits were originally intended for a small percentage of the total claims. In addition to a considerable ‘inflation’ of impairment, it appeared impossible to distinguish those with a loss of income due to a disability from other people with lower incomes (than the average) due to a lack of physical fitness, lack of cognitive or social skills, or other missing talents. How can one distinguish between those who were bright and lost their ability to concentrate due to a traffic accident and those who have never been bright and have never able to concentrate? The first person can claim a benefit and the latter will just have to cope with his/her permanent disadvantage on the labor market without compensation. Research shows that of those dependent on social assistance, 30% suffer from some form of psychological illness (Astri/Trimbos 2000).<sup>7</sup> Likewise, 30% of the disability population receive a benefit because they suffer from psychological illnesses. By contrast, social assistance beneficiaries get lower benefits, and the benefits are means-tested so they only receive benefits when they do not have a partner with an income or have any savings or property. Their conditions for eligibility are much stricter than those for disability benefit claimants. But in what specific way are disability benefit claimants with psychological problems different from people who receive a means-tested social assistance benefit, who suffer from the same illness? The former just happen to be in the right place at the right time in this regard.

The introduction of partial disability was meant encourage people to continue working or more easily find a new job. Disability appeared to be a label with a stigmatizing effect, however. Employers were less enthusiastic about employing a person with the label of being ‘unfit to work,’ or, in cases of partial disability, somewhat unfit. The perverse effect of the subtle categorization of disability was that instead of more reintegration at work, more people were permanently excluded from work (*Vrij Nederland*, 901222).

The contradictions of the system presented policymakers with a series of

dilemmas. The first one already highlighted is that it appeared difficult to distinguish among the various partial disability categories. Abolishing partial disability would almost certainly lead to major social unrest because the broad coverage of the scheme was seen as one of the Dutch welfare state's most important achievements. Who would choose to burn one's fingers on the political job of taking away the rights of society's weakest, the disabled? In addition, partial disability had to be preserved because the WAO-insurance had replaced the insurance for occupational injury. Abolishing partial disability would bring the system into conflict with international agreements (ILO) that requires governments to assure that any injury or disease resulting from work will be compensated financially. So even though the outcomes of the policy suggest that the distinction between partial disability and other personal factors that may decrease a person's chances on the labor market is hard to make, the policy was not changed. Juridical obligations of liability for workers' injuries inhibit the abolition of the lowest categories of disability. Changes would require a major overhaul of the system, bringing back the original separate arrangements to cover the *risque social* and *risque professionnel*. During the 1980s, the system was left intact in this respect.

#### Eliminating unemployment by creating disability

The Dutch economy is similar to Belgium's in that it too was destabilized by the so-called 'social security trap.' This trap is triggered by exogenous economic constraints, the steep rise in labor supply due to the baby boom generation entering the labor market in the early 1970s, and the lack of employment growth to accommodate these new entrants.

Swollen beneficiary volumes require higher contribution rates, and when higher rates burden the wage bill they have to be compensated with higher productivity demands. When productivity standards rise, the number of marginally unemployable workers increases. They will seek shelter in unemployment or disability insurance schemes, or will be forced to do so by their employers and increase the beneficiary volumes, fuelling a new round of rises in contribution rates, labor costs and productivity standards (De Jong 1999: 2).

Apart from the steady increase of benefit dependency, it appeared that a large part of this dependency was concentrated in the disability scheme. To many redundant workers, disability benefits were an attractive alternative to the unemployment scheme. Until 1987, the law stipulated that the

assessment of disability should take into account that persons with partial impairment may have difficulty finding commensurate employment. Redundant workers with a medical complaint of some kind, found an easy exit route from the labor market with generous conditions. Employers and trade unions were relieved to offer this exit route. 'In order to soften the social pain of unemployment, employers who were forced to make job cutbacks often attempted to get as many workers as possible, often older workers, classified as disabled' (Andeweg and Irwin 2002: 185).

But it was not only the social partners who were relieved to ease the pain of mass unemployment. The government at the time tried to keep down unemployment figures by any means possible. A high-ranking civil servant from the Ministry of Social Affairs explained: 'In some periods, our strategy was to 'sweep up' the labor supply [into social benefits], as we called it, like our Belgian colleagues. We relieved the labor market from its redundancy.'<sup>8</sup> Civil servants and social security administrators felt a strong level of government support for these practices, as the unemployment problem was undoubtedly the first priority in politics.<sup>9</sup> Additionally, in the early 1980s, the government aimed to shift the burden of social security more toward the social partners. In that vein, it was more important to keep unemployment down (which would lead to an increase of social assistance claims later on and thus have an impact on the state budget) than disability.<sup>10</sup>

In a survey among citizens about what the most important problems in Dutch society were at the time, 62% in 1982 answered that unemployment was the most important problem, compared to 41% in 1986 (with the national economy and finances ranking second and third – with 14% and 11% respectively). The number of people who thought unemployment was the most important problem fell to only 17% in 1989 (Hoogerwerf 1993). This indicates that until the second half of the 1980s, the most effective appeal to voters was curbing unemployment. Politicians were not fond of the idea of attacking disability claims during this period, since the alternative for these claimants would have likely been unemployment. As a former member of Parliament described it: 'At some point in time in 1983, we were fearing unemployment figures of one million. From that moment on, the reduction of unemployment became an absolute priority. In retrospect, one could say we accepted the developments in the disability insurance scheme.'<sup>11</sup>

The tides eventually turned and the economy slowly recovered from the recession. It became painfully clear that processes had been set into motion that were difficult to reverse. Policy retrenchment during the 1980s had focused on bringing down the high costs, not on curtailing the swollen

beneficiary volume. In 1985, when the benefit level was reduced to 70% of one's former wages, it was assumed that the existing benefit-dependent population would decrease. Instead, the number of beneficiaries continued to rise. Finally, the criteria for disability assessment were adjusted. In 1987, the government decided that employment opportunities would no longer be discounted in the assessment of disability. In practice, the doctors of the Joint Medical Service continued to do so, however (Van der Veen 1990).

The stretched rules for disability assessment were like a genie released from the bottle, with no notion of returning. This was the case from the very beginning. The architect of the disability insurance scheme and former Minister of Social Affairs Veldkamp had already stated in 1974, that if he had known what he knew now, the disability law would have looked radically different (*De Tijd* 740831). During the 1980s, administrators did not even try to carefully assess in which precise category of impairment a claimant belonged. The assessment had become such a formality, always discounting the labor market chances of the claimant to such an extent, that almost everyone was categorized as 'fully disabled', or at least eligible for full benefits. It appeared that, although the law had been changed, the ensuing administrative practices had not. The new restriction raised high expectations and it was argued that under the new conditions, the influx of new beneficiaries could be halved (SCP 1990: 119). Old claims were also to be reassessed, and this would further decrease benefit dependency. However, in only 20% of the full benefit cases were the claims either rejected or changed into partial benefits (SVR 1989: 54-56). Of the new claims, 78% was assessed as fully disabled, in spite of the new legislative restrictions that same year (Van der Veen 1990: 94).

It appeared that it was not just implementation practices that were difficult to change. Since everyone with an impairment was compensated for income losses, they often left the labor market. Industrial production had become intolerant to reintegration for those who could not keep up with the high productivity standards developed over time (OECD 1991: 71).<sup>12</sup> Research suggests that the chances of returning to work after having been eligible for disability benefits, were minimal. 'Once a person has been declared disabled this tends to become a permanent condition' (OECD 1991: 63). Only 3.5% of the beneficiaries recover each year, which is less than the annual influx of new beneficiaries. In 1989, 107,000 new beneficiaries were granted disability benefits, whereas only 76,000 people left the system – of which the majority were not rehabilitated, but instead retired (WRR 1990: 247; *Sociale Nota* 2000: 93). The disability population grew steadily. Even though the labor market situation in general improved considerably,

reintegration of disability beneficiaries remained exceptional as unemployment figures decreased. The reduced employment chances for formerly (partially) disabled workers may have been due to the notion that once people have been branded as ‘disabled,’ it became more difficult to convince a potential employer to employ them, even though they had fully recovered from their impairment. This stigma plays a larger role for disability beneficiaries than for former beneficiaries of other branches of social security such as unemployment (*Adviescommissie Arbeidsongeschiktheid* 2001: 69).

### A creeping transformation

At the same time, the disabled beneficiary received less income than ever before. The 1987 benefit cut not only reduced benefits from 80% to 70%, together with several index jumps, it caused a decline of the average benefit level by 20% between 1980 and 1990. Over the same period, the total GDP growth was about 15% (Aarts, De Jong and Van der Veen 2002). The growing number of beneficiaries therefore did not create a greater burden on the budget than in 1980, since the relative costs increased only slightly. The gap between average wages and average benefits widened further.

Since the benefit level decreased both absolutely and relatively (as a percentage of average gross wages), the disability benefits lost their insurance character. The coverage rate of the benefit (as compensation for income loss) was on average 70.6% of one’s former income in 1980, and only 55.8% in 1990 (Aarts and De Jong, 2000 Trends/H1: 15). To many this seemed like a very poor insurance benefit compared to the contributions one had to pay for social insurance (contribution as a percentage on their wages). Furthermore, although the WAO insurance had replaced the insurance for occupational injury, what remained of the benefit levels after years of cutbacks only minimally covered employer liability to compensate for injuries on the work floor.

The assessment of disability is based on the criteria of income loss, leading to unforeseen consequences. The original reason for measuring income loss instead of physical capacity loss was that income loss would allow a precise assessment and calculation of the damage. A person with limited talents and a simple job who lost a hand, would receive more income compensation than the CEO of a large firm who lost his or her hand. The hand is essential for the former, whereas the latter can probably continue to perform high-paid work without it. However, in other cases, the same impairment might lead to totally different outcomes in the assessment of the disability category. Consider for instance two people with short-term memory loss. They are



both deemed employable but only at a minimum wage job. One used to earn 2.9 times the minimum wage, and therefore falls into the category of 65% disability (the income loss  $2.9 - 1.0 = 65\%$  – which amounts to 50% of one's former income). This worker's benefit will amount to 1.5 times minimum wage. The other person, who used to earn only 1.5 times the minimum wage, has an income loss of only 33% ( $1.5 - 1.0 = 33\%$  – which entitles him/her to 21% of one's former income). The partial disability benefit he/she receives falls to 30% of the minimum wage. The same injury results in different categories of disability, which entitles the second person to a disproportionately lower benefit. The first person earned twice as much as the second, but receives a benefit that is five times higher. The assessment of disability based on income loss leads to a certain arbitrariness in assigning someone into a disability category.

Though it leads to problematic inequalities, the criteria for disability assessment have never been subject to discussion. The policy changes introduced during the 1980s did not contain any structural revision of the foundations of the benefit scheme. Measures focused on adjustment of the policy instruments; more specifically, on the level of the benefits. Foundational reconsideration of the central characteristics was avoided. For instance, the discussion on drastic changes in the administrative structure of the insurance had been dragging on since the mid-1970s, and led to a protracted stalemate between the employers and unions in the Social Economic Council. The social partners fiercely defended their autonomy in the institutionalized decision-making process and administrative structure of the social security sector (Rieken 1985). After all, the social security arrangements had an insurance character, which originated in private initiatives between representatives of capital and labor. To preserve the insurance character of the system, the autonomy of the social partners should remain untouched. For a long time, the state refused to become involved in the discussion on more fundamental changes. When it did, it imposed the system revision of 1985, which merely made adjustments to ensure equal rights for men and women, as well as the benefit reduction plan from 80% to 70% of last wage. Paradoxically, it was the decreasing benefit level which slowly but surely undermined the insurance character of the system.

#### The circuit

If industrial relations was a small world, then the world of social security experts was even smaller.

They call it ‘the circuit.’ They know each other, these people who basically *made* the social security council over the past 40 years. They supervise the social security system, that has by now has become a seething, uncontrollable mass, costing 80 billion guilders. The social security council meets at 10 o’clock in the morning in Zoetermeer, and the same group then meets again, but this time as the health insurance council, in the afternoon in Amstelveen (*Trouw* 921031).

The unions, especially the FNV, had a clear division of labor between wage negotiators and social security specialists.<sup>13</sup> To the unions, wage negotiations were their main priority as their leadership handled wage negotiations. The reserve team of up and coming young leaders or older members, ‘did’ the social security sector and the supervision of the industry boards (interviews Buurmeijer and Wolfson).

The trade union’s social insurance representatives sometimes had full-time jobs representing their union in a wide variety of councils (SER, SVR, Star, and the public health insurance council).<sup>14</sup> ‘Together, they formed a close network’ (Muller 031029). Union representatives and union federation representatives often met in different capacities on different occasions. ‘But we kept those roles strictly divided in terms of ‘supervision’ [the councils] and ‘administration’ [the industry boards]. Administration supervisors could not be members of the administrative boards themselves’ (Muller 031029). Although different people had different tasks, the problem that the social partners were supervising the work of the social partners remained.

Supervision in the social security council was a tripartite responsibility with independent ‘crown-appointed members’ and representatives of the social partners together forming the councils. However the public hearings of the parliamentary inquiry in 1993 made it clear that crown-appointed members often lagged behind in the decision-making process.<sup>15</sup> They lacked information on the administration that union and employers’ representatives had long before it they were made public and it seemed that the social partners were meeting so often in other forums that agreements were often already made before they’d even seen the agenda of, for example, the tripartite social security council. The independent supervision chamber that was introduced by the state secretary in response to the critical Court of Audit report would therefore be no more than a drop in the ocean, since it still involved the same tripartite formation.

Civil servants at the Ministry of Social Affairs admitted that a wide gap existed between the Ministry and ‘the field,’ which was controlled by the

social partners. 'Social Affairs had little feeling for what was going on in the field... The ministry did not know what was happening in this area and how it worked.'<sup>16</sup> What the Ministry did know was that policy proposals had no future whenever the social partners disagreed. The former Minister of Social Affairs explicitly stated that when the social partners opposed a policy, it became impossible to implement.<sup>17</sup> In fact, the social partners often opposed proposals and 'they were strongly inclined to defending the status quo and very hesitant to innovate,' as a civil servant from the Ministry diplomatically explained.<sup>18</sup>

A small group of representatives from the social partners controlled the sector, and they did so basically unsupervised. Any supervision was primarily focused on lawfulness and punctuality, not on efficiency and effectiveness (Court of Audit report 1992). The Ministry of Social Affairs did not bother with the supervision or management of administrative bodies. Instead, they often just followed the social partners' advice on policy making,<sup>19</sup> and in drafting proposals they often anticipated the social partners' vetoes.<sup>20</sup> Social Affairs civil servants seemed to display a complete lack of interest in administrative practices, which was also reflected in the legislation drafted at the Ministry. Consequently, the social partners had a free hand in interpreting and translating the Ministry's legislation into field practices.<sup>21</sup> This strengthened their position as experts on social security insurance issues. The social security administration had a powerful influence on the Ministry and not vice versa.

## 6.8 Conclusion

Like other continental European welfare states, the Netherlands was confronted with the results of its own social policies, which ran counter to their original purposes. Social insurance schemes were designed to protect workers from the caprices of the labor market and quirks of fate. Disability insurance was supposed to be the cream of the crop of all the insurance schemes. Twenty years later, this crowning glory seemed to be permanently excluding workers from the labor market, assigning benefits arbitrarily among them, and offering income compensation that diverged widely from both the insurance's purpose and the employers' liability for occupational injuries. A million Dutch employees were sick or disabled, in a society that was supposedly healthier than ever before.

Institutional reproduction created these problems in the Dutch case and erected several barriers to fundamental policy change. First, the expanded

disability insurance eligibility concentrated its advantages and acquired rights among approximately one million disabled workers – a significant group of voters, whereas its costs were shared by the taxpayers as a whole. In turn, the social stigmatization of beneficiaries precluded an expedient reintegration of the partially disabled. Eligibility rights became complex and obscure because the insurance covered both social and occupational risks, incorporated unemployment considerations, and because criteria of income loss were difficult to discern. All these elements combined reinforced the position of administrators who translated legislation into implementation practices.

Second, during the 1980s, societal and political support for reducing unemployment at the expense of the disability insurance program was considerable. It was, however, politically impossible to combat both disability and unemployment at the same time. When the Dutch economy recovered and political attention turned to the disability beneficiaries, increased labor productivity precluded the reintegration of the partially or temporarily disabled into the labor market.

Third, like in Belgium, the administrative delegation to the social partners ensured their own organizational reinforcement, information advantage, and exclusive access to policy making. This allowed the social partners not only to exert considerable influence on social policy making, but also raised the costs of switching to alternatives. The expertise of the social partners seemed indispensable while alternatives seemed to require massive and costly reorganizations.

Over time, contradictions between the system and its environment accumulated. The employers' organizations and trade union federations had a strong interest in the inappropriate use of the system, since it was a preferred alternative to unemployment for many redundant workers. They used the loopholes in the law, either officially or inadvertently, to cope with the consequences of a global recession. The government and Parliament had an interest in looking the other way – alternatives to unemployment were more than welcome at the time. The measures against the policy's undesirable effects were primarily focused on limiting the rampant growth of expenditure. This further augmented the contradictions inherent in the system and how the actors utilized it, which provided ample opportunities for crisis construction, as we will see in the next chapter. Why this would lead to more changes in two years than the accumulation of anomalies in the 20 previous years will also be examined.

