

# Chapter 7

## The Reform of Dutch Disability Insurance: A Crisis-induced Shift of Preferences and Possibilities

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### Innovative reform after decades of deadlock

From 1967 onwards the Dutch disability insurance act ensured income related benefits to every employee unable to work. Disability insurance was constituted by a benefit scheme that offered relatively generous protection. The benefit covered any employee unable to work as a consequence of sickness, accidents, and injuries. The benefit was granted to all those who could not continue their former occupation or a similar occupation, no matter what caused their impairment. In this system employers' representatives and trade unions (hereafter: social partners) had a strong position, because they were responsible for the implementation of benefits and had a two-third majority in the system's supervisory body, in which the government occupied only a one-third minority.

For a long time, this system of generous benefits and strong social partner involvement worked to the satisfaction of most actors involved. In the early 1990s, however, the Dutch social security system found itself in a deep crisis, because both the cost and number of people receiving disability insurance became higher and higher. As a result, and combined with the economic recession of the 1980s, a financial crisis was triggered. This was a turning point in the post-war 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' (Vlek, 1997: 280).

Reforms were set in motion in the summer of 1991. These resulted in unprecedented government cutbacks in social security.<sup>1</sup> Politicians pursued changes in both policy contents and implementation structures. First, disability insurance, the so-called jewel in the crown of the Dutch welfare state, was reformed on several benefit-policy aspects: the duration of benefits was limited, eligibility was restricted, the level of the benefits decreased, and the benefits became age-related. Second, taboos on the administration and implementation of social security were abolished. After decades of deadlock between the government and the social partners, a discussion of who would govern the social security administration became possible. The state enforced the introduction of market mechanisms to induce competition among the public organizations, which had been charged with the implementation of disability insurance. These privatization efforts served to make the administration of benefits more transparent and efficient.<sup>2</sup> In addition, government changed the system of benefit financing in order to address collective action problems.<sup>3</sup> Later, the disability benefit system was renationalized, because the strong position of social partners could continue in the privatized system. This was against the will of the Dutch Parliament.

These reforms followed decades of deadlock and were 'innovative' (Bonoli & Palier, 1998) since they resulted in a system that no longer complied with the corporatist regime logic that had characterized the Dutch social security system (Esping-Andersen, 1990). Theories on welfare states indicate that drastic change is very difficult to achieve (Mishra, 1990; Pierson, 1994; Esping-Andersen, 1999). The occurrence of drastic reform in such a highly institutionalized field as Dutch disability insurance is therefore surprising. The question for this chapter is why innovative reform on both dimensions (policy and administration) was possible after all those years of protracted stalemate.

The next section summarizes the long history of inertia and the barriers that obstructed previous reform attempts. In section three we dissect the disability reform efforts and results. Section four analyzes the factors that made these reforms possible. Finally, section five summarizes and discusses

our case analysis, employing the analytical scheme presented in [chapter 1](#).

## Barriers to reform: The linkage of policy and administration

Before the 1990s, various attempts were made to reform the Dutch disability insurance system. However, these reform attempts never led to successful change. Several inter-related factors explain this inertia. First, the prevailing policy paradigm of the 1960s, 1970s, and beginning of the 1980s stabilized policy-making actors' preferences for years. Second, decision-making institutions enabled these actors to withstand pressures to reform the Dutch disability insurance system. The institutions could do so as a result of a tight connection between the disability benefits policy and the administrative system of disability insurance implementation. This connection placed persistent barriers to innovation and reform. The most prominent advocates of this tight coupling between policy formation and administration (the social partners) could veto reforms, reinforce their own strategic position, and rephrase policy initiatives as they saw fit to their paradigm.

### *A problematic policy inheritance*

The 1967 Dutch Disability Insurance Act reflected an ambitious merger of two disability benefit programs which created a problematic policy heritage. It combined universal eligibility rights and the solidarity principle of the old residual disability act with generous income replacement and a low threshold of the Industrial Accidents Act. The latter was a publicly administered, but rather selective, insurance-based arrangement dating back to the first decade of the twentieth century.

The budget for the new disability act was based on estimates of 155,000 claimants, which soon appeared to be quite unrealistic. Soon after its inception, the popularity of the arrangement turned out to pale every estimate into insignificance: in 1980, more than 600,000 people depended on disability benefits. This number would continue to grow steadily during the 1980s (SCP, 1990). In 1970 there were 55 disability benefit recipients per 1000 workers, in 1980 this number increased to 130. In 1990 there were even 152 disability benefit recipients per 1000 workers. This meant that 15.2% of the workers received a disability benefit. In comparison to other European countries, this was a very large number. In Germany, for instance, the percentage of disability benefit recipients in 1980 was 5.9%, and this percentage decreased to 5.5% in 1990 (De Jong, 1999). [Table 7.1](#) shows the development of disability recipients relative to employment in the Netherlands from 1975 to 1990.

Apart from the problematic policy inheritance that was produced by the 1967 merger, the organizational structure established by the 1967 Disability Act was also a legacy from the past. The Act was administered in the framework of the 1952 Social Security (Organization) Act that made the social partners responsible for the administration of the new benefit. The 1952 Act had institutionalized a powerful position of the social partners in the administrative system as well as in the supervision process.

**Table 7.1 Disability benefit recipients in the Netherlands**

Disability recipients in the Netherlands				
	1975	1980	1985	1990
Employment (in 1000 FTE*)	4772	4950	4730	5664
Disability beneficiaries (in 1000 FTE)	311	611	703	790
Disability beneficiaries as % of employment	6.5 %	12.3 %	14.9 %	13.9 %

\* FTE means full-time equivalents

### *The powerful position of social partners obstructs change*

Already in 1967, the responsible minister, Gerard Veldkamp, doubted the efficiency of an administrative system in which social partners had so much power. He therefore asked the Social and Economic Council (SER) – an advisory body with representatives of government, employers, and unions – for advice on social insurance administration (Veldkamp, 1978; SER, 1984). The minister argued for a regional organization of administration under public rule. This would imply an important reform of the administrative system, since it was, until then, based on administration per sector by employers' and employees' representatives. The sector administration basically allowed the social partners full discretion in distributing benefits without government intervention. This structure had operated since the 1930s, and had been even more extended since then. Because they feared reform would bring with it more government involvement, the social partners considered the issue to be extremely delicate. They did not wish to give up their position in administration, because it contributed to their capacity to control the labour market (Bannink, 2004). The representatives of employers and trade unions delayed the legislative processes considerably by putting the required advice of the Social and Economic Council on hold (Klamer, 1990). The Council advised no earlier than in 1984. Not surprisingly, the Council (of which two-thirds of the members were representatives of labour unions and employers' organizations) advised that the existing administrative structure was to remain in place. The social partners argued that the benefit system should remain the responsibility of both employers and trade unions, since the benefits were deemed to be work-related. The social partners were thus able to withstand pressures to reform the administrative system by using their advisory power in the institution of the Social and Economic Council.

### *Alternative measures are taken: Cutbacks on sickness benefits*

In January 1982, the centre-left coalition proposed cutbacks on another social security arrangement – the Sickness Insurance Act – in order to curb some of the ever-increasing costs of the social security system. The idea was that it was preferable to reduce short-term benefits, such as Sick Pay, rather than the long-term disability entitlements on which a more vulnerable group of people depended, e.g. the chronically ill and impaired (Aarts & De Jong, 1996). Nevertheless, this proposal drew a blaze of protest from the trade unions, since employees would receive a lower benefit. Therefore, the Minister of Social Affairs withdrew part of the cutback plan a few months later. The trade unions had been able to block the proposed reforms by putting pressure on MPs and Cabinet members. Voters punished the social democrats in the provincial elections, and the social partners in the Social and Economic Council rejected what was left of the proposed reforms in their advice on the matter (Vlek, 1997). In May 1982, the coalition split and although a centrerightwing austerity government took office, the terms of the Sickness Insurance Act remained untouched.

### *The 'system revision' meets powerful professionals*

Halfway the 1980s, however, both the administrative structure and the rather generous benefit came under pressure again. Because a growing number of people gained access to the disability system and almost none of the disabled ever 'recovered', the total number of disabled people increased steadily. It appeared that in the actual administrative process, virtually no activities were undertaken to reintegrate disability insurance beneficiaries into the labour market, while the entrance into the system was also not contained. The so-called 1987 system revision addressed these issues. In addition to an effort to simplify the system of social insurance benefits and administration, the benefit level was cut from 80% to 70% of the previous income. Also, employment chances would no longer be discounted in the assessment of disability, which would make eligibility criteria for benefits much stricter. These changes were expected to curb the growth of the disability population.

In practice, however, the doctors responsible for disability assessment continued to take employment chances into account (Van der Veen, 1990: 110). As argued in [chapter 1](#), people within organizations have a strong preference to maintain and protect the status quo if it corresponds with their values and those of the dominant paradigm in the policy sector (Terry, 2003). In the case of disability insurance, the doctors continued to let their own sense of fairness (based on previous policy obligations to

disability claimants) guide their assessment, even though the eligibility criteria had become much stricter by law. This was possible because the system allowed the doctors to decide quite autonomously about eligibility. As a result, the number of disability insurance beneficiaries continued to show an enormous increase.