## 7 Crisis Narratives and Sweeping Reforms

*When the pressure is on, everything is up for discussion.*

Johan Stekelenburg<sup>1</sup>

### 7.1 Introduction

The Dutch government and the social partners may have become famous for their consensus on wage restraints, but they did not manage to agree on drastic changes in the social security system to fight the recession of the 1980s. ‘We did not do politically what we had to do economically because we could not do it socially,’ explained the chairman of the Dutch Employers’ Federation VNO (Van Veen, cited in Vermeulen 1992: 61). Van Veen called this ‘the magic circle that captivated us’ (ibid.). This ‘magic circle’ is also a good metaphor for the policy-making process of the disability insurance system until the early 1990s. What was economically imperative was at the same time socially unacceptable and, therefore, politically impossible. Meanwhile contradictions between the insurance system and its rapidly changing environment had accumulated. In the end, the ‘magic circle’ around the Dutch welfare state had charmed one out of every ten citizens into a strange kind of sickness: the so-called ‘Dutch Disease.’

Although they had not announced this at the time of the elections one year earlier, it would take fifteen years before the Dutch government would decide to do anything about the disability problem. Vlek (1997) argues that the crisis around the disability insurance situation of 1991 was a turning point in the postwar history of the Dutch welfare state. ‘Never before did a prolonged financial crisis of the Dutch state turn so directly into a political crisis, in which the political elite faced a massive rejection of its policy concerning welfare state arrangements’ (p. 280).

The reforms set in motion in the summer of 1991 resulted in unprecedented government cutbacks in social security.<sup>2</sup> The accumulated savings of 1992 and 1993, as a consequence of the proposals introduced since 1991, comprised more than the total savings of the austerity regimes of the prior six years (Vlek 1997: 469). Taboos on the administration of social security insurance schemes were all but abolished. After a century of struggling with the social partners, the discussion of who would govern the social security

system was settled in favor of the state. As we discussed in chapter 3, the Dutch reforms on disability insurance meant great upheaval in a previously stable system.

What happened in the Netherlands that did not happen in Belgium? Why does one crisis yield reform while the other blows over without much effect? In this chapter, the crisis construction preceding the proposals to reform the disability insurance are studied (section 7.2). The analysis shows how institutionalized access to resources and venues influenced the content and outcome of the reform proposal (section 7.3). The crisis that affected these institutions also provided actors with an unexpected amount of room to pursue drastic change is explained in section 7.4. Conclusions on the theory and the case are drawn in the final section (section 7.5).

This chapter focuses on why the crisis narrative in the Netherlands helped to induce large-scale reform, drawing on accumulating contradictions and mounting problem pressure. Why did the Dutch reformers succeed in pursuing non-incremental reforms, whereas their Belgian counterparts were unable to engage in a similar counter-mobilization?

## **7.2 From Incubation to Open Crisis**

### **The writing on the wall**

Early in the tenure of the Christian Democrat-Liberal government, it became clear that the cutbacks of 1987 (from 80 to 70%) did not result in a decreasing number of claimants, but in fact resulted in the contrary. The Christian Democrats had promised in earlier elections that they would not push further retrenchment of social security benefits that period, because the decrease of the benefit levels in 1987 had been such a dramatic intervention. In a confidential letter to the cabinet ministers of his own Christian Democratic party, State Secretary of Social Affairs De Graaf stressed the need for drastic cutbacks shortly before leaving office in 1989, arguing that he saw increasing problems in terms of financial sustainability of the system (Vlek 1997).

This letter was kept confidential because it provided ammunition to the opposition in the upcoming elections. They [the opposition] could conclude from it that the incumbent government of CDA and VVD had mishandled the disability problem. Only a core cabinet of five ministers [from both coalition parties] knew about it (De Graaf 031113).

In the 1989 elections, the CDA (Christian Democrats) managed to retain their 54 seats. Again, the Liberals were punished by the electorate for lingering dissatisfactions with the government's austerity measures and their share was reduced to 22 seats (Van Wijnbergen 2000). In the late 1980s, the PvdA (Social Democrats) were eager to govern, having spent a decade in the opposition benches (Hildebrand and Irwin 1999). Therefore, the Social Democrats presented themselves in their campaign as 'ready to govern,' and in a fiscally responsible way. A prominent PvdA economist would later muse that during all those years in the opposition the Social Democrats had never thought through how they would formulate an austerity policy when finally forced to. They were suddenly responsible for solving a budgetary crisis, but lacked both an authentic answer to those problems and an alternative to the proposals of their coalition partner (De Kam, in *Intermediair* 920313). The coalition had based its plans on an estimated GDP growth of 2.5%, but economic progress soon came to a halt. Wim Kok, minister of finance at the time, recalls: 'Unfortunately we were not sufficiently prepared for decisions on the inevitable extra cutbacks' (Kok 040116). The PvdA joined the CDA to form a coalition and agreed on a government program of stringent measures to further reduce the burden of public debt, tax and social security contributions. In return, the Christian Democrats agreed to index the social security benefits to wage increases (Van Wijnbergen 2000).

CDA leader Lubbers formed his third cabinet, which was comprised of seven PvdA ministers and seven ministers from his own party, including himself. Wim Kok, former socialist trade union leader, became vice-prime minister and minister of finance. Of this assignment, Ter Veld states the following:

Wim had actually wanted to become minister of social affairs, but the party did not want that. Social affairs is a typical 'implementation ministry' – the PvdA had a bad experience with this in the early 1980s when their party leader took this position: one can never do right and, meanwhile, one has no influence whatsoever on policy making. So De Vries, who actually wanted to become minister of finance got social affairs, and Kok got finance – which is a much more influential post (Ter Veld 031103).

Although they did not have a minister at the Department of Social Affairs, the PvdA did line up the rest of the 'spending departments' such as education, defense, health care, and housing. Together, these 'PvdA departments' swallowed up some 37% of the government's total annual budget in 1991.<sup>3</sup>

The coalition agreement between the two governing parties mentioned the disability issue as an alarming development that needed curbing. To confront the disability insurance problems, the new coalition focused firmly on preventive policy through the improvement of working conditions. In this way, the new government expected to bring the increasing disability volume to a halt (*Keesings* 1991: 577). In fact, the agreement stipulated that both parties had to guarantee that the number of disability beneficiaries would not rise above the 1989 level during their entire tenure. This phrase in the coalition agreement would later prove to be a powerful mandate for reform (Buurmeijer 031014).

On 3 September 1990, in a lecture at the Catholic University of Nijmegen, Lubbers stated that ‘the Netherlands was sick... [and] faced the daunting prospect of a million disabled persons in 1994’ (Van Wijnbergen 2000: 12). The prime minister also emphasized that, much like a century ago, society had a new ‘social issue’ to deal with, ‘We now need to realize that politics cannot deal with this issue alone’ (*ibid.*). The speech drew much publicity. The prime minister’s crisis rhetoric stirred up discussions inside the social security sector and beyond. By strategically ‘going public’ with the issue, the prime minister had added extra pressure for decisive intervention on the disability insurance issue. Lubbers had observed how the minister and state secretary of social affairs were unable to successfully pursue reforms in their sector (Buurmeijer 031014), and his speech allowed them to make the disability issue the spearhead of their policy agenda (*Keesings* 1991: 578). During the autumn negotiations with the bipartite Foundation of Labor, the social partners supported the notion that considered disability insurance as a source of concern deserving special attention in the coming year. The employers even presented ‘a disability insurance attack plan’ (Van den Braak 031028).

A few weeks later, after the presentation of the government’s budgetary plans for the coming year, the conservative liberals (VVD) assailed the so-called ‘democratic deficit’ in governance, which they blamed on the power of the social partners in the policy making process. Their more progressive liberal colleagues (D66) supported this criticism. During the same debate, the financial specialists from the various political parties came to the fore to discuss the annual budget. The VVD challenged the CDA prime minister to tie his political future to the disability issue. This referred to his statement of six years earlier, in which Lubbers announced he would resign if unemployment rates reached one million. Lubbers rose to the challenge, making the same commitment about the number of disability benefit claimants, on 10 October 1990 (*Keesings* 1990: 712).



Shortly after, in December 1990, the Scientific Council for Government Policy (WRR) reported on the high inactivity rates within the Dutch welfare state. According to this report, low labor market participation threatened to become the Achilles heel of the Dutch economy, and the problem would only be further exacerbated by demographic changes (i.e., aging). The primary reasons for inactivity were the low participation rates among women, and the high rates of benefit dependency, especially in the disability insurance scheme (WRR 1990). This report would mark a shift in the general political understanding of labor market problems and turn policymakers' attention toward stimulating increases in labor market activity (Visser and Hemerijck 1997).

The crisis narrative launched by Lubbers in September 1990 appeared to have its intended effect<sup>4</sup> because in January 1991, the tripartite Social Economic Council (SER) unanimously recommended that more efforts be made to curb the growth of the disability program. The trade unions, whose labor market experts (as opposed to social insurance experts) had negotiated this advice based on medium-term economic prospects, would often be reminded of their approval of this advice later when the debate on disability reform intensified (Van Wijnbergen 2000: 13). Of their endorsement, Wolfson (031022) states the following:

The Crown-appointed members (independent expert members) initiated this recommendation to the cabinet at a moment when trade union representatives were probably sleeping. Normally, Crown-appointed members are like flies on the wall, they hardly matter at the SER. But on delicate issues like this one, there is major role for them to play. The social partners found themselves in a deadlock; they were holding each other under water. That was when the crown-appointed members acted and, to my surprise, the trade unions did not block this effort.

When the government presented its mid-term review on 19 February 1991, it concluded that in order to achieve the cabinet's fiscal objectives, it would have to save another 9.5 billion guilders (4.3 billion euros) (Vlek 1997: 568). Within the government coalition, the Minister of Finance (and PvdA leader) Wim Kok had to find room for cutbacks.

We wanted to hold on to the planned deficit reductions of the coalition agreement. If we were going to be unable to stick to these plans in the face of adversity, it would become much more difficult to solve our budgetary problems structurally. Deficit spending would raise the public

debt and interest rates that were already a heavy tax burden. We were looking for financial recovery in order to be able to benefit in the future from economic prosperity and increased employment rates (Kok 040116).

No departmental budget was spared, but the social policy budget suffered particularly drastic cuts. Ter Veld (031103) in this regard, aptly notes that ‘At Social Affairs, one thing is certain, when the economy slows down, everyone wants to cutback on your budget at the time you need it the most.’ Minister of Social Affairs De Vries accepted a target of 3.75 billion guilders [1.7 billion euros] of savings on disability and sick pay expenses. De Vries, a member of the CDA, was a strong supporter of the idea that a serious overhaul of the disability program was necessary (De Vries 031031). The cabinet would send out a request for advice on the planned disability reform to the Social Economic Council.

The PvdA had insisted on an early mid-term review, before the provincial elections were to take place. Wöltgens, the PvdA leader in Parliament, noted that ‘Kok and I were afraid that we would be blamed by right-wing parties for being indecisive. We wanted to show that we were good bookkeepers’ (cited in *Vrij Nederland* 960613). The CDA ministers demanded that Social Affairs produce a plan to revise disability insurance, with a further stipulation that the request to the SER also include a specific cabinet proposal (*Vrij Nederland* 960613). The PvdA leaders refused to make their party’s position on cutbacks in disability insurance clear before the provincial elections (Muller 031029; Ter Veld 031103). ‘I think you could barely speak of a position at the time. The cabinet was not able to agree on the issue’ (De Vries 031031). In the end, the cabinet request to the SER contained a wide variety of reform options, soon nicknamed ‘the mail order catalogue’ by the social partners (Muller 031029; Van den Braak 031128).

Nevertheless, the PvdA assured its electorate that no drastic changes in disability insurance were forthcoming (Vlek 1997). Kok rejected suggestions of making eligibility dependent on the claimant’s employment record. Kok and PvdA’s parliamentary leader, Wöltgens, declared time and again that current beneficiaries need not worry (*Vrij Nederland* 960613). The PvdA parliamentary party group explicitly rejected any drastic cuts in disability insurance (*Keesings* 1991: 578). It still believed in the positive effect of sickness/disability prevention and improved work environments, and was strongly opposed to altering the foundations of the disability insurance scheme. This conviction was in line with the position of the trade unions, who had published discussion notes in September 1990 stressing the neces-

sity of prevention and reintegration as opposed to benefit reduction and eligibility limitations (Van Wijnbergen 2002: 91).

Meanwhile, Elco Brinkman, CDA's leader in Parliament, publicly demanded that the cabinet take tough measures to resolve the disability issue sooner rather than later. He suggested abolishing the disability insurance system altogether (*Keesings* 1991: 578).<sup>5</sup> This produced a political rift in the cabinet. Ter Veld, PvdA state secretary of social affairs, reacted strongly, stating that they 'would first have to abolish her [Ter Veld herself].' PvdA leader and Finance Minister Kok reacted similarly, stating that his party would leave the coalition if disability insurance would be abolished (*ibid.*: 578).

### A reform proposal

In June 1991, Ter Veld informed her colleagues in the cabinet and the Social Economic Council (SER) that the number of disability claimants was continuing to rise even faster than expected.<sup>6</sup> Nevertheless, the SER – busy working on advising the cabinet on possible reforms of the disability benefit scheme – could not come up with a unanimous standpoint. The trade union federation FNV persistently blocked proposals that would limit both eligibility and the level of benefits. 'We [FNV] made the difficult step towards agreement by agreeing to change the criteria of suitable employment to 'commensurate employment,' which would severely limit eligibility. We basically rejected any decrease of the benefit levels on top of that' (Muller 031029).

The employers' organizations and the Christian trade union, on the other hand, concluded that more drastic policy measures were necessary. In addition, they feared that the government was going to overhaul the system if the SER's advice remained inconclusive (Van Wijnbergen 2000: 14). The new information from the Department of Social Affairs added further pressure on the SER negotiations. 'The employers shifted towards more austerity when the new disability figures were made public. They now also wanted a decrease of benefit levels' (Muller 031029). In response, all three trade unions rejected this compromise. Together, they formulated a joint response to the SER's advice (Kastelein 031029; Vroon 031104).

Only a strong unambiguous SER proposal could make a difference, though. Without this, the government could 'cherry-pick' whatever it liked.<sup>7</sup> The SER's recommendation remained divided, however. The FNV's aversion to compromise on this issue played an important role. Some of the socialist trade unions believed the PvdA leadership's assertion that nothing

drastic was going to happen to the disability program (Van Wijnbergen 2000):

The PvdA leadership maintained for a long time that there was no reason to worry, since the Social Democratic ministers in the cabinet would prevent drastic intervention from happening. The CDA side, on the other hand, announced drastic measures (Kastelein 03 1029).

Some other socialist trade unions affiliated with the FNV basically did not trust the government. In a union federation meeting, the industry union voted ‘nay,’ as did the service sector and transport unions. This was because they felt that the government would intervene anyway, and in doing so would fundamentally affect the character of disability insurance (*Vrij Nederland* 960613).

The SER sent its advice to the government based on a majority agreement between the employers’ representatives and the crown-appointed members. It proposed to make the level of disability benefits dependent on the claimant’s age and change the eligibility terms from ‘disabled to do similar work’ (suitable employment, as before) to: ‘disabled to do any work’ (commensurate employment). The latter proposal would exclude many claimants at the gate. The union federations did not sign this agreement. For the Sickness Benefit, the SER proposed making employers responsible for the first six weeks of sick pay, in order to encourage employers to help prevent employees from becoming or remaining sick. The SER’s majority advice explicitly rejected a limitation on the duration of benefits (*Keesings* 1991: 578).

#### A tug-of-war

During the weekend immediately after it received the SER’s advice, the cabinet decided on a reform package to reform disability insurance. The cabinet’s proposal adopted the SER’s recommendations on eligibility terms and the first weeks of sick pay. The recommendations on the level of benefits and their duration, however, were not adopted. The level would remain the same, but despite the SER’s disapproval, the duration would be limited to a few years, depending on one’s years of employment prior to disability (*Keesings* 1991: 577).

The trade union federations were outraged. They considered the SER’s recommendations a clear declaration of war (*Volkskrant* 910713). Now, they accused the cabinet of deliberately killing disability insurance. The unions

announced their so-called ‘hot autumn,’ which included a series of protest actions and strikes to force the government to change its mind (Vlek 1997). Others were similarly outraged. The Social Democratic rank and file were up in arms. Ter Veld notes that:

I should have realized this. Because the decision was taken in the cabinet during the weekend, the Social Democratic party had no explanation when the phones began ringing on Monday morning. No public explanation was prepared. We should have given them some text (Ter Veld 031103).

In contrast to their implicit approval immediately after making the cabinet decisions public, the PvdA members in Parliament downplayed their initial consent when the first letters of protest started pouring in. The Social Democrats in Parliament stipulated that the proposed limited duration period be extended and that all current beneficiaries be spared. In the following weeks, prominent PvdA members and local politicians criticized the proposal and the cabinet members responsible for it (*Keesings* 1991: 577). Opinion polls on 1 August 1991 showed that only 17.7% of the electorate would vote PvdA, which would basically translate into a dramatic drop from 49 to 27 seats in Parliament (polls Bureau Inter/View 910801). One week later, the Social Democrats tumbled further to only 13.7% or 21 seats (polls NIPO 910808).

While support for the PvdA was more than halved, the Christian Democrats took less of the blame for the government’s policies. Their drop in the polls was considerable (they would lose 6 seats) but not that significant or shocking. The coalition parties would no longer hold a majority of the seats (the polls put their total tally at 46%). Nevertheless, when the PvdA leadership announced that they would reconsider the plans in reaction to protests from their constituency, the Christian Democrats refused to budge. De Vries and Lubbers announced that the proposal could only be adjusted only around the edges. CDA leader Brinkman also announced his refusal to reconsider the entire plan (*Keesings* 1991: 580).