### ***Social partners defend their exclusive rights***

Shortly after, in 1989, a Study Group on the Volume of the Disability Arrangements was established as an outcome of the yearly Fall Conference, during which government and social partners discussed upcoming socio-economic issues. The study group consisted of representatives of the government and the social partners and addressed the issue of rising claims and low re-employment once again. The study group advised the introduction of a so-called *volume policy*. This term refers to the idea that the policy reform does not primarily aim at the cost (i.e. the level of the benefit) of the system, but instead at the number, the volume, of disability insurance beneficiaries. Proposed measures included the introduction of various subsidies for the employment of disabled workers and additional measures supporting the employability of disabled workers in a company.

Again, the social partners used their powerful position in the system to withstand reform pressures (Bannink, 2004). The social partners argued that volume policies required the implementation of an administrative model that would place the responsibility for the administrative system entirely in the hands of social partners, thus restricting the government's role in the supervisory organ (Bannink, 2004). Anticipating the political rejection of the model, social partners argued that the implementation of volume policies (broadly supported in parliament) required the implementation of their preferred administrative model (rejected by parliamentary parties). The stricter claim assessment and focus on re-employment, according to the social partners, would benefit from a more streamlined administration that was no longer divided between social partners and government, but fully in the hands of the social partners. This strategy succeeded; although Parliament was reluctant, the Cabinet accepted the proposed combination of a limited role for the government in the administration system, and the implementation of the volume policy. Hence, the social partners were once again able to retain their powerful position in the system.

By the end of the 1980s, the development of cost reduction in disability policy appeared rather ineffective, because both costs and volume did not decrease (SCP, 1990). The inefficacy was partially caused by the fact that the restriction of benefit eligibility had been fiercely and successfully opposed by the social partners in the implementation process (Bannink, 2004; Kuipers, 2006).

To conclude, until the end of the 1980s, reforms were virtually absent. If anything, they were limited to first and second order changes (Hall, 1993), but reform did not affect the basis of the system. Indeed, social partners remained responsible for the administration of easily accessible workers' benefits. The social partners strongly preferred this system and were able to protect it from reform pressures by effectively using their position in the policy-making and implementation arena. They successfully argued that changing the benefit was problematic for the administration and, likewise, changing the administration would cause problems for the benefit. If anything, social partners were willing to allow an adjustment of benefit criteria, but their position as administrators of the social insurance system (without government involvement) was strongly defended. Social partners not only preferred to maintain the system of easily accessible workers' benefits (cultural approach), they also had strong institutional capacities to protect this system. Their strong position and the strategies they used to take advantage of their dominant position (calculus approach) were the barriers that caused decades of deadlock in the field of disability insurance. [Table 7.2](#) gives an overview of previous attempts to reform disability administration.

**Table 7.2 Chronological overview of previous failed attempts**

<b>Previous attempts to reform disability administration</b>		
<b>Year</b>	<b>The attempt</b>	<b>Reasons for failure</b>
<b>1967–1984</b>	Attempt for changed administration through advice from Social Economic Council	Social partners' strong involvement in policy creation (they hold a two-third majority of the council).
<b>1982</b>	Centre left coalition proposes cutbacks. Content reform.	Social partners (especially trade-unions) organise massive protests, which ultimately led to withdrawal.
<b>1987</b>	System revision that is expected to curb the growth of the disability population. Content reform.	Medical professionals responsible for disability assessment continue taking the employment chances into account. This means that the system revision does not have the expected effect.
<b>1989</b>	Introduction of volume policy, aims at the number of disability insurance beneficiaries. Organizational reform.	Social partners use their power to implement an administrative model that limits the role of the central government and reinforces the position of the social partners in the administration of disability insurance benefit, considered necessary for volume policy.

### **Anatomy of innovative reform**

Despite all previously failed efforts, a large-scale government intervention in both the disability insurance benefit policy and the administration took place in the beginning of the 1990s. At that time, Prime Minister Lubbers recognized the seriousness of the crisis and underscored this by making his famous declaration that 'the Netherlands are sick'. The emerging crisis caused the centre-leftwing (CDA and PvdA) government to propose cutbacks in the costs of the disability system by means of the Disability Benefit Schemes (Entitlement) Act. This act severely limited eligibility rights and introduced regular medical (re)assessments.<sup>4</sup> The reform proposals evoked dismissive reactions by left-wing opposition parties, the left-wing coalition member and labour unions. These parties started to look for alternative reform trajectories in order to prevent the proposed policy change from materializing. Their search resulted in a parliamentary anti-corporatist coalition that, instead of cutting back benefits, aimed at limiting social partners' autonomy in administration. In other words, they did no longer perceive the problems in disability insurance to be caused by the contents of the policies, but instead saw the administrative system as the major cause of high costs.

### ***Parliament steps in***

The Social Democrats in Parliament were outraged that their representatives in the Cabinet had agreed on the Disability Benefit Schemes (Entitlement) Act. Together with the left-wing opposition parties, Social Democrat members of Parliament argued that social partners' unwillingness to support administrative reform proposals caused disability claims to rise (Official Reports, 1991–1992: 6338).

Meanwhile, the National Court of Audit published an investigative report about the lack of supervision on the administrative bodies responsible for the implementation of the disability and unemployment insurances (Court of Audit Report, TK 22555, no. 1-2, 1991). Commotion rose in parliament, since growing irritation about the social partners' rule of the administration coincided with

the draft bill for the new Social Security (Organization) Act. This draft had been heavily influenced by the social partners' views on administration. Most importantly, the draft proposed that a coordination agency representing only the social partners would be established; the agency would acquire some of the tasks of the current supervisory body in which government was also represented. The Court of Audit report, together with the Social Democratic wish to curb the policy reforms, strengthened the belief of many Social Democrats that the corporatist structure of the social security sector was a problem that needed to be addressed first (NRC Handelsblad, 14 January 1992; Trouw, 17 January 1992).

Hence, the Social Democrat members of Parliament deemed stricter disability criteria unnecessary and proposed, instead, administrative reform as the appropriate means to curb volume growth. Buurmeijer, a Social Democrat member of Parliament, submitted a motion asking State Secretary Ter Veld to establish a structure of supervision over administration in which social partners did not have a majority (TK 22011, no. 7, 1991). This motion was supported by all left-wing parties and also, surprisingly, by the liberal party. The liberal party supported administrative reform, because, in its opinion, the current administrative structure interfered too much with the market logic. Nevertheless, Secretary Ter Veld was unwilling to implement the motion. This was because she did not want to disrupt the social partners' ongoing efforts to implement the - previously agreed upon - proposals to reduce the number of disability recipients (in combination with the new model that fully handed power in administration to the social partners). Her unwillingness frustrated reform-oriented politicians to such an extent that they demanded a Parliamentary Enquiry into social insurance administration. A committee to perform this enquiry was formed in May, 1992, and the report of the Parliamentary Enquiry was published in 1993.

### *A Parliamentary Enquiry further induces reform*

The Enquiry concluded that there had been virtually no systematic legislative or ministerial control on the administration of social insurance. In particular, the Enquiry found that: the aims of the social policies were unspecified, the output criteria for supervision of administrative bodies were not operationalized, the responsibilities of the Social Security council (which supervised 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 (Committee Report, TK 22730, no. 7-8, 1993). The picture that emerged from the daily-televized hearings of the parliamentary enquiry committee was that of a tacit conspiracy between the social partners to abuse the disability insurance arrangement through their role in the administration of the system. This devastated the image of all organizations that represented employers and workers (Aarts & De Jong, 1996: 65).

The Parliamentary Enquiry induced a reform of the disability insurance system in a way that had been inconceivable before the 1990s. The Dutch employers' organization and the trade unions were (in their own words) thrown out of the institutional structure (Kuipers, 2006). Independent supervision by a newly established governmental authority replaced the supervision by the former Social Insurance Council, in which the representatives of labour and capital together had a majority (Bannink, 2004). The new organization law was temporary, and stipulated that benefit administration would in the future become market-driven. The previously responsible administrative organizations governed by the social partners were now to compete for assignments of companies and branch representatives in their own region (Van der Veen et al., 1996: 28). This competition was predicted to increase the quality, efficiency, and effectiveness of benefit administration.

### *Social partners change their preferences*

Benefit reform took another direction from the mid-1990s and onward: the emphasis was no longer on the level of protection, but on the financial responsibilities for protection. Therefore, in 1994, employers became responsible for income coverage in the first six weeks of sickness/impairment. Later on, in

1996, their financial responsibility was extended to the entire first year. In 1998, reforms were introduced that shifted financial responsibilities for the disability benefits to employers and differentiated the contributions among them.

The effects of these reform measures were less costly than expected by the social partners: it appeared that approximately 80% of the Dutch employees were not directly affected by those benefit cuts. Most collective labour agreements reinsured the gap between the old and the new benefit levels. As a result, the level of protection that the system offered to employees did not decrease. Because it proved possible to reinsure decreased benefits through collective labour agreements, the trade unions no longer opposed these cutbacks (Van Schendelen & Pauw, 1998; Bannink, 2004). Furthermore, benefit privatization shifted part of the financial burden of social insurance from the public to the private domain, so that the involvement of the social partners in the administration of benefits was not contained. On the contrary, their involvement seemed to grow (Caminada & Goudswaard, 2003). The social partners, therefore, no longer resisted government proposals for further privatization. De-collectivization of benefit contributory obligations, coupled with the introduction of market incentives in the administrative system, now became serious options for the social partners. Therefore, the Social and Economic Council did not reject the underlying logic of privatization and de-collectivization, although they rejected the specific design of government proposals (SER, 1995).

Paradoxically, the social partners embraced policy proposals that were actually aimed to diminish their strategic position in administration. When the political support for benefit privatization grew