By the end of August 1991, the cabinet had reached another elaborate compromise designed to mollify the disgruntled grassroots of the coalition parties. In the new proposal, the duration of the disability benefit would be limited, but it would be followed by an age-dependent disability allowance instead of the flat-rate and means-tested social assistance program. This would not apply to new claimants over 50 years old (at the moment the legislation took effect), who would receive the normal unlimited 70% benefit.

Because the sum of the cutbacks had to remain the same, a new trade-off had been made: new claimants over 50 would be better off, while younger claimants would be given a more limited package. By this time, the trade unions had drafted preliminary re-insurance arrangements to demand compensation for the government's benefit cuts in collective labor agreements (Vroon 031104). This way, employees would hardly feel the effects of the changes between the old and new benefit levels.<sup>8</sup> Thus the incentives for employees to start working again as soon as possible had all but disappeared. Though this was contrary to the government's goals, some ministries were the first employers to compensate their employees for the benefit decreases. Expressing her discontent with this development, Ter Veld (031111) stated that:

While I was presenting my cutback plans to the cabinet, my colleague Ien [Dales, Minister of Interior] was calculating how much the reinsurance plan that would compensate her civil servants for these cutbacks would ultimately cost her department. During that same cabinet meeting!

Nevertheless, the government cutbacks on the benefits for new claimants remained considerable because if they were not covered by collective reinsurance arrangements, many employees under 50 saw their benefit levels cut by at least 15%, depending on their income level. Employees over 50 would, however, be spared. Confronted with this ultimate compromise, all but three PvdA MPs consented. The Social Democrats found it difficult to explain this decision to their constituency. Wherever he went, party leader Wim Kok was severely criticized for 'stabbing social democracy in the back' (*Vrij Nederland* 960713: 35). By the end of August 1991, Kok was seriously considering resigning both as minister and as party leader because of the apparent lack of support for his policy decisions. His colleagues in the cabinet, not wanting to see him go, persuaded him to ask the Social Democratic party for a formal vote of confidence at a special party convention (Rehwinkel and Nekkens 1994). 'A special party convention was the only way to save the party. If Kok fell, the Social Democratic party would fall. A defeat of this sort would have been absolute' (Ibid.: 117, interview Pronk). In September 1991, the heavily criticized Wim Kok, received a confidence vote of 80% at the national party congress (*Keesings* 1991: 580). The party's vote of confidence was considered essential for the immediate political survival of the PvdA (NRC 910919).

The new proposal, however, did not end the discussions. It would take another eighteen months before the Council of State, the Social Security Council, and the Social Economic Council were consulted. Thereafter, the new proposal was finally approved by both houses of Parliament. The cabinet had intended to pursue the drastic cutbacks early in its tenure, in order to get it over and done with and then concentrate on politically more rewarding policy issues in the run-up to the next elections (Brinkman 040105). It all turned out otherwise. The autumn of 1991 witnessed a wide range of organized protests by the labor unions and the special interest groups representing the disabled and chronically ill. On 5 October 1991, 250,000 people participated in a mass demonstration in The Hague to persuade the government to change its mind regarding disability insurance. This demonstration was the largest ever held on a welfare issue. Oddly enough, in the yearly general debate in Parliament a week later, this demonstration was never mentioned in the discussion (Vlek 1997: 574). This did not necessarily mean that the political parties were insensitive to society's criticism. On the contrary, the years following the summer of 1991 would be characterized by a continued tug of war involving new compromises and amendments to the disability insurance reform.

#### A new plan as a lightning rod

The events and decisions of the summer of 1991 came as a major shock to many Social Democrats, particularly the party leadership. In response, a committee of senior party members and socioeconomic experts was asked to advise the party's position on welfare state retrenchment. The Wolfson Committee, named after the prominent economist and chairman, concluded that the current benefit levels should not be further cut back. Regarding this decision, Wolfson stated the following:

It would be inappropriate to lower the benefits in a system that has become rule-resistant because the implementation continues to fail. We have to crack down on the administrative bodies that implement social security. This [corporatist] administration system may be very valued by the CDA, it is less debatable to them than to us (cited in NRC 920114).

PvdA parliamentary leader Wöltgens agreed:

The runaway growth rates of disability insurance proves that administrative agencies do not have automatic incentives to minimize the

number of claimants. The costs of the increasing number of beneficiaries were paid by the anonymous collective, the government only raised the obligatory social security contributions (*Trouw* 920117).

Wöltgens thus claimed it was important that the PvdA Committee recommend an overhaul of the administrative structure of the social security system (*ibid.*). ‘Thijs [Wöltgens] liked the idea of reforming the administration, and saw it as a convenient lightning rod – he considered that if we improve the administration, then maybe cutbacks won’t be necessary’ (Buurmeijer 031014).

This critical attention to the administration and implementation of social security policy was nothing new. An interviewee from the Christian trade union states, ‘In fact, they had done this before. The Social Democrats pointed to the problems in administration in order to avoid a fundamental discussion on the contents of the legislation’ (Kastelein, 031029). CDA minister De Vries agreed, ‘Of course it was tempting for the PvdA to try to turn it around and say: ‘problems are not caused by the terms of the policy but by its implementation.’ There was a lot of room for those kinds of arguments’ (De Vries 031031). Brinkman notes that, ‘We [CDA in Parliament] simply saw it as yet another trick of the Social Democrats to change the agenda’ (040105). Since the 1960s, there have been recurring discussions about administrative reform in social security. By the early 1990s, the first proposals for a new so-called Organization Law for Social Insurances were formulated (*NRC* 920409). The sudden upheaval about the disability insurance issue led to the postponement of decisions on organizational reforms. The Ministry of Social Affairs had to give first priority to the legislative process of the new disability and sickness benefit acts, and to the ever-changing proposals that were put forward (*Financieel Dagblad* 920313).

On 31 March 1992, the National Court of Audit (*Algemene Rekenkamer*) issued a report on the administrative bodies responsible for the implementation of the disability and unemployment insurance programs, and of their lack of supervision in these matters. The Court concluded that there had been virtually no systematic legislative or ministerial control on the administration of social insurance.<sup>9</sup> This report caused a commotion in Parliament. It strengthened the belief of many MPs (mainly PvdA, D66, and VVD) that the corporatist structure of the social security sector was a problem that needed to be addressed.

In his Labor Day speech on 1 May 1992, the vice-chairman of the PvdA parliamentary party group, Frans Leijnse, pledged that current beneficiaries in the disability insurance program would not be adversely affected by the



proposal under discussion. This statement came like a bolt out of the blue. The party chairmen<sup>10</sup> knew nothing about it, nor did the PvdA ministers in cabinet. It seems that only a handful of people from the parliamentary party group had been tipped off about this ‘coup,’ which was staged by Wöltgens and Leijnse. Leijnse would later explain that from the very beginning, he and Wöltgens had been unhappy with the proposal signed by Kok and Ter Veld in the summer of 1991. Wöltgens and Leijnse had no desire to stab their party’s ministers in the back, though, because this would have destroyed the party. The only way out was for them to distance themselves from the cabinet proposal slowly but surely. They raised the disability issue over and over again in parliamentary party meetings. This culminated in Leijnse’s Labor Day speech, which came as a total surprise to most of the Social Democrats in Parliament, in the party, and in the cabinet. In effect, his statements sought to reopen the debate within the coalition (*Vrij Nederland* 930206), to the obvious irritation of the Christian Democrats.

On May 21 of that year, the Second Chamber of Parliament decided to install an investigation commission to examine the practice of social security administration in the industrial boards responsible for the implementation of social policies such as unemployment and disability insurance (*Keesings* 1992: 593). The initiative for the commission came from the VVD and was supported by the Social Democrats and the smaller left-wing parties (*Trouw* 920401). The commission chairman, Social Democrat Flip Buurmeijer, had long desired a clean sweep within the administrative agencies. In this regard, he stated:

If one could start over from scratch, then I would not choose industrial [e.g., corporatist] boards to administer social policy. But now that they exist, one cannot all of a sudden just abolish them. Therefore, an attempt must be made to break their power in another way (*Financieel Dagblad* 920313).

By the end of the summer of 1992, Buurmeijer’s commission had produced its report. The committee concluded that the administration of social insurance was performed poorly, and it recommended that an official parliamentary inquiry be initiated. The Buurmeijer report would thus have an impressive follow-up.

Meanwhile, the political decisions on disability insurance reform were still pending. On 7 May 1992, the PvdA MPs announced they were no longer supporting the proposed cutbacks on disability insurance for current beneficiaries. The CDA objected and demanded even larger insurance

cutbacks for new claimants, especially if current beneficiaries were to be spared at all costs. This, too, was unacceptable to the Social Democrats. Another stalemate was looming (*Keesings* 1991: 580). Despite several parliamentary debates on the issue, separate party conferences, and many suggested compromises, the parties were unable to solve the deadlock between them until the beginning of the following year.

#### A final compromise

In January 1993, Prime Minister Lubbers proposed yet another compromise to the cabinet. Not surprisingly, this proposal was accepted immediately by the Christian Democratic ministers and by their party members in Parliament. Customarily, Lubbers coordinated his moves with the party leadership. More remarkably, PvdA state secretary of social affairs initially accepted the proposal as well. The other Social Democratic ministers, however, rejected it, and Ter Veld's standing in the party suffered a severe blow. The new proposal was again a balancing act between more dramatic cutbacks for new entrants to the disability insurance and guarantees to protect the existing population of beneficiaries. New claimants over 50 were not spared in Lubbers' new proposal, which made it unacceptable to the Social Democrats (*Keesings* 1993: 290).

Two days later, the Christian Democrats moved to seek support outside the coalition. They began discussing the terms of their reform proposal with the leadership of the Liberal party in Parliament. The Liberals, eager to split the coalition and return to government in order to retrench the social security system, were more than willing to negotiate. On 21 January 1993, Wim Kok declared that he and his PvdA ministers would resign if the CDA and VVD came to an agreement on a disability insurance package that was more severe than Lubbers' initial proposal. Undeterred, both parties announced that they had indeed come to such an agreement on disability insurance. In his weekly press conference, the prime minister blamed the Social Democrats for the disability crisis. A coalition rift seemed imminent.

That weekend, the Social Democrats approached their coalition partner with new compromises. CDA parliamentary leader Brinkman was clearly unenthusiastic. He insisted that his colleagues would continue their negotiations with the Liberals. This produced the results he wanted: the VVD and CDA concluded an informal agreement that Saturday afternoon – a new coalition and a new reform proposal on disability insurance seemed at hand.

That same evening, the PvdA leadership, unaware of the latest deal between CDA and VVD, arrived for a meeting at the residence of CDA minister

of Social Affairs, De Vries. The minister and his civil servants had developed another proposal aimed at breaking the stalemate with the PvdA. He committed himself to its success and so both De Vries and his PvdA State Secretary Ter Veld announced that they would resign if the new proposal did not receive approval from both coalition partners. Their *va banque* strategy paid off and the MPs and ministers of both parties pledged their support. The final draft was agreed upon on 23 January 1993. Prime Minister Lubbers decided to announce it immediately.

All this came as a total surprise to the VVD, which had been convinced that it was a partner to a new agreement, and that the Social Democrats would be forced out of the government. They had every reason to believe so, but they had been betting on the wrong horse in the Christian Democratic party. With his threat to resign, De Vries had effectively coerced parliamentary party leader Brinkman to break his pledge with the Liberals and to close the ranks of the coalition. On 26 January 1993, a majority of the Second Chamber of Parliament accepted the proposal. On 6 July 1993, the majority of the Senate agreed and the new disability reform bill became law.

#### The overhaul of the administration

In the summer of 1993, the Parliamentary Inquiry Committee chaired by Buurmeijer, a PvdA member of Parliament, presented its conclusions to Parliament. After twelve months of intensive inquiry (including public hearings under oath) and analysis, the committee concluded that there had been widespread administrative abuse in the occupational insurance system, which included disability benefits. The political parties, the government, and Parliament were complicit in this. They had created ambiguous legislation that left room for misinterpretation, and they did not intervene when they saw the outcomes of the runaway benefit system. The employers' and employees' organizations involved in implementing the system had exploited these legislative loopholes to engage in mutually beneficial 'social dumping.' The expenses for this were passed along to the taxpayer (Buurmeijer 1993: 99-100).<sup>11</sup> The social partners had effectively blocked changes in the legislation and in the administrative structure. They were classic veto players or 'guardians of the existing power relations,' as the inquiry report called them (p. 75). The administrative agencies were blamed for their one-sided attention to the legality and accuracy of their work. They had lost sight of the unintended effects, the broader legitimacy, and the cost efficiency of these policy implementation practices (Buurmeijer 1993).

### **Buurmeijer's Recommendations**

The parliamentary inquiry committee presented concrete suggestions for changes based on its analysis of the problems in the administration of the social security system. The suggestions also involve changes in the conditions and contents of the sickness and disability insurance scheme. Its primary recommendations were:

- Abolition of Sickness Benefits. Employers remain responsible for the income of their employees during the first 1.5 years of sickness. Employers can choose to insure this risk with a private insurance.
- Premiums for disability insurance are differentiated among employers based on the record of disability incidence in their company. Employers can choose to privately insure against the risk of high premiums or bear that risk themselves.
- The old disability insurance scheme should be replaced by a new arrangement. This new insurance only covers the loss of income for those whose impairment caused a loss of more than two-thirds of their previous earning capacity.
- An independent supervisory board needs to be created to which all administrative agencies are accountable. The members of this board are independent experts, appointed by the state.
- A newly created independent organization, kept at arm's length from the Ministry of Social Affairs, will be responsible for the central management of the social security administration.
- The central organization will contract administrative agencies to assess disability and pay out benefits.

Source: (TK 1992-1993, 22730, #7-8, pp. 415-420)

Although the inquiry committee did not specifically place the blame for the increased volume of beneficiaries on the social partners (cf. Van der Veen et al. 1996), it proposed to change the administrative structures in such a way that all the responsibilities for policy implementation would shift to the state. The social partners would no longer be involved in the administration of the benefits. The state would privatize parts of the administration tasks and allow the market mechanism to stimulate administrative efficiency (Buurmeijer 1993). In the political arena, these conclusions translated into throwing the social partners out of the social security domain. As one union leader recalled:

After the parliamentary inquiry it became fashionable to blame the social partners, even though that was not the main conclusion of the inquiry committee. The committee emphasized the role of politics and Parliament in the accumulation of the problems. It was politically convenient to blame us, in order to throw us out of the administrative structures (Muller 03 1029).

The new law (OSV 1995) decided that the largest of the industry boards (*bedrijfsverenigingen*), which used to be responsible for social security administration would now have to compete with each other in a privatized market. Their work would be commissioned by the newly established National Institute of Social Security (*Lisv*), a fully public agent of the Ministry of Social Affairs. Former MP and Chairman of the parliamentary inquiry, Flip Buurmeijer, would be its new director. The tripartite Social Security Council (which had supervised the work of the administrative bipartite agencies) was also replaced by a new public authority – the Commission on Social Security Supervision (*Ctsv*) – beginning on 1 January 1995.

One year later, sickness benefit insurance became the private responsibility of employers. Employers became responsible for the sick pay of their employees in the first year of sickness. They could choose to bear the risk themselves, or insure it with private insurance companies. Before the end of this first year of an employee's sickness, the state would assess the claim for disability insurance.

In short, some recommendations by the parliamentary inquiry committee on administration were integrated into the law fairly smoothly. In contrast, the inquiry's recommendations on the problematic contents of the disability insurance scheme did not sail through as peacefully. We shall not analyze it here, but the storm of reform would continue to blow for another ten years over the Dutch disability insurance scheme. Both the contents of the legislation as well as its administrative structures remained the subject of continuous discussion and political maneuvering. The next section will explore which institutionalized resources enabled and which disabled the actors in the exercise of influence on the reform process and to what extent. The exclusive access to decision-making venues will be analyzed to see who could use those resources to their advantage.

### 7.3 Access to Resources and Venues

The problems in the Dutch disability insurance had been lingering for decades before a crisis broke out. A Christian Democratic social security spokesman in Parliament recalled:

I remember that a senior colleague said to me when I started on this issue in 1990: 'they have been debating this for twenty years. You will never manage to make a difference.' In retrospect, we did it in a rush (Biesheuvel, cited in *Vrij Nederland* 930206).

If welfare state arrangements are, in fact, so difficult to change and if the Dutch policymakers did not manage to reform the system over the decades, then how can this overhaul of the Dutch disability insurance system that was initiated in 1991 be explained? Why were the protagonists of the old system unable to block the changes? Why did the Social Democrats, who had opposed such drastic cutbacks for decades, cave in now while they were in power? The coalition agreement, normally a good predictor of government plans, did not mention any concrete interventions at all at the start of the cabinet's tenure. What institutionalized access to resources and venues allowed change-oriented actors to place major reforms back on the agenda and defeat their opponents?

### Union power

The unions knew that when the cabinet asked the SER for advice on the disability insurance reform plans, the advice would have to be unanimous in order to be influential. History told them that a unanimous veto could make a difference (for instance in 1982, when the cabinet wanted to abolish labor market considerations in the disability assessment and reform sick benefits, and in 1984 on reform of the administrative structure). By contrast, disagreement in the SER could have severe consequences as they experienced with the 'system revision' of 1 January 1987 (including a decrease in all social insurance benefits from 80% to 70% of the former wage), which was practically identical to the government plans before the SER presented its divided opinion on the matter (Buurmeijer 1993: 68-69).

The Dutch trade unions have never represented a large share of the workforce in terms of membership. However, interest representation by the Dutch unions was highly valued by the average employee, but also taken for granted. The law assured that members and free riders were treated alike. Historically, the Dutch trade unions' resources in terms of mobilizing protest power were limited. The Dutch unions derived their power primarily from their access to key advisory and agenda-setting venues. They were represented in the SER and the SVR, the social security council, which advised the government on its plans vis-à-vis social policy making. The advice of the Social Economic Council to the government was one of the most important institutional venues available to social partners for influencing the policy-making process. Since the SER did not produce an advice that was unanimously approved, part of this influence evaporated when the trade unions needed it most in July 1991.

Some maintain that the unions did not feel they would have to show their

teeth because the Social Democrats had asserted all along that they would protect disability insurance in the cabinet (Van Wijnbergen 2000). The PvdA and CDA sent mixed signals on the matter, and this caused disagreement among the unions. The Christian trade union federation felt more of a need to come up with a compromise than the Socialists did (Kastelein 031029). When the unions themselves were blamed for their role in the run-away administration (particularly after the parliamentary inquiry), their influence on policy making became even more limited. The picture that emerged from the daily televised hearings of the parliamentary inquiry committee was that of a tacit conspiracy between the social partners to abuse disability insurance via their role in the administration of the system. This devastated the image of all the organizations involved, which included employers' and workers' representatives (Aarts and De Jong 1996: 65). The unions, who had always been able to exploit their information advantage as social security experts, now saw themselves compromised by this resource. The social partners' expertise and influence was no longer appreciated as serving the public interest. By contrast, it was seen as incriminating evidence of their ongoing undemocratic abuse of power.

#### Political strings

The parliamentary inquiry committee concluded that the historically defined conflicts of interest between the actors in the social security domain had frustrated a fundamental revision of the system in general, and the social disability insurance system in particular. Employers' organizations and trade unions had opposing interests, and a firm grip on each other and together they assured the immobility of the entire sector. Combined with continuous strivings for consensus and the passive attitude of the Dutch government and Parliament, the social partners were able to block innovation. It was thus all the more surprising that drastic intervention in the disability policy did, in fact, take place in the early 1990s (Buurmeijer 1993: 73). The weakened position of the social partners provides one part of the explanation, but it seems imperative to look also at the vulnerable position of the political protagonists in the social security sector.

Traditionally, the Social Democratic PvdA was a fanatical defender of the social security sector. Furthermore, the ties between the Social Democrats and the trade union federation FNV had always been strong. Buurmeijer notes that:

In the PvdA parliamentary party group, there was a division between the *socials* and the *locals*. The socials were closely connected to the union movement. The locals were the members of Parliament with a social assistance background, which was organized at the regional and local level. Until the beginning of the 1990s, the socials within the party had a monopoly on the social insurance issues in Parliament... Any intervention in the conditions of the social insurance arrangements was taboo (031014).

Buurmeijer, a 'local' himself, first became a spokesman on social insurance issues when his 'social' colleague Ter Veld took office as state secretary of social affairs.

The Social Democrats, back in government for the first time in years, had underestimated the dilemmas they were to encounter (according to Wöltgens, in *Vrij Nederland* 960613). Likewise, former Minister of Social Affairs De Vries (CDA) recalls:

For a long time, the PvdA naively thought it could govern in a different way, without taking painful measures. But once they were in the same position as we had been all the time when they were fighting us from the opposition benches, they saw the same gloomy prospects and data from the civil service. Then they had to act... (De Vries 031031; See also *Vrij Nederland* 910427).

Moreover, the Social Democrats wanted to show that they were up to the task of governing in a fiscally responsible way (Van Wijnbergen 2000; confirmed by Wolfson and Ter Veld).

In 1982, we had accomplished the Wassenaar Accord on wage moderation with a long-term vision that we would have to sacrifice income for the structural recovery of our economy. The accomplishments of the Wassenaar agreement should not be in vain. Within the Social Democratic party there was not always total harmony on fiscal responsibility. But I had a different background than most of the Social Democrats with a long parliamentary career. I was there in Wassenaar [as the leader of the trade union federation FNV] at the time when the unions were struggling to achieve this agreement. We had come a long way and we had not yet reached our destination of economic and budgetary recovery. It was absolutely necessary to continue the budgetary restraints (Kok 040116).



Because the financial deficit was not allowed to increase and the economic situation deteriorated rapidly, the targets for cutbacks rose dramatically during the course of the government's tenure. If the cutbacks on disability insurance could not be accomplished, they had to be found in another area of government policy. This hope soon seemed forlorn.

Maybe Ter Veld had hoped for a long time that her PvdA colleagues in the cabinet would support her objections to the high cutbacks on disability insurance. But they all feared that they would have to sacrifice something from their own budgets (De Vries 031031).

Ter Veld concurs: 'None of my colleagues volunteered to take over the burden of cutbacks that was placed in my portfolio' (Ter Veld 031103).

The PvdA ministers had cutbacks of their own to worry about. In the formation, the Social Democrats obtained ministerial positions on all of the spending ministries (*Vrij Nederland*, 910511). If cutbacks were required and one ministry was spared, the others would have to compensate for it in order to meet the overall savings targets. The Ministry of Finance used a distributive formula for this reallocation of cutbacks, based on each department's share of the state budget (Toirkens 1988). This meant that the other PvdA ministers – whose portfolios were already severely affected by the government's cutback plans – would be the first to pay for any decrease in the proposed cutback targets for disability insurance. 'Everyone was only interested in his own policy area. Besides, it had become obvious to one and all that disability insurance was 'no good' in the first place' (Ter Veld 031103).

The ministers had been in hectic cabinet meetings for a week, isolated from the rest of the party, with their colleagues and civil servants. They were awaiting the SER's advice, and wondered if alternative measures could save the day. When the SER's advice was not unanimous, Ter Veld was forced to come up with her own proposal. 'De Vries said to me: if you don't do it, I will' (Ter Veld, cited in *Vrij Nederland* 960613). The cabinet's proposal had to be worse than the SER compromise. 'The SER's majority advice just did not meet the cutback target. They did propose savings, but in the end, not enough. It was simply a matter of calculation' (De Vries 031031, confirmed by Ter Veld 031103, and Kok 040116). Later, the PvdA cabinet members would deeply regret that they had neglected to communicate their considerations and the justifications of their decision to the party's grassroots (Rehwinkel and Nekkens 1994). Ter Beek notes that:

We made a capital blunder by not thinking of a political follow-up strategy. We should have campaigned for our plans to revise disability insurance. But everyone was physically exhausted, particularly Wim Kok. We could think of only one thing: holidays (in Rehwinkel and Nekkers 1994: 106).

The PvdA rank and file were simply unprepared for the changes to come. When the cabinet proposal became public, four of its MPs resigned and many party memberships were canceled, while approximately 10,000 party members had already canceled their membership in the first half of the Social Democrat's tenure (*Vrij Nederland* 9 105 18). The outrage that followed had some impact on the contents of the proposal, but in the end, drastic reforms were pushed through. The purpose of the Social Democrats was to show responsibility and maturity as a partner in government. When the party took the blame for the harsh measures in the summer of 1991, the damage to its previous image was done. From then on, the PvdA stood only to lose from withdrawing its initial support for the drastic cutbacks, since the CDA made it clear that it would mean the end of the coalition. Polls indicated that if the PvdA dissolved the coalition, new parliamentary elections would be disastrous for them, and the Liberals would reform the disability insurance even more drastically. The Social Democrats found themselves caught in a trap as the political ambitions of the party leadership had induced them to take steps that alienated the party from its traditional constituency. There was not much choice but to continue in the new direction, since reversals of decisions did not bring back lost support, on the contrary, it posed a threat to the existing coalition with the Christian Democrats.

In the mean time, the CDA faced another kind of problem. Although Prime Minister Lubbers was keen on finishing a full third term in government, he had to satisfy the right wing of his party, led by Elco Brinkman, who was very critical of the center-left coalition. Former Minister De Vries recalls:

Our own rank and file criticized us for being weak. They suggested that we could not really govern together with the PvdA... We sometimes asked the party: 'give us some more time for those cutback targets, since we are constantly suffering from severe economic setbacks. We could not know at the time that we concluded the coalition agreement that we would have to row upstream.' But the party claimed they had nothing to do with that – we had to do what we promised (De Vries 03 103 1).

The critical attitude of the CDA's right wing gave the CDA cabinet members little room to maneuver. Brinkman asserts that both coalition partners had, during the formation, consented to do something about the increasing disability beneficiary volume. He stated:

Because the issue was so delicate to the PvdA, it was decided not to emphasize it in the coalition agreement. Therefore, the stipulation that the beneficiary volume could not exceed the level of 1989 was formulated – but both the CDA and the Social Democrats knew its implications very well (040105).

The capacity of the PvdA to align itself with the drastic disability reforms was the litmus test of the coalition. 'If that didn't work out, the coalition would have collapsed' (De Vries 031031). During a series of meetings in January 1993, the VVD had shown that they were more than ready to join the CDA in their drastic intervention plans. Brinkman had already come to an agreement with the Liberals (*Keesings* 1993). In sum, where the PvdA rank and file lost influence on their cabinet members, the Christian Democrat grassroots effectively pulled their strings on its CDA representatives in government.

#### **7.4 Triggers and Change Agents**

Even if defenders of the status quo found themselves in a compromised position, and even if change-oriented actors were to be able to make a strong plea to those in power, long established and cherished institutions, such as disability insurance, are usually not turned around overnight. In the social policy sector, the interaction between a handful of people caused a major overhaul of the policy both in a programmatic and in a systemic way. In the course of an ample 18 months, it was decided that benefits would be cut, the criteria would be restricted, and that the administration would be completely reorganized. Why did the conduct of these few politicians so severely affect this well-entrenched policy and the institutions that used to safeguard it, while policy change in disability insurance had so long been taboo and those institutions had proved to be immovable and self-reproducing in prior decades? Before 1990, with almost a million people dependent on disability insurance and a policy sector that was in every way defined, staffed, and managed by the social partners, it would be politically unrealistic and practically impossible to pursue such change. What happened in the interaction

between the actors and the social policy institutions in 1991 and the period that followed that made this drastic change possible?

### An escalating crisis

In September 1990, Prime Minister Lubbers declared that ‘the Netherlands is a sick country.’ This gave a clear picture of the situation that the prime minister was concerned about. ‘Lubbers was, in his third term, a statesman with authority. Whatever he said was important and his words had an enormous impact. He gave us the feeling that the time was ripe...’ (Van den Braak 031028). Kasteleijn states that ‘Lubbers set out a new course at that moment’ (031029). The prime minister’s metaphor became a big hit, as the media began repeating it immediately and people still remember it to this day, some 15 years later. The period that followed, particularly the summer of 1991, would go down in history as the ‘WAO crisis’ (the disability insurance crisis).

By making his statements to a lay audience in an extra-parliamentary setting, Lubbers opened the floor to new participants in the debate. Politicians not normally involved in such matters began to question disability policy. Others besides the social security specialists in the SER and the SVR began looking at the policy results. The crisis narrative mobilized the previously uninterested, and once their interest was aroused the new participants looked at the social security from a radically different perspective. Employers’ representative Van den Braak explains it as follows:

Those other parties had no feeling for social security. You had to explain it all and then you could see it in their eyes that they considered it nonsense. They thought we were just defending our own position.... People did not understand what occupational insurance was, and that it was a matter between employers and employees. Politicians of the 1990s saw it as public property and wondered ‘what are those folks [the social partners] doing there?’ (031028).

Prime Minister Lubbers placed additional focus on the issue by announcing in public that, just as he had promised in the early 1980s with respect to the rising unemployment figures, he would resign if the total number of disability beneficiaries rose over the one million people mark. ‘Lubbers realized that they [the cabinet] were not getting anywhere. He saw his state secretary of social affairs struggling with the issue. He wanted to stir things up and he deliberately dramatized it...’ (Buurmeijer 031014). Muller states that ‘We

were discussing the matter and we were also working on it [in the SER and the SVR] but Lubbers must have thought ‘what’s taking them so long’ and thus added some extra pressure’ (031029).

The number ‘one million’ had a highly symbolic value. In practice, many people with a partial disability benefit were actually working and their benefits served as an income supplement for the income loss they suffered due to their disability. The number of aggregated ‘beneficiary years’ was much lower, approximately 790,000 in 1990 (Aarts and De Jong 1996: 34). Different figures on the size of the problem circulated, but ‘one million’ was a specter that had its effect on the media and the public. Lubbers left no doubt about the consequences of an ongoing increase of the beneficiary volume. Through the support of the CDA party group in Parliament (for instance, Brinkman’s suggestion to abolish the WAO) it became clear that only far-reaching measures were considered enough to stop the trend.

In addition, the proverbial big stick that assured that the coalition parties in Parliament would agree to drastic changes was the one sentence in the coalition agreement, which stipulated that throughout the government’s tenure the number of disability claims was not to rise above the level reached in 1989. ‘This stipulation gave an enormous mandate to the cabinet to act if the number of disability claims indeed did increase. At the same time, it was a time bomb that sat under the coalition’ (Buurmeijer 031014). While time was ticking away, the beneficiary volume continued to increase steadily. ‘Lubbers gave a signal that he really wanted to tackle this problem, and that despite the distrust in his own party, he could do it with this center-left coalition’ (De Vries 031031). The PvdA leadership long maintained that they wanted to protect disability insurance from harsh measures. However, when it became clear that the unions did not support the SER’s advice after all

... something snapped in our [PvdA] Ministers... Simons [state secretary of health care] had said: ‘if there is no societal support to reform the WAO, then we have to tackle this ourselves.’ They felt an enormous amount of time pressure in the cabinet. It was one big pressure cooker... (Wöltgens, *Vrij Nederland* 960613).<sup>12</sup>

### A battle against corporatism

Another vehicle for change was provided by the instigation of the parliamentary inquiry regarding the administration of social insurance. To the PvdA, focusing on the implementation and administration of social security was a

tried and true strategy to divert the attention away from the cherished conditions of social insurance. Many members of Parliament felt very uncomfortable with the decisions of July 1991. Although PvdA MPs disagreed with the vvd on the reform of disability insurance, the parties did share a desire to reform its administrative structure. Robin Linschoten, spokesman of the Liberal vvd on social security issues, joined forces with his PvdA counterpart Flip Buurmeijer. Wöltgens also supported the initiative (*Trouw* 920117).

Support also came from another front: the crown-appointed members of the social economic council who had tried to build a compromise in the summer of 1991. The initiators of this bridge-building effort were three people linked to the three largest parties in Parliament. They formed an SER ‘working group’ consisting of Dik Wolfson, who would later chair the PvdA Committee to set out a new course for the Social Democrats on social security; Gerrit Zalm, the current Minister of Finance for the liberal vvd, but at that time the director of the Bureau for Economic Policy Analysis; and Ad Kolnaar, professor of economics, CDA member and Chairman of the working group. In their attempt to find a compromise – the ‘troika’ as they were called – visited the administrative agencies to discuss with the administrators what problems they faced and how disability insurance could best be reformed. Kolnaar would later recall:

We were absolutely shocked when we got there. We [the troika] constantly had this feeling of urgency: if we don’t do something now, the entire disability insurance scheme will shatter to pieces. Our discussion partners at the administrations had no idea what we were talking about. They considered disability insurance a beautiful arrangement that should stay the way it was. The problems were denied. It was then that we thought ‘what are we working for, a lost cause?’ (cited in *Vrij Nederland* 960613).<sup>13</sup>

Meanwhile in Parliament, ‘Linschoten and I [Buurmeijer] had the idea ‘this is a world in which politicians can think whatever they like, no matter what they do, it is the administration that decides how things go’ (Buurmeijer 031014). Their resolution to install a committee that would investigate the situation of the administration of social insurance was signed by all of the parties, except the CDA. The Court of Audit report in March 1992 came at a convenient time to generate broad support for the resolution (Buurmeijer 031014). The conclusions of the parliamentary committee were so alarming that an official Parliamentary Inquiry started in September 1992, again chaired by Buurmeijer.

The broad support, from both the Liberals (who were eager to eliminate corporatism) and the Social Democrats (who were eager to find a way to prevent severe cutbacks in the insurance conditions), combined with the problems in the implementation of social insurance, culminated in a very critical inquiry report. Unlike other parliamentary inquiry committees, the Buurmeijer Committee presented far-reaching recommendations that included an overhaul of the administrative structures of the social security systems. The union leadership had perhaps not fully realized until then, the vulnerability of their position as a responsible actor for social policy administration. The parliamentary inquiry generated wide support for the notion of getting rid of the social partners from decision-making venues. The unions' formerly advantageous access routes to policy making were now compromising indicators of their poisonous influence on the failing system. The social security council was dissolved and replaced by a government agency. Supervision became the responsibility of a new and independent government committee. The industry boards were privatized. Furthermore, it was decided that, although the social economic council remained, its advice was no longer mandatory, and merely optional, in the policy process. In one stroke, the influence of the social partners on social security decision making and implementation was drastically reduced. They were forced to the margins of the policy process.

#### Political adultery

The Liberals played a pivotal role in this case, since both coalition parties used their flirtations with the Liberals as a way of putting pressure on their respective coalition partner. The CDA knew it had the support of its rank and file, and could use the support of the Liberals in opposition as a leverage to force the PvdA to agree to far-reaching retrenchment proposals. However, as we discussed above, the PvdA had already attempted a deal with the Liberals on the administrative reform of disability insurance in the hopes of circumventing their agreements in the coalition. The CDA ministers in the cabinet grudgingly watched this happen. Because the coalition was already under fire from the Christian Democratic right-wing, Prime Minister Lubbers did not inform his party in Parliament of the PvdA members' secret meetings with the liberal VVD to discuss a deal in 1992. The prime minister did not want to give his critics even more ammunition. However, when the CDA and the VVD later met to discuss alternative disability reforms, PvdA leader Kok accused his coalition partners of 'adultery.' The atmosphere became rapidly pungent. This was certainly the case during the cabinet

meetings in January 1993, when the PvdA and CDA ministers had to make a final decision on a new reform compromise (interviews Ter Veld 031103 and 031111).

On 22 January 1993, the CDA and VVD announced an outline of an agreement, with further details on Saturday 23 January. CDA spokesman Biesheuvel would contact them later that afternoon, pending the final approvals of party leader Brinkman and Prime Minister Lubbers (*Vrij Nederland* 930206). The VVD was convinced after the final talks on Saturday morning that they had a deal with the CDA. On that very same day, members of the core cabinet on the issue (Lubbers, Kok, Ter Veld and De Vries, who were mandated by the rest of the cabinet) met at the residence of Minister De Vries. They were to discuss with parliamentary party group leaders Wöltgens, Leijnse (both PvdA) and Brinkman and Biesheuvel (both CDA) if a final compromise between the CDA and PvdA was at all possible. De Vries had a proposal that was finally accepted by both parties, a proposal that would ultimately save the day. Ter Veld notes that

Wöltgens was opposed to the new proposal, and said he would only agree if there was an official threat that otherwise the coalition would collapse. There was no such official threat at first, but then Bert [De Vries] and I said, ‘well okay, you can have your cabinet crisis.’ So then we both threatened to resign (031111).

De Vries and Ter Veld thus took their place in history as enforcers by their threatening to resign if a coalition compromise could not be reached (*Keesings* 1993). ‘Wöltgens just wanted it to be seen in the eyes of the public that the PvdA had saved the coalition by approving the compromise when they were forced to by a real cabinet crisis’ (Ter Veld 031111). The day was almost over when Brinkman called the VVD, informing them that the deal with them was off.<sup>14</sup>

The earlier cooperation between the VVD and the PvdA had only launched an assail on the administration. Once that process was set in motion, there was little that either party agreed on with respect to disability benefits and eligibility criteria. The VVD position was naturally closer to the CDA’s preferences on the matter. If the PvdA were to cause a coalition split, the road was open to the VVD and CDA to join in a new coalition, a situation in which the Social Democrats only stood to lose. The PvdA had lost a large share of its traditional electoral support on the road to reform. The PvdA, due to its own initial eagerness to show the world it was ready to govern in a fiscally responsible way, had ruined its ties with its traditional grassroots. It was



almost condemned to cooperation, in order to stay on board. The CDA, on the contrary, had more freedom to choose. Ter Veld (031111) observes:

Bert (De Vries) was not at all planning to resign if we could not come to an agreement between CDA and PvdA. In fact, he himself had worked on the deal with the VVD. It was Lubbers who wanted to avoid a coalition split. Lubbers just wanted to show the world he could govern with the Social Democrats. He wanted to sit it out with this coalition to the very end.

## 7.5 Conclusion

Why did the reform process in the Netherlands lead to changes that were previously considered impossible? Several elements of the process were analyzed in detail to answer this question.

### Crisis creation

The crisis narrative adopted by Lubbers in 1990 skillfully combined an appeal to solidarity (focusing public attention on activity rates and future welfare state sustainability) and values such as individual responsibility (focusing public attention on the imbalance between the employed and disabled population) and evoked a sense of urgency by stating an ultimatum. Its impact became evident when other actors followed suit (i.e., the media, Parliament). Later the crisis narrative also evoked criticism about the perceived violation of other values such as administrative integrity by the organizations charged with the implementation of the disability insurance. This served as an effective way of putting pressure on the disability benefit system as a whole. It successfully linked the inactivity problem to the alleged generosity and the low thresholds of the disability insurance system. It appealed to society in its reference to ‘the Netherlands’ as being sick and rendered it a major concern for all of us, whereas previously the policy issue was a problem discussed by experts only. The complex social insurance system and its policy outcomes were translated into captivating metaphors and simplified figures. The crisis narrative successfully mobilized opposition against the problematic policy and weakened the support for its traditional advocates.

### Resistance to change

The cabinet decision in the summer of 1991 outraged the trade unions. The employers' organizations and the crown-appointed members of the Social Economic Council who considered their support of the cabinet as applying to far-reaching measures, were offended by a government that ignored their advice. The Social Democrats rank and file felt betrayed by their own political leaders and withdrew their support for the PvdA en masse. Therefore, those who had always been powerful enough to block reform lost their support base to prevent or veto the changes. An important resource of the PvdA and its leaders – grassroots support – was lacking at a time when they needed it more than ever.

The trade unions had not seen the changes coming. Their traditional allies in the Social Democratic party were now in government, and they promised time and again that no drastic measures would be taken. Even though the trade unions were not entirely convinced that the promises were meaningful, they were enough to divide the trade unions in their positions towards the SER's advice and provided their disinclination to acquiesce with the compromise presented by crown-appointed members and employers. Once the proposals of July 1991 were on the table, the CDA announced that only marginal changes would be possible. This posed a threat to the future of the coalition. The Social Democrats in Parliament then turned their attention to alternative methods of handling the problem, and joined the Liberals in their criticism of the administrative structures of the disability policy. They blamed the social partners responsible for this administration for their deliberate abuse of disability insurance over the past decades. The parliamentary inquiry and the media accounts thereof in particular displayed the employers' organizations and trade unions as partners in a grand conspiracy that was causing the current disability insurance problems. From then on, their position as the administrative managers became untenable. The social partners, particularly the unions, were suddenly deprived of their most vital resources to block change: their exclusive access to information and their position as unrivalled experts in social policy making.

### Pursuit of reform

The coalition parties were confronted with an increasingly demanding environment. The CDA faced a right-wing, conservative constituency with large demands for cutbacks and retrenchment. The prime minister was in a position of constantly having to prove that his coalition with the Social Democ-

rats was not a weak enterprise. By contrast, the PvdA faced a more left-wing and progressive constituency that was shocked by their politicians' acquiescence in the face of drastic cutback proposals. The PvdA members in Parliament were entirely unprepared for both the dilemmas and the financial constraints of government responsibility. Though the Social Democrats did not embrace the CDA's retrenchment plans, the PvdA ministers did not have an alternative vision on welfare state retrenchment. Their party, after all, never did. In addition, the PvdA had made a coalition agreement that made them beholden to budgetary austerity: the financial deficit had to show a decline. Unfortunately, the PvdA ministers in the Cabinet all headed spending departments, so when the distribution of cutbacks began, they found themselves trapped in zero-sum situations.

The opposition party (the VVD) played an important role and endorsed a checks and balances situation in which both coalition partners could force change upon the other with regard to two distinct issues: policy reform and the reform of the administration. The VVD's role was pivotal in two ways: 1) as instigator of the parliamentary inquiry on the administration together with the PvdA, and 2) as a threat to the same PvdA when they joined forces with the CDA who wanted to apply more pressure on the cabinet to reform disability policy.

To summarize, the crisis narrative was a successful way of drawing attention to the contradictions that had accumulated in the disability insurance system over the years. Meanwhile, it served to discredit the opponents of change. The crisis compromised the influence of the conservative forces, such as the social partners, on policy making. It then set in motion a reform process that removed reproductive mechanisms, such as the close network of social security experts with a social partner background who defended and further entrenched the institutional status quo. The crisis did not help reform the contradictions in the system such as the low threshold (15% disability) for a benefit claim, however. Oddly enough, the reforms partly strengthened the eroding insurance character of the system because the drastic decrease of benefit levels by the government was compensated in collective labor agreements by the employers' organizations and unions. When the reforms were finally enacted, the social partners immediately reinsured what they called the 'disability insurance gap' with private insurers. These changes in the system widened the discrepancy between those who were protected by collective labor agreements and those who were not. Though some contradictions were to some extent resolved, others were reinforced or introduced. Those other contradictions in the system would haunt Dutch politics for the years to come.



## 8 The Politics of Crisis Construction

### 8.1 Small Steps or Giant Leaps?

In the early 1990s, one million of the Netherlands's 16 million people were receiving disability benefits. Not only did disability insurance allow (and, arguably, generate) inactivity, the Dutch also faced the predicament of further benefit-dependency growth. At the same time, Belgium faced an even larger problem: over one million beneficiaries (out of 10 million Belgians) were dependent on unemployment insurance as their means of survival. Despite very similar circumstances in the two nations, different reforms resulted from the Dutch and Belgian governments' attempts to fight their respective welfare state problems.

This study sheds light on the striking differences in the scope and extent of social policy reform in Belgium and the Netherlands, which are commonly portrayed as very similar polities and welfare states. I argue that the best way to explain these differences is to look at how the construction of a crisis by change-oriented politicians affected institutionally constrained possibilities to reform. The crisis perspective explains why drastic change quite suddenly became possible in the Netherlands in the early 1990s, and why almost nothing changed in Belgium. The empirical chapters of this book probed deeply into the policy-making processes in both the Netherlands and Belgium. Why did Belgium incrementally reform its unemployment policy, while the Netherlands engineered such a drastic change in its disability policies? How did the countries' respective institutional structures affect the policy processes and yield very different outcomes? These questions drove the analytical ambition of this study: to explore the value of an institutional crisis perspective to explain policy change.

This concluding chapter discusses the explanatory power of the crisis perspective on welfare state change. Section 8.2 outlines the primary findings of this study: the conditions under which a crisis narrative affords political actors leeway to instigate change. Section 8.3 looks back at the developments in order to briefly assess the reform outcomes in terms of effects: was

it worth a crisis? The balance of lessons learned comprises section 8.4. We conclude with a discussion of implications for future research.

## 8.2 The Crisis Stratagem

Policymakers who perceive drastic reform as a necessary way to resolve policy contradictions encounter an enormous challenge: how to break the conservative influence of established institutions and their advocates? This book shows that they can use a crisis narrative to create institutional openings for drastic change. Hay (2001) shows how the construction of a crisis narrative and its effect on the interaction between agents and institutions is contingent upon the accumulation of failure and contradictions in the existing policy arrangement. Crisis should be understood, essentially, as a politically mediated perception of institutional performance. Let us consider the benefits of this analytical perspective in somewhat more detail. This concluding chapter highlights the crisis effect on reform processes and the interaction between actors and institutions in the wake of a crisis.

### When does a crisis occur?

Crises in policy sectors are not ontological entities that suddenly ‘occur’; they are deliberately constructed by change-oriented actors. The exploitation of a crisis narrative can serve to break down the existing institutional framework in a policy sector and create room for reform. Before a crisis narrative can be constructed, policy contradictions need to grow or accumulate (Hay 1996).

These contradictions stem from the clashes between an increasingly rigid system and changing societal needs and demands. The Belgian and the Dutch cases had three contradictions in common. First, a growing contradiction between contributions and benefits, particularly among the higher incomes, that had come to contribute disproportionately to a system that only provided them with very low benefits. Second, a growing contradiction emerged between the original objectives of social policy and the perverse effects of the mass exploitation of social security programs. Increasing numbers of beneficiaries caused higher contribution rates, which induced firms to increase their productivity rates in order to remain competitive despite the financial burden of social programs. Higher productivity rates increase the number of marginally unemployable workers. As a consequence, these rates inflated the number of industrial layoffs, and therefore the number of

benefit claims by redundant employees increases, and then the negative spiral starts all over again. Instead of providing benefits for a small number of people temporarily out of work, the system created long-term mass unemployment. Third, the role of the social partners who represented industry and labor in the policy-making process and the administration of social security, had become an end in itself, instead of only a means to enhance the welfare state. The social partners' behavior during the recession of the 1980s was not only driven by their mission to protect workers and industries, but also by their interest in fortifying their own positions and power.

In both countries, policy-making responses to recession had reinforced the rigidity of the status quo. Institutional reproduction had allowed for an increasing distribution of resources to the trade unions as protagonists of the status quo, including indispensable expertise, monopolized influence on policymakers, and organizational expansion. Increasing returns of the policy developments (sunk costs, adapted labor productivity) assured the declining appeal of policy alternatives. As a result, the policies seemed path dependent, by the early 1990s. Despite a changed environment (economic down-turns, the prospects of demographic aging, European integration, globalization, female emancipation) and the call for social policy to respond to these changes, drastic policy alteration had proved impossible.

Institutional reproduction makes a policy sector increasingly rigid toward its changing context. This rigidity becomes manifest through contradictions between the policy's outcomes and its original purposes. Also, policy outcomes clash with society's changing demands and expectations. Through their crisis narratives, change-oriented actors seek to meet those new expectations by including their preferred solution into their definition of the problem at hand. Let us now discuss how these actors employ a crisis narrative and under which conditions their reform attempts may be effective.

#### When does a crisis narrative 'catch on'?

Crisis narratives call for robust action and structural transformation (Hay 1999). Change-oriented actors identify flaws in a policy system and construct a crisis narrative that points to those flaws as symptoms of larger failure. We recognize this construction of crisis through the following occurrences: 1) when change-oriented actors publicly use the word 'crisis' to describe a very undesirable situation that confronts society; 2) when they stress the urgency and necessity of drastic intervention; 3) when they appeal to society at large to comply and cooperate ('as if we were at war'); and

4) when a simplified account is given of the many symptoms of the identified crisis and its causes. Strong symbols or metaphors are used ('the Netherlands is sick'). Those metaphors convey an important message to a previously disinterested public: that it needs to support drastic intervention in order to solve a (highly dramatized) problem (Edelman 1977; cf. 't Hart 1993).

In the Dutch and Belgian case, the construction of a crisis narrative is easily identified. Belgian Prime Minister Dehaene announced that 'one of the deepest crises Belgium faced since the Second World War' had to be mended by means of a 'Pact': a new foundation of the future welfare state. Meanwhile, his Dutch colleague Lubbers pointed to an 'inactivity crisis' in the Netherlands: far too many people were at home, receiving benefits while they should be working. Lubbers issued an ultimatum to Parliament and threatened to resign if the situation further deteriorated.

One of the crucial differences was that Prime Minister Dehaene's crisis narrative did not interrupt the process of institutional reproduction; nor did it discredit or paralyze the opponents of change. He emphasized the values of solidarity and compliance, but did not blame protagonists of the status quo for the current situation. He accused the social partners of being uncooperative and bypassed them when he obtained emergency mandates to pursue his reform, but Dehaene invited the social partners back to the negotiation table, once he had employed those mandates. The crisis narrative highlighted the need for harmony and cooperation, and as such, contained no source for conflict between the government and the social partners. The runaway unemployment insurance situation was not attacked as a source of the problems but was instead depicted as the product of economic adversity and decreased competitiveness. Therefore, the basic tenets of the system remained beyond discussion – in spite of previous announcements that, finally, the social security system was to be fundamentally restructured.

By contrast, Lubbers singled out disability insurance as the culprit of labor market inactivity and involved the society at large in the debate. He did so by stating that the entire country was 'sick.' The social partners were bypassed when they proved unable to produce unanimous advice on the direction of reform. In the wake of the crisis launched by Lubbers, the social partners were also identified as the ones to blame for the 'Dutch disease.' The Dutch social partners were never invited back to the table in this reform process. The crisis narrative also pointed to more structural solutions. Whereas the Belgian crisis put pressure on the policymakers to solve the immediate budgetary problems and to meet the EMU criteria in the short run, the Dutch were forced by the Christian Democratic constituency and the Liberal opposition to solve the disability problems for once and for all,



preferably by abolishing the entire arrangement altogether. This pressure on the Dutch cabinet affected the preferences of the coalition parties regarding decision making, because the CDA felt pressured to respond to its rank and file and the PvdA feared a coalition split that would clear the way for the Liberals. This decision-making process will be discussed in brief below. Here, we can conclude that a combination of perspectives on crisis instigation and construction (Hay 1996; 2001) and crisis escalation and management (Boin and 't Hart 2000) provides an excellent tool for future analyses of large-scale reform processes.

The Dutch case shows that a crisis narrative – once launched – can be ‘hijacked’ by others to pursue a reform undesirable by the original instigators of the crisis. When the Christian Democrat leadership engaged in crisis rhetoric in order to intervene drastically in the disability insurance policy issue, they unwittingly triggered a major overhaul of the administration of the entire social insurance system. Meanwhile, the Liberals and Social Democrats hijacked their crisis narrative to reform the corporatist administrative structure. This finding indicates a shortcoming in Hay’s conceptualization because crises may be the product of intentional action, but – once created – a crisis can assume a life of its own (cf. Kingdon 1995: 178). The original instigators may drop the reins and lose control over the directions and effects of the crisis narrative. This prompts questions about the effectiveness of employing a crisis narrative as a strategy to instigate reform.

#### When does a crisis narrative produce the desired effect?

Declaring that a state of crisis exists does not by itself provide the leverage to break a deadlock. The state of existing institutions conditions the scope of change that crises can unleash. An institutional structure becomes vulnerable to a crisis due to the structure’s increasing rigidity, and the tension between it and the current environment (Alink, Boin and 't Hart 2001). A crisis narrative can only produce reform if it feeds the perception of the stakeholders that the institutionalized policy contradicts its initial purposes and function. In the wake of a crisis, change-oriented actors can neutralize or bypass institutional constraints to reform. In order to understand how these constraints on reform work, and how they can be neutralized or bypassed, we need to study the mechanisms that reproduced these constraints over the years. As Thelen states, ‘Understanding moments in which fundamental political change is possible requires an analysis of the particular mechanisms through which the previous patterns were sustained and reproduced’ (1999: 399).

The effects of institutional reproduction were in both countries, that 1) legislation became more dense and complex; 2) the social partners' (particularly the trade unions') expertise became increasingly indispensable; 3) their influence on social policy making increased; 4) using social insurance as a permanent exit route for redundant employees became more accepted and available; and 5) the labor market became less tolerant of those workers who could not meet the continuously increasing productivity standards. Initially, institutional reproduction strengthened the system's advocates; later, however, reproduction led to rigidity of the policy sector, which could ultimately lead to a 'tipping point.' Crises that, in hindsight, pointed to a new phase in a policy sector served as the final political push necessary for a process of rapid de-institutionalization.<sup>1</sup> At some point, the system's increasing rigidity became very problematic in the face of a changing environment.

An effective crisis narrative undermines the institutional reproduction since it affects: 1) public and political support for the status quo; 2) use of decision-making venues; and 3) access to previously valuable resources. In this way, crisis construction in the Netherlands and Belgium could produce political openings for drastic change. By using crisis rhetoric, change-oriented actors played a critical role in determining the process and outcome of de-institutionalization and reform in both cases. Of course, politicians can exert a collective influence on policy, but in the Netherlands and Belgium, it was individual actors who influenced reform. For example, political leaders such as Dehaene and Lubbers used their authority to intervene in the agenda-setting process of policy domains that had been customarily designated to Ministers of Social Affairs. They did so by personally instigating a crisis narrative. The effects of crisis on support, venues and resources are discussed below.

A crisis narrative can thus be the critical impetus to set off a pending landslide (cf. Pierson 2003). Crisis construction can generate sudden *political support* for reform, or, have 'the potential for mobilizing the previously disinterested' (Baumgartner and Jones 1993: 16).<sup>2</sup> Whereas opponents of the system were previously ignored by the governing elite, the crisis narrative places their subject of dissatisfaction squarely on the political agenda. The protagonists of the status quo no longer control the agenda-setting and problem formulation in policy making. The crisis narrative underlines the perceived importance of solving a problem that transcends the interests of individuals, organizations, and even policy sectors.<sup>3</sup> The issue's salience legitimizes the sacrifice of sacred cows, especially if change-oriented actors convincingly argue that the system does more than simply inadequately

respond to new challenges; it also contradicts the changed environment in many ways. For example, ‘hidden unemployment’ in the Dutch disability insurance was not a priority of the political agenda in the 1980s, when registered unemployment broke all records. Once the economic necessity to ‘hide’ unemployment was gone, inactivity rates continued to rise. As the number of sick and impaired people approached one million, support for established disability insurance institutions eroded. Suddenly, the disability program was considered problematic and the prime minister constructed a crisis narrative to point to people’s continuous abuse of the program and its inherent flaws. In Belgium, the crisis narrative generated support for the social security system by emphasizing exogenous threats and the system’s future sustainability. In the Netherlands, the crisis narrative involved an attack on the system.

In the wake of a crisis, change-oriented policymakers exploited *new venues* for decision making to create an opening for reform. The crisis discredited previously acceptable venues, and rendered them inappropriate for policy decision making. At this point, the crisis narrative portrayed the channels of influence of the status quo’s protagonists as a part of the problem. Additionally, the problem is perceived as massive and in its size, requiring more powerful venues to solve it. In Belgium, powerful venues for decision making such as emergency mandates were used to meet the EMU challenge. However, emergency mandates were not enough to overcome the mobilizing power of the trade unions and the strong influence of parliamentary party groups on the incumbent government. Therefore, the Belgian prime minister anticipated their opposition by using his mandates to pursue modest and detailed reforms, which primarily affected the budgetary problems and not the foundation of the system. In the Netherlands, a parliamentary inquiry was scheduled to find out what was wrong with the institutional status quo. The media accounts of the inquiry displayed the social partners as conspiring against society by deliberately abusing the social insurance system. Suddenly, the social partners were no longer seen as reliable and credible advisors on social policy matters; political actors – particularly the politicians leading the inquiry – seized the opportunity to bypass the social partners in policymaking. The conclusions of the inquiry committee included proposals to reform the administration of the system drastically and deprive the social partners of their influential positions.

Previously *valuable resources*, which were effectively monopolized by the advocates of the status quo, lose their value. Information and expertise, for instance, are worth less and are less appreciated by decision makers when the policy problem has been redefined. One of the effects of the Dutch

disability insurance crisis was that benefit dependency came to be understood as an inactivity issue and a state responsibility. Before, benefit dependency had been primarily an insurance problem and the responsibility of the social partners. Since so many people were *dependent* on these benefits, the benefits had to be provided efficiently and accurately. After the crisis, this line of reasoning was reversed; since *so many people* were dependent on these benefits, access to the system had to be limited. The experts that had governed the system were no longer indispensable, as another kind of expertise was now required. What used to be a great source of political support (the volume of people dependent on the status quo) became a liability.<sup>4</sup> The number of one million drew attention, and could be used to mobilize those who pay for the benefits against the system. The opponents of the benefits system were invisible until the issue was successfully politicized and made subject to societal debates and public criticism. In Belgium, a single label for the many categories of unemployment benefits, which are altogether provided to over one million people, never existed. The beneficiaries in those categories continue to support the status quo. Perhaps the lack of a ‘magic million,’ as a rhetorical symbol provoking action, explains the continuous support for the system.

### **8.3 Reform in Retrospect: Much Ado about Nothing?**

Ultimately, the different reform processes in the Netherlands and Belgium do not seem to make much of a difference in terms of policy outcomes. In the Netherlands, the social partners compensated the cutbacks on disability benefits in quasi-fiscal legislation. In many Dutch industries, benefits were supplemented to match the standardized level by collective reinsurance agreements. In other words, employers’ and employees’ representatives decided to privately insure the new risks of income loss – namely, those following from the public benefit cuts. Approximately 80% of the workforce is covered by those collective agreements, which supplement disability benefits during at least the first years of benefit dependency. Consequently, benefit cutbacks barely affected the vast majority of Dutch employees. In fact, employees with higher incomes in particular are mostly reinsured (Goudswaard and Caminada 2003: 182). The Dutch state also attempted to privatize the administration of benefits. This endeavor ended in 1999, when Parliament feared that the first privately operating administrative agencies<sup>5</sup> would just divide the market among themselves and end up not competing for assignments at all. Cost efficiency and quality would then not be stimu-

lated by the market mechanism. Spurred by criticism of the administrative structure's privatization, government made a remarkable policy reversal (Caminada and Goudswaard 2003). The most recent law on the administration of social insurance set up a central government agency that administers all of the social insurance programs (SUWI 2000).

Soon after, policymakers ended up discovering that the yields of programmatic social policy reform of the early 1990s were insufficient. New measures followed shortly thereafter, such as the higher premium for employers who 'produce' more disability claims. Right after the turn of the century, the government set up an advisory committee (in which the members represented both a political party and either side of the social partners) to analyze the ongoing disability insurance problems and propose a blueprint for a new arrangement. This was followed by an advice of the Social Economic Council and resulted in the recent cabinet proposals to abolish the benefit program for partial disability. In fact, the recently proposed measures are much more drastic than the disability policy changes in the early 1990s. An area of future research would be the study of whether these changes, alongside the social partners' eventual support for them, are the residual results of the 1991 disability crisis. At the very least, it can be stated here that since the early 1990s the incidence of drastic change has increased in Dutch social policy.

Berghman (1997) contends that Dutch policymakers are over-ambitious in that they pursue policy reforms that lead to new blueprints of policy systems, based on newly established consensus between decision makers. Consequently, the Dutch system requires overhauls as soon as one of the essential parameters changes slightly, when the implementation encounters juridical problems, or when the legal framework gets too complicated. In any of these cases, a new consensus must be found. This leads to yet another reform effort and, ultimately, produces increased instability in the policy sector (Berghman 1997).

In contrast, the permanent – if incremental – policy adjustments in Belgium render much greater stability. Yet, Belgium faces a different risk, that of marginal measures that gradually reshape its Bismarckian wage-related benefit system into a quasi-flat-rate benefit system, which becomes incapable of necessary revision. Incremental steps can lead to large-scale change in the long run, but due to lack of foresight or blueprints, the Belgian system lacks internal logic and coherence (Berghman 1997: 209).

The results of the past decade of policy reforms look bleak for both countries. One million people still depend on unemployment insurance in Belgium and on disability insurance in the Netherlands.<sup>6</sup> Despite efforts to

reactivate the social security beneficiaries, it seems as if the entire population has found employment except for those who already depended on social benefits. The effects of systemic labor market contractions in the 1970s and 1980s appear to be persistent. Whether reform constitutes giant leaps or small steps, reformed social insurance does not change the fact that industry has become intolerant of the part of the population that cannot not keep up with increased productivity levels. The institutional reproduction caused perennial problems that proved most difficult to solve, regardless of reforms on social security programs.

Perennial problems may require even more drastic solutions than we have seen in these countries. These solutions are only possible if support for the status quo gradually erodes. In Belgium, mobilization of a previously disinterested electorate against the status quo turned out to be difficult because the unemployment policy problem was made invisible in a wide variety of benefit programs; support for the status quo was effectively rallied by the unions; and the position of the social partners was still verily appreciated.<sup>7</sup> When crisis rhetoric and emergency mandates could not induce drastic reform, the Belgians had no alternative but to follow an incremental route. Though small steps can eventually be effective, they will no doubt take a long time to arrive at the intended policy outcome.

The crisis narrative successfully mobilized the ‘silent opposition’ to disability insurance in the Netherlands; however the mobilization induced more change than the Christian Democrats intended. CDA leaders Lubbers and Brinkman launched a crisis that escalated to unforeseen proportions. The overhaul of the corporatist administration was certainly not envisioned by the Christian Democrats. Yet the changes the CDA leaders intentionally induced were soon neutralized by the ongoing influence of other institutional characteristics.<sup>8</sup> Problems in the disability insurance system continued. However, the now ‘mobilized’ public opposition does not seem to tolerate those problems any longer.

A crisis is not only difficult to control, it is also difficult to terminate (Boin, 't Hart, Stern and Sundelius 2005). Once an issue has become politically delicate, it does not take political opponents much to spark off a new crisis or feed the ongoing upheaval. When we look at the recent Dutch reform proposals, it becomes clear that the changes introduced in the early 1990s were only the start of a reform process that is still going on some ten years later. Though reforms were considered to be radical at the time, expectations were also very high. The reform effects soon disappointed policymakers because the effects were neutralized by parts of the policy system that were still intact. Consequently, more radical steps were required in

subsequent debates on disability reform in the Netherlands. Proposals to drastically alter the program's basic tenets are on the agenda of the cabinet to this day.

#### **8.4 On Balance**

The central claim of this book holds that a crisis perspective will help us to understand reform processes better than other perspectives. In the concluding chapter of this book, it is time to subject this claim to some critical reflection. In the Belgian case, the lack of an effective crisis narrative was not the only explanation for the system's resilience to reform. Other factors were also important, such as the strength of reform opponents; the social policy system's unintended role as the divisive element in political conflicts between the Belgian regions; and the Belgian government's lack of means to afford drastic reorganization. Yet, the crisis perspective allowed us to probe into the Belgian reform process and reveal how these other explanatory factors played a role. The emphasis on the consequences of crises for the use of resources and venues by change oriented actors and protagonists of the status quo, exposed the underlying political tensions and interdependencies in Belgium and enhanced our insight into the dynamics of the Belgian welfare state.

From the findings of this book, we can derive three arguments to advocate further use of this perspective in research on welfare state change and reform in other policy sectors.<sup>9</sup>

First, the crisis perspective helps to understand both why policies remained unaltered for so long and why policymakers could eventually leave the beaten path. Path-dependency cannot be understood without a close examination of the mechanisms that support it. Institutional reproduction is the key to understanding the persistence of institutions in an environment with radically altered functional demands. The analysis of institutional reproduction also shows how rigidity of a policy sector can build up to a point where crisis and drastic intervention are imminent. However, the imminence and occurrence of crisis does not need to induce drastic change. We have discussed how classic notions of veto points and institutional constraints to reform still provide a valid explanation for the hegemony of the status quo. The concept of institutional reproduction helps to analyze where these veto points and institutional constraints come from and how they were strengthened over the years.

Path-dependency has become perhaps too fashionable of a concept over the years. It serves as a good excuse for policymakers when reforms fail, and also for scholars when failing policies – in spite of academic analyses that point to their flaws – persist and policymakers seem to act irrationally. The frequent use of the term path-dependency is misleading when we seek an explanation for policy stability and change. When studied carefully, path-dependency is a very valuable concept for the study of reform processes. Recent publications show the way to its proper use, its possibilities and limits (Deeg 2001; Mahoney 2000; Pierson 2000). This study benefited from those theoretical explorations and aimed to bring its analytical tools a little further in theory and practice. More studies in this fashion are necessary to make the concept more generally applicable and give it more explanatory power, while borrowing back the term from laymen understandings.

Early decisions appeared very important for path-dependent processes and the occurrence of institutional reproduction. Therefore, it is imperative for future research to look closely at those conditions for policy consolidation in the early years of public institutions. The same attention should also be devoted to the period immediately after an institutional crisis or critical juncture. It is not only necessary to find out how change occurs; we should also learn how change solidifies into institutional structures in the stage immediately after a critical juncture occurs.

Second, the crisis perspective probes the black box of the reform process; it shows how change-oriented actors, protagonists of the status quo, and established institutions interact. Actors have a great influence both on institutionalization processes and on creating political openings for change. Their interaction with institutions is the key to understanding both policy stability and reform. This research emphasized that although reform might lead to results that are disappointing or even contrary to the initial reform ambitions, we should learn how reform occurs in the first place. This knowledge can help us to improve decision-making processes in reform attempts so that their effects will improve also.

Third, the crisis perspective reveals under which conditions effective crisis narratives can be constructed and how they relate to policy history and to the directions of reform. Schmidt (2000), Hay (2001) and Cox (2003) indicated the importance of the specific contents of a crisis narrative in terms of the use of symbols and values, the inclusion of a direction of preferred change and the exploitation of a simplified causal account of the situation. In addition, in this research, the crisis narrative was analyzed in relation to the institutional structure of the policy sectors, which defined the resources and venues that previously upheld the power of the opponents of change.



This link between the narrative and its effect on institutions enabled us to understand how reform could occur as a consequence of crisis.

In summary, we can conclude that the analysis of crises as a rhetorical construct helps us to understand the occurrence of sudden drastic change in welfare states. The crisis perspective explains why a crisis narrative enabled some change-oriented actors to overcome institutional barriers to change, whereas other change advocates could not affect the resources and positions of the protagonists of the status quo. Crises matter for reform possibilities, and they do so in a very specific way – contingent upon the institutional development of a policy sector. Specific attention for the causes of crises and the contents of the crisis rhetoric exploited by politicians is therefore imperative for those who seek to understand welfare state change.



## Notes

### Notes Chapter 1

- 1 The Netherlands and Belgium belong to the continental welfare regime, although note that the Netherlands also shows elements of the Social Democratic regime in Esping-Andersen's (1990) typology. For a more detailed overview, see chapter 3 of this book.
- 2 Inactivity rates are the number of citizens of working age (between 15 and 65 years old) without salaried employment per 100 people in the labor force with salaried employment.
- 3 Social partners are defined here as representatives of capital and labor, i.e., both the trade unions and the employers' organizations.
- 4 In the Netherlands, social partners are no longer responsible for benefit administration (since 1994), but at the beginning of the 1990s (our reference period) they were.
- 5 Considering theories on veto points (Wilsford 1991; 1994) and veto powers (Immergut 1992).
- 6 Comparative studies on the Lowlands such as those by Mok (1985), Van Ruijsseveldt and Visser (1996), Keman (1997), Hemerijck, Unger and Visser (2000) and Brans and Maes (2001) were a great help in this respect. Rich and informative studies explaining Belgian industrial relations (De Broeck 1989; Vilrocx and Van Leemput 1992; 1998), explaining Belgian politics (Fitzmaurice 1996; DeWachter 2001; Van de Lanotte et al. 2003) or explaining Belgian social security (Van Steenberge 1987; De Lathouwer 1996; Cantillon 1999; Deleek 2000) have been a great help to this research. With respect to politics in the Netherlands, I can recommend Andeweg and Irwin (2003) and Toonen and Hendriks (2002). My research greatly benefited from expert studies on Dutch disability insurance (most notably Aarts, Burkhauser and De Jong 1996; Aarts, de Jong and Van der Veen 2002; Bannink 2004) and Dutch social security (see Cox 1993; Goudswaard, De Kam and Sterk 2000). In addition, Visser (1998), Visser and Hemerijck (1997) and Delsen (2000) have written excellent studies on political economy and industrial relations in the Netherlands.

## Notes Chapter 2

- 1 This claim was particularly popular among historical institutionalists. Historical institutionalism is a branch of new institutionalism that pays special attention to the way institutions structure actors' goals, interactions, and strategic decisions in institutional environments that have developed over time. Institutions are both formal and informal rules and procedures that structure human conduct. For comprehensive overviews on new institutionalism and the position of historical institutionalism within it, see Thelen and Steinmo (1992), Hall and Taylor (1996), and Campbell and Pedersen (2001). This book will draw heavily on insights from historical institutionalism to analyze path-dependency in welfare state reform.
- 2 This logic is based on the assumption that a fierce anti-Communist like Richard Nixon was better able to end the Cold War between the U.S. and China than any other American politician because no one could ever accuse Nixon of a soft approach to communism.
- 3 For an overview on functionalist accounts of welfare state expansion, see Van Kersbergen and Becker 2002: 188.
- 4 We follow Elster's definition of 'mechanisms': 'frequently occurring and easily recognizable causal patterns that are triggered under generally unknown conditions or with indeterminate consequences. They allow us to explain, but not to predict' (Elster 1998: 45). As such, social mechanisms are neither universally applicable theories, nor mere empirical descriptions (Van den Hauten 2003). Merton therefore calls them 'middle range theories' (Merton 1968). In the case analysis of this study, an attempt will be made to detect such causal patterns and use these distinguished mechanisms to explain the process and outcome of path-dependency.
- 5 Reference to the popular 1980s BBC series 'Yes Minister,' in which top-level civil servant Sir Humphrey Appleby skillfully manipulates the political fate of his principal, Minister Jim Hacker, at the Department of Administrative Affairs.
- 6 In fact, Mahoney (2000) distinguishes a functional perspective, a power resources perspective and a legitimizing perspective in addition to the utilitarian perspective. Mahoney's presentation of the legitimizing and the functional perspective does not enable us to discern them conceptually in the case analysis, however. In this study, those two perspectives will be taken together as one mechanism because institutional legitimacy and functionality to its environment (meeting external expectations with institutional performance) seem to be intimately linked.
- 7 When Australia's former prime minister, Bob Hawke, entered office in 1983, he soon found out that his liberal predecessors in government had been irresponsibly

increasing public expenditure to beat recession when fiscal and monetary measurements were the only answer in an economy that did not need any more Keynesian stimulus. He realized he could use it to discredit the previous government and instigate a drastic turn in the political and economic history of his country. He would later describe the Treasury report that pinned down the actual fiscal economic situation of Australia as a consequence of liberal spending policies as ‘political gold’ in the hands of the fresh Labor incumbent (‘t Hart 2000; Goldfinch and ‘t Hart 2001).

- 8 Outside actors who get involved could be other actors in the political arena, but can also be (previously uninvolved) interest groups, courts, or bodies of supranational decision making (such as the EU commission). The media serve as important influential messengers who can help escalate a sense of crisis that others put in motion. Media are to a large extent the ‘carriers’ of the crisis narrative.
- 9 ‘Disparate effects of a great variety of independent policy failures and contradictions are brought together in a unified, and deeply politicized crisis discourse. The crisis becomes a point of ‘connotative resonance,’ conjured up in each contradiction, each failure, each symptom’ (Hay 1999: 333).

### Notes Chapter 3

- 1 Small primarily refers to the geographic domain of both nation states. With 10 and 16 million inhabitants respectively, Belgium and the Netherlands are medium-sized members of the European Union. Their open economies are largely dependent on their convenient location at the crossroads of European trade. Imports and exports make up around 75 % of their gross domestic products. Their GDPs show similar figures each year.
- 2 Scharpf (1988) argues that decision making among mutually interdependent partners under unanimity rule suffers from joint-decision traps, when the decision involves a threat to the continuation of existing common policies. Unless no participating actor has a preference for the status quo above the proposed change, the unanimity rule and a foreclosed exit option will ensure that the original proposal will get watered down substantially or rejected completely. However, the proponents of policy change depend upon agreement and ‘are likely to suffer defeat when a confrontational decision style prevails’ (Scharpf 1988: 259). For governments in neo-corporatist systems, confrontational policy such as Margaret Thatcher’s in the United Kingdom is not an option, because they lack the strong majority in Parliament that Thatcher had, and because social partners fulfill a responsible role in the execution of social policy (Scharpf 2000; Van Wijnbergen 2001).

- 3 Which did not officially count in the unemployment records, but nonetheless placed a heavy burden on the unemployment benefit scheme, as in Belgium – see chapter 4.
- 4 By contrast, the OECD report (1992) presents unemployment figures of ‘only’ 9.3% of the labor force in 1991 for Belgium (OECD 1992: 81). However, in the same report, an appendix is included explaining that Belgian unemployment insurance covers not only full-time unemployed job-seekers (the 9.3%), but also part-time, temporarily and the exceptional unemployed. In addition, the insurance provides benefits to people permanently withdrawn from the labor force (pre-pensions). Together, these programs include 1,063,000 beneficiaries (OECD 1992: 66) which is more than 20% of the Belgian population between 15 and 65 years old.
- 5 Expenditures on social protection according to the *Eurostat* definition (Deleek 2001): ‘Social protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved’ (see Eurostat, <<http://forum.europa.eu.int/irc/dsis/coded/info/data/coded/en/glo09366.htm>>, concepts and definitions glossary, checked on 3 December 2003). The list of risks or needs that may give rise to social protection is fixed by convention as follows: 1. Sickness/Health Care; 2 Disability; 3. Old Age; 4. Survivors; 5. Family/Children; 6. Unemployment; 7. Housing; 8. Social Exclusion Not Elsewhere Classified.
- 6 TK 1990-1991 22187, #1, p. 3.

#### Notes Chapter 4

- 1 According to Alphonse Verplaetse, former governor of the Belgian Central Bank, interview 23 January 2003.
- 2 In 1990, Louis Tobback, Minister of Domestic Affairs, asserted that almost 90% of the high public debt is domestically financed, through government bonds and financing by Belgian banks and other credit institutions. ‘This means that one of every ten Belgians makes money off this debt. To these people the public deficit is a blessing’ (Tobback, in Dewachter 2001: 56).
- 3 Between 1973 and 1981, unemployment increased by 400% (Deleek 2001: 206).
- 4 A notorious example is the fall of the Martens VII Cabinet, when the Christian trade union forced their Christian Democratic colleagues in government to split with the Liberals. At the time, the Liberals were led by an ambitious young right-wing politician, Verhofstadt, who was inspired by the Anglo-Saxon new public

- management wave. Under the guise of the linguistic conflict, the government fell because the chairman of the Christian union could ‘no longer stand the pretensions of that greenhorn’ (Houthuys in Dewachter 2001: 31, see also p.80, cf. De Ridder 1993).
- 5 ‘Je me sens plus proche de Louis Tobback que de Johan Van Hecke,’ Gérard Deprez rejette avec horreur le schéma des deux piliers cher au CVP.’ (*Le Soir* 951220). ‘I feel closer to Louis Tobback (SP) than to Johan van Hecke (CVP),’ Gerard Deprez (PSC) rejects the loathed proposal for a two-pillar social security scheme treasured by the CVP (author’s translation).
  - 6 In our period of interest 1991–1997, 4,440 votes were held in Parliament. On only 124 occasions, one or more members of Parliament voted against a proposal of their own coalition party, which comes down to 3%.
  - 7 Inter-professional means that it encompasses different sectors. The basis of each union is sectorally organized, but sometimes the sectors get together for inter-professional action or negotiation.
  - 8 The law of 5 December 1968, on collective labor agreements (CAO) and joint committees (PC), Article 3.
  - 9 For instance, the independent railway workers union OVS organized five big strikes in 1990, in order to gain access to the bipartite sectoral negotiations, and was still waiting outside the door in 1994. Dewachter (1994: 88) argues that the representative unions will use any means to keep their privileges for themselves.
  - 10 Debunne, the secretary general of the Socialist union ABVV, even called a strike in 1982, to make it clear once again to the government that ‘collective agreements are a bipartite privilege’ (Dewachter 1994: 90).
  - 11 According to De Lathouwer (1996: 17), employment benefit dependency (including early retirement exit programs and career interruption, etc.) increased from 111,000 in 1970, to 898,000 in 1990 (+709%). Benefit dependency in pension schemes increased by only 53.1% and disability programs only grew by 77.2% in the same period.
  - 12 Under specific circumstances (war or economic recession), the government can sideline Parliament by asking and obtaining an ‘emergency mandate’ for a defined period. This mandate allows the cabinet to govern and legislate without advance parliamentary approval. At the end of the mandate period, Parliament will evaluate the government’s actions *ex post* (Dewachter 2001: 24).
  - 13 Unless otherwise indicated, this description of the political developments in the 1980s is based on the annual political overviews by Mark Deweerdt in the journal *Res Publica* (1981, vol. 23, no. 2-3, pp. 185-212; 1982, vol. 24, no. 2-3, pp. 221-272; 1983, vol. 25, no. 2-3, pp. 137-180; 1984, vol. 26, no. 4, pp. 413-472; 1985, vol. 27, no. 2-3, pp. 181-227; 1986, vol. 28, no. 3, pp. 365-420; 1987, vol. 29, no. 3, pp. 285-357; 1988, vol. 30, no. 2-3, pp. 136-200; 1989, vol. 31, no. 3,

pp. 236-301; 1990, vol. 32, no. 2-3, pp. 168-206). The journal also offers a concise annual overview in English (same volumes/issues).

- 14 'The extraordinary complexity of the unemployment insurance legislation can be advantageous to the beneficiaries. Art. 143 of the Royal Decree of 1963 requires a complicated procedure of investigation before an unemployed person can be expelled from the scheme. To protect the latter, the law obliges the administration work prudently in order to avoid procedural failures. When a failure is being made, for instance when the procedure is not started in time, the article can not be applied on this person for the next two years, or this person can never be expelled from the unemployment insurance anymore' (Baeck 1991: 401).
- 15 That is, if one only takes into account the budgetary costs of benefits paid – unemployment also generates costs in terms of social exclusion of unemployed, and waste of labor force potential. In addition, inactivity among workers becomes problematic when too few people are working to pay for all of the benefit-dependent people.
- 16 See Baeck 1991: 420-429. Baeck (1996) shows an even higher average for 1991-1995.
- 17 Members of Parliament, chief executives of the ministries, and the European commissioner all score much lower (Dewachter 2001: 28).
- 18 For instance, between 1991 and 1993 1,147 amendments were made in social law (Dewachter 2001: 327).
- 19 This state agency allegedly provided a very poor service to the unemployed (Dewachter 2001: 318; *De Standaard*, 880921).
- 20 Ferrera, Hemerijck and Rhodes (2000: 2) define 'the third way' as welfare state reforms 'involving the accommodation of market pressures with the preservation of social protection and consensus.'

### Notes Chapter 5

- 1 Problem pressure can be understood as a situation in which a policy problem is perceived (by the responsible policymakers) to be highly urgent, and calling for immediate intervention.
- 2 The decline in GDP of approximately 1.25% had not occurred since 1981 (nearly 1% decline) and not as pronounced since 1975 (-1.5%), see OECD *Economic surveys 1993-1994 Belgium and Luxembourg*, p.17.
- 3 According to Peirens (president of the largest Belgian labor union, ACV, during the 1990s), this focus on competitiveness was also of strategic importance to the employers' organizations – competitiveness was a requirement for domestic influence of the employers in bipartite negotiations (Peirens 2000: 114).



- 4 Such a call for concerted action resembles Franklin D. Roosevelt's memorable inaugural speech in 1933, when he launched the New Deal; the most impressive public spending program for social welfare the United States would ever experience.
- 5 See internal Minutes ACV bureau meetings, 931130: 7.
- 7 A few specific measures were introduced: Partners' benefits would become flat-rate after 15 instead of 18 months; the qualifying period for starters to receive an unemployment benefit became nine months instead of six; the qualifying period for workers under 26 was changed to 12 months instead of six to become eligible for an unemployment benefit; suspension could be applied to starters after 24 months instead of the normal average local duration of unemployment. This would save the government 870 million Belgian francs (21.6 million euros), which comes down to 0.5% of the total expenditure (RVA budget 1994: own calculations, p. 87). At the same time, a raise of the minimum benefits (for single households and breadwinners) was required to compensate for the trimmed cost of living index. The Royal Decree of 24 December 1993 concluded that these benefits would increase with 1%, which would cost approximately 320 million Belgian francs (7.9 million euros) in the next year.
- 8 The net effect is the total of subsidies spent on employment creation divided by the number of jobs that would not have existed without those subsidies.
- 9 Several interests could be of importance here. For instance, 'at our sector union, we just had a new chairman in 1993. He had to prove himself in relations with the headquarters, show our teeth to the national ABVV leadership' (Clauwaert 030514).
- 10 The Christian workers had their own organization, ACW, which was the umbrella organization uniting the Christian mutuality (the Christian health care insurance, with 4 million members the largest organization in Belgium), the Christian Women Bond, the Christian Youth Organization, the Christian Pensioners organization and the Christian trade union ACV. Through the ACW, the Christian Democrat political party always maintained close contact with the workers within their constituency.
- 11 Until now, the ministries of Social Affairs and Employment were always in Socialist or Christian Democrat hands. Ministers have full authority over the unemployment insurance since it is only based on Royal Decrees. For unions, this is an advantage; 'I guess we would not like to change it. To push or influence a reform, one can negotiate with a befriended minister, otherwise it could take the full parliamentary procedure' (Wyckmans 030207). The former minister of social affairs, Jean Luc Dehaene was such a 'union man.' His successor as minister of social affairs in the Dehaene I government was Philippe Moureaux, a prominent, heavyweight member of the Walloon Socialist Party.

- 12 Together, the Socialist parties slightly outnumbered their Christian Democrat coalition partners (52-48%). The Francophone *Parti Socialiste* was the bigger of the two and also dominated the French language group in Parliament (representing more than 40% of the Walloon votes). Their ties with the Socialist trade unions had traditionally been strong. ‘There were many informal contacts between the Socialist parties and between the parties and the union. But the Walloon Socialist party is more indebted to the union than the Flemish Socialists’ (Vandenbroucke 030527). ‘The Socialist parties still have a very strong bond with the Socialist union’ (Smet 030203).
- 13 In 1994, the VLD held 31 seats instead of the 26 seats they had gained in the elections of 1991, because five members from other parties joined them between 1991 and 1994. Two of them came from coalition parties (CVP and SP). This means that even without elections the liberals managed to gain 2.4% of representative power (see Deruette, political data on Belgium in 1992, 1993, and 1994).
- 14 ‘The members of the Committee also each implicitly represented one of the major interest groups, they all had the confidence of the social partners. You have to have an eye for that when you compose a committee. Interest representation involves implicit rules that should not be violated’ (Verplaetse 030215).
- 15 This is 4.6% of the total expenditures on social security including education and health care, OECD 1993: 64, Table 11.
- 16 This would consist of non-work-related costs such as health care and child allowances.

### Notes Chapter 6

- 1 With respect to political parties, ‘small’ means 1 or 2 seats in Dutch Parliament.
- 2 Since the merger between the Christian Democratic employers’ organization NCW and the secular VNO in 1970.
- 3 Public hearing Mr. Lamers, *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 93.
- 4 The industry boards were bipartite autonomous agencies charged with the administration of all work-related insurance programs. On matters of disability assessment they consult the Joint Medical Service.
- 5 The Joint Medical Service is a separate medical-vocational body, that works for the bipartite administrative agencies that implemented disability insurance (Aarts and De Jong 1996).
- 6 The social security trap is set into motion by exogenous economic constraints, the steep rise in labor supply due to the baby boom generation entering the labor market in the early 1970s and lack of employment growth to accommodate these new entrants (De Jong 1999: 2).

- 7 Astri/Trimbos 2000, *Studie ten behoeve van de commissie Psychische Arbeidsongeschiktheid (Study for the Advisory Committee on Mental Disability)*.
- 8 Mr. Kruse, during the public hearings of the parliamentary inquiry committee. *Kamerstukken*, TK 1992-1993 22730, no. 9 p. 163. In Dutch, Kruse used the word ‘opzwabberen.’
- 9 Public hearing Mr. Kruse, *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 163.
- 10 Van Loo, civil servant at the Ministry of Social Affairs, explained this to the parliamentary inquiry committee, 17 May 1993. *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 119.
- 11 Former state secretary Ter Veld, in a public hearing to the parliamentary inquiry committee, 27 May 1993. *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 311.
- 12 See also the account of the parliamentary inquiry committee’s public hearing of former Minister of Social Affairs De Koning, *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 605.
- 13 Hearing parliamentary inquiry committee, Mr. Kruse, *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 170.
- 14 Hearing parliamentary inquiry, Mr. Muller, 10 June 1993. *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 576.
- 15 Hearing parliamentary inquiry committee, Mr. Nieuwenburg (May 17 1993) and Ms. Domela Nieuwenhuis (24 May 1993) and Mr. Van Brussel (24 May 1993). *Kamerstukken*, TK 1992-1993 22730, no. 9.
- 16 See public hearing Mr. Den Broeder, *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 150, cf. hearings Mr. Pierik, *ibid.*: ‘We [the civil service at the Ministry of Social Affairs] did not have contact with the social partners, we prepared legislation,’ p. 106.
- 17 Mr. De Koning during the hearings of the parliamentary inquiry committee. *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 602.
- 18 Mr. Hol, during the hearings of the parliamentary inquiry committee. *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 241. See also hearings Mr. Kruse, p. 167 and Mr. Fase, p. 264.
- 19 Mr. Fase, former chairman of the Social Security Council, during the hearings of the parliamentary inquiry committee, *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 264.
- 20 Mr. De Koning, former Minister of Social Affairs, during the hearings of the parliamentary inquiry committee. *Kamerstukken*, TK 1992-1993 22730, no. 9 p. 602.
- 21 See public hearing Mr. Den Broeder, *Kamerstukken*, TK 1992-1993 22730, no. 9, p. 150.

## Notes Chapter 7

- 1 The former chairman of the trade union federation FNV said this (in Dutch): ‘*Onder druk wordt alles vloeibaar*’ about the cabinet decisions – concerning drastic intervention in the disability insurance – in the summer of 1991, cited in *Vrij Nederland*, 14 September 1991 and in *de Volkskrant*, 23 September 2003.
- 2 Though the benefit levels had already been decreased from 80% to 70% of the prior income in 1985, the new cutbacks would cut the benefits even further. Both the duration of the 70% benefit and the replacement rate thereafter became age dependent. Aarts and De Jong (1996: 62) characterize this as ‘a sharp break from a quarter of a century of disability entitlement to wage-related benefits of unlimited duration.’ According to the new calculation, the public benefit to every chronically disabled employee will decrease more than 10% after a few years, when they are younger than 43 and earn more than 1.5 times the minimum wage, and when they are under 50 and earn more than 2 times the minimum wage (See Advisory Committee Disability Insurance, report, May 2001, p.108). The average worker earns between 1.8 and 2 times the minimum wage. Many people lose more than 10%: a 40-year-old teacher would have a replacement rate of 53% of her prior income (-17% compared to the old benefit level). Approximately 80% of the Dutch employees were not directly affected by those benefit cuts, however. Most collective labor agreements reinsured the gap between the old and the new benefit level. This means that part of the financing of social insurance shifted from the public to the private domain (Caminada and Goudswaard 2003).
- 3 In addition, Social Affairs gets 18.4%, and the other eight ministers together get 18.8%. The rest of the budget (26%) goes to debt interests, municipal and provincial governments, and EU contributions (*Miljoenennota 1991*, see *Nota over de Toestand van ‘s Rijksfinanciën*, 18 September 1991, TK 1991-1992 21800, p. 3).
- 4 ‘We [CDA-leadership] consciously aimed at preparing the country for the necessity and urgency of the drastic changes to come. Before, the issue was discussed in Parliament in technical terms only. At the start of the cabinet session, the CDA and PvdA had agreed that they would approach disability insurance with caution regarding policy making because the issue was such a taboo among Social Democrats. In Parliament, the issue was thus discussed in diplomatic terms only. None of the coalition parties asked the other what we were *precisely* going to do about the increasing disability beneficiary volume. But at some point, Lubbers had to put it on the agenda’ (Brinkman 040105).
- 5 Brinkman did not exactly use the word ‘abolish’ when he argued for changing the insurance scheme for disability, but he pointed to the possibilities of introducing a more differentiated arrangement, existing of a flat-rate public arrangement,

- supplemented by collective insurance plans per sector and private insurance arrangements for each individual. This change would in practice mean the abolition of the insurance in its current form, however. Minister De Vries sympathized with Brinkman's proposed alternative (*Nederlands Dagblad*, 921003; *Zeggen-schap – Tijdschrift voor Arbeidsvraagstukken* 910704). Their claims at the time were also perceived as a plea to abolish the disability insurance, as we can conclude from the reactions by Ter Veld and Kok (*Keesings* 1991: 578).
- 6 'I remember a meeting in which a high civil servant, Borstlap, from the Ministry of Social Affairs, asked the prime minister if our cutback plans would *also* have to cover the new financial setbacks in disability insurance. Lubbers answered that that would be too much to ask. A few days later Minister of Finance Kok told the opposition parties in Parliament that *of course* these new setbacks would also be covered by the cutback plans in preparation. I had had no idea that he would do that. He got me completely stuck' (Ter Veld 031103; see also *Vrij Nederland* 960613).
  - 7 The Social Democratic trade union also realized this. Stekelenburg, its chairman, warned in a meeting of the federation council: 'Politically, the chances that the PvdA can stop a decrease of benefit levels from happening are minimal, if the SER cannot find a unanimous compromise. Then the government can cherry-pick (*Dan ontstaat er een grabbelton*)' (Stekelenburg, cited in *Vrij Nederland* 960613).
  - 8 It was a major achievement of the trade unions when they managed to compensate the benefit cuts to the level of 80% of the Dutch employees. However, the logical consequence is that they now had to negotiate on this part of the disability insurance scheme, whereas before, it could be taken for granted because the law used to stipulate a benefit level of at least 70%. The gap between the 70% and the new benefit level now had to be reinsured and the costs thereof limit the room for negotiations on other workers' demands.
  - 9 The aims and targets of the social policies were unspecified, the output criteria for supervision of administrative bodies were not operationalized, the responsibilities of the Social Security council (the bipartite SVR, the council that was supposed to supervise the administration and implementation of social law) were unclear, the surveys of this council among administrative bodies were infrequent, unsystematic and ill-guided and finally, the Ministry of Social Affairs seemed to have no idea of what was going on (*Kamerstukken*, Rapport van de Algemene Rekenkamer naar het Toezicht door de Sociale Verzekeringsraad 1991-1992, 22555, # 1-2).
  - 10 There were two chairmen at the time, Rottenberg and Vreeman.
  - 11 The conclusions of the parliamentary inquiry committee presented in this section can be found in the Buurmijer committee's summary report, called '*Rapport*

*Enquêtecommissie – Samenvatting,* by the *Parlementaire Enquetecommissie Uitvoeringsorganen Sociale Verzekeringen*, here referred to as Buurmeijer 1993. For the full account of the committee's findings, see the parliamentary proceedings: TK 1992-1993, 22730, # 1-9.

12 See also *Het Parool*, 910921.

13 Wolfson would later translate these experiences in his committee report to the PvdA.

14 The Liberals were just having a party congress in the north of the country to celebrate the 45th anniversary of the VVD.

### Notes Chapter 8

1 The historical institutionalist conceptualization of a static period of policy stability broken by a crisis at a critical juncture is an incomplete picture (see Krasner 1984). The period of stability is not static, it involves a dynamic, leading to a collapse of the system.

2 Cf. Schattschneider (1960).

3 Such as a budgetary crisis of the government, the increasing imbalance of the inactive population in relation to the labor force, or the challenge of European monetary integration.

4 Solidarity of the insured community apparently holds until a certain threshold; almost everyone is willing to pay a little extra tax to support the needy. Those beneficiaries can organize themselves and put pressure on government to make sure this care is guaranteed. When the number of beneficiaries increases, solidarity decreases. The burden becomes too heavy. In this sense one could say that 900,000 beneficiaries is a more forceful source of political support than one million beneficiaries.

5 Which used to be the five largest bipartite industry boards.

6 The working population in both countries has increased considerably since the early 1990s and the relative share of the beneficiaries to the labor force has thus decreased.

7 The first elections (European and local elections) after the Liberals had formed their new Flemish liberal party, the VLD, were a huge disappointment (Deschouwer and Deweerdt 1995: 326). Liberal party leader Verhofstadt was criticized for his crusade against corporatism and even considered resigning as party leader. The party governing board convinced him not to. At the party congress in June, it was decided to follow a more 'realistic' strategy in the future (Deweerdt 1995: 293).

8 The introduction of 'generally accepted employment' instead of 'commensurate employment' as the benchmark in disability assessment had a limited impact on

the number of claims due to the fact that disability was based on income loss, not on labor capacity loss. The new criteria assessed how much the earnings of prior employment differed from the earnings potential after disability in other generally accepted employment. Still, this often led to the conclusion that a disability claim was substantial, even if the impairment was modest.

- 9 Forthcoming are several dissertations that employ a crisis-reform perspective in policy sectors very different from the social policy sectors studied in this book. For instance, a study on crisis and reform in the Dutch and Swedish defense sector (Noll 2005), on crises and detention policy reform in the Netherlands and the United Kingdom (Resodihardjo, forthcoming), on immigration policy crises and reform in Germany and the Netherlands (Alink, forthcoming) and on the role of inquiry committees as a link between crises and reform in the Dutch and British criminal justice sectors (Dekker, forthcoming).





## List of Abbreviations

### Belgium

ABVV	Algemeen Belgisch Vakverbond (General Belgian Trade Union Federation)
ACLVB	Algemene Centrale der Liberale Vakbonden van België (General Confederation of Liberal Trade Unions of Belgium)
ACV	Algemeen Christelijk Vakverbond (General Christian Trade Union Federation)
ACW	Algemeen Christelijk Werknemersbond (General Christian Workers Federation)
BB	Boerenbond (Farmers Organization)
CAO	Collectieve Arbeidsovereenkomst (Collective Labor Agreement)
CRB	Centrale Raad voor het Bedrijfsleven (Central Council of Industry)
CSB	Centrum voor Sociaal Beleid (Center for Social Policy)
CVP	Christelijke Volkspartij (Christian Democratic Party), currently CD&V: Christen Democratische en Vlaamse Partij (Christian Democratic and Flemish Party)
EC	European Community
EMU	European Monetary Union
EU	European Union
FGTB	Fédération générale des travailleurs de Belgique (General Belgian Trade Union Federation, FGTB is the French name for ABVV)
GDP	Gross Domestic Product
HIVA	Hoger Instituut voor de Arbeid (Higher Institute for Labor Studies)
IPA	Interprofessioneel Akkoord (Multi-industry Agreement)
LBC	Landelijke Bedienden Centrale (Union of Employees and Managerial Staff Members)
LVZ	Liberaal Verbond voor Zelfstandigen (Organization for Liberal Entrepreneurs)
MPS	Members of Parliament
NAC	Nationale Arbeidsconferenties (National Labor Conference)

NAR	Nationale Arbeidsraad (National Labor Council)
NCEE	Nationaal Comité voor Economische Expansie (National Committee for Economic Expansion)
NCMV	Nationaal Christelijk Middenstands Verbond (National Christian Traders' Union, since 2000 UNIZO)
NIS	Nationaal Instituut voor de Statistiek (National Institute for Statistics)
OECD	Organization for Economic Cooperation and Development
OVS	Overleg Veiligheid Spoorwegen (Independent Railway Workers Union)
PC	Paritaire Comités (Joint Committees)
PRL	Parti Reformateur Liberal (Liberal Reform Party [Walloon Liberals] )
PS	Parti Socialiste (Socialist Party [Walloon Socialists])
PSC	Parti Social Chrétien (Christian Democratic Party)
PVV	Partij voor Vrijheid en Vooruitgang (Party for Freedom and Progress [Flemish Liberals], currently VLD: Vlaamse Liberalen en Democraten [Flemish Liberals and Democrats])
Riziv	Rijksinstituut voor ziekte- en invaliditeitsverzekering (National Agency for Sickness and Disability Insurance)
RSZ	Rijksdienst voor de Sociale Zekerheid (National Social Security Service)
RVA	Rijksdienst voor Arbeidsvoorziening (National Employment Agency)
RVP	Rijksdienst voor Pensioenen (National Pensions Agency)
SP	Socialistische Partij (Socialist Party – [Flemish Socialists])
UWE	Union Wallonne des Entreprises (Walloon Union of Enterprises)
VAT	Value Added Tax
VBO	Verbond van Belgische Ondernemingen (Federation of Belgian Enterprises)
VEV	Vlaams Economisch Verbond (Flemish Economic Union)
VOB	Verbond van Ondernemingen van Brussel (Union of Brussels' Enterprises)

### **The Netherlands**

ARP	Antirevolutionaire Partij (Anti-Revolutionary Party this party merged with the KVP and the CHU into the Christian Democratic CDA in 1980)
CAO	Collectieve Arbeidsovereenkomst (Collective Labor Agreement)
CDA	Christen Democratisch Appèl (Christian Democratic Party)
CHU	Christelijk-Historische Unie (Christian Historical Union, this party merged, with the KVP and the ARP, into the Christian Democratic CDA in 1980)
CNV	Christelijk Nationaal Vakverbond (National Federation of Christian Trade Unions)

CPN	Communistische Partij Nederland (Communist Party this party merged with the PSP, PPR and the EVP into GroenLinks in 1990)
D66	Democraten '66 (Democrats (19)66)
FNV	Federatie Nederlandse Vakbeweging (Dutch Trade Union Federation)
Fte	Full-time equivalents
GMD	Gemeenschappelijke Medische Dienst (Joint Medical Service)
GNP	Gross National Product
GPV	Gereformeerd Politiek Verbond (Reformed Political Union, this party merged with the RPF into the CU (Christian Union) in 1993)
ILO	International Labor Organization
KVP	Katholieke Volkspartij (Catholic People's Party, this party merged, with the ARP and the CHU, into the Christian democratic CDA in 1980)
MHP	Vakcentrale Middelbaar en Hoger Personeel (Federation of Managerial and Staff Unions)
MPS	Members of Parliament
PPR	Politieke Partij Radicaleen (Political Radicals Party, this party merged, with the CPN, the PSP and the EVP into Groenlinks in 1990)
PSP	Pacifistisch Socialistische Partij (Pacifistic Socialist Party, this party merged, with the CPN, the PPR and the EVP into Groenlinks in 1990)
PvdA	Partij van de Arbeid (Social Democratic Party)
RPF	Reformatoische Politieke Federatie (Reformed Political Federation, this party merged with the GPV into the CU (Christian Union) in 1993)
SCP	Sociaal Cultureel Planbureau (Social and Cultural Planning Office)
SER	Sociaal Economische Raad (Social Economic Council)
SGP	Staatkundig Gereformeerde Partij (National Reformed Party)
SP	Socialistische Partij (Socialist Party)
Star	Stichting van de Arbeid (Foundation of Labor)
SVR	Sociale VerzekeringsRaad (Social Security Council)
UNICE	Union des Confédérations de l'Industrie et des Employeurs d' Europe (Union of Industrial and Employers' Confederations of Europe)
VNO-NCW	Verbond van Nederlandse Ondernemingen – Nederlands Christelijk Werkgeversverbond (Confederation of the Netherlands Industry and Employers)
VVD	Volkspartij voor Vrijheid en Democratie (Liberal Party)
WAO	Wet op de arbeidsongeschiktheidsverzekering (Disability Insurance Act)
WRR	Wetenschappelijke Raad voor het Regeringsbeleid (The Netherlands Scientific Council for Government Policy)



## List of Interview Respondents

### Belgium

- M. Andries – Head of research department, VEV (Flemish Economic Federation), Antwerp, 21 January 2003
- R. Blanpain – Professor of social law, Catholic University Leuven, Winksele, 7 March 2003
- J. Bundervoet – Professor of sociology, Catholic University Leuven, Leuven, 10 September 2002
- A. Clauwaert – Secretary-general ABVV *Algemene Centrale* (General Sector Union), Brussels, 14 May 2003
- A. De Koster – Head of social department VBO (Federation of Belgian Enterprises), Brussels, 24 February 2003
- G. De Swert – Head of research department ACV (Christian Trade Union Federation), Brussels, 4 October 2002
- J.L. Dehaene – Former minister of social affairs, former prime minister of Belgium 1992-1999, Vilvoorde, 25 November 2003
- P. Everaert – Chairman ACV-Aalst, Leuven, 5 December 2002
- M. Geerts – ACV National secretary general, Brussels, 15 January 2003
- A. Kemps – Government mediator on industrial relations and employment issues, Ministry of Employment, Brussels, 20 March 2003
- S. Klosse – Professor of social security law, University of Maastricht, Maastricht, 28 January 2003
- T. Janssen – Chairman ACV *Metaal* (Christian Union for Metal Workers), Brussels, 22 January 2003
- A.L. Martens – Professor of sociology, Catholic University of Leuven, Leuven, 26 August 2002
- A. Mok – Emeritus professor of sociology, University of Antwerp, Antwerp, 4 September 2002
- W. Peirens – Former chairman ACV, Leuven, 23 January 2003
- Th. Schollen – General advisor RVA (National Employment Office), Brussels, 8 January 2003, 10 February 2003

- M. Smet – Former minister of employment (1992-1999), Brussels, 3 February 2003
- R. Van den Heule – Government mediator on industrial relations and employment issues, Ministry of Employment, Brussels, 25 February 2003
- P. Van Rompuy – Professor of economics, Catholic University of Leuven; government advisor and member of the Committee Verplaetse in 1993, Brussels, 4 February 2003
- J. Van Steenberge – Professor of social law, University of Antwerp, Antwerp, 4 October 2002
- F. Vandembroucke – Former chairman of the Socialist Party; minister of social affairs, July 1999-July 2003; minister of employment and pensions, July 2003-present, Brussels, 27 May 2003
- X. Verboven – Interregional secretary general ABVV headquarters, Brussels, January 9, 2003, 28 March 2003
- A. Verplaetse – Former governor of the Belgian Central Bank and chairman of the Committee Verplaetse in 1993, Brussels, 15 January 2003
- D. Wittevrongel – Chairman of the ABVV Textile Union, Ghent, 16 May 2003
- F. Wyckmans – Secretary general of LBC-NVK, Union of Employees and Managerial Staff members, Antwerp, 7 February 2003

### **The Netherlands**

- H. Borstlap – Former director-general at the Ministry of Social Affairs, The Hague, 5 December 2003
- L.C. Brinkman – Former parliamentary party leader of the Christian Democratic Party (CDA), Leiden, 5 January 2004
- J.F. Buurmeijer – Former PvdA member of Parliament and spokesman on social affairs, chairman of the parliamentary inquiry committee, Holten, 14 October 2003
- L. De Graaf – Former state secretary of social affairs (1981-1989), The Hague, 13 November 2003
- B. De Vries – Former minister of social affairs and employment, Bennekom, 31 October 2003
- V. Halberstadt – Professor of economics, Leiden University, Amsterdam, 15 October 2003
- F. Hol – Former director general, Ministry of Social Affairs, Leiden, 16 February 2004
- M. Kastelein – Senior policy advisor, Christian Union Federation (CNV), Utrecht, 29 October 2003
- W. Kok – Former minister of finance (1989-1994) and former prime minister of the Netherlands (1994-2001), Amsterdam, 16 January 2004

- H. Muller – Former director social affairs, Dutch Trade Union Federation (FNV), former member of the Social Economic Council and the Social Security Council, The Hague, 29 October 2003
- D. Sluimers – Former senior policy advisor Ministry of Social Affairs and Ministry of Finance, Schiphol WTC, 16 January 2004
- E. Ter Veld – Former state secretary of social affairs (1989-1993), Leiden, November 3, 2003; Kortenhoeft, 11 November 2003
- J.W. Van den Braak – Director social affairs, Dutch Employers Federation VNO-NCW, The Hague, 28 October 2003
- P. Van Loo – Director social insurances, Ministry of Social Affairs, The Hague, 25 February 2004
- H. Vroon – Director of the Dutch Federation of Managerial and Staff Unions (MHP), Den Haag, 4 November 2003
- D. Wolfson – Professor of economics, Erasmus University Rotterdam, member of the Social Economic Council, Rotterdam, 22 October 2003





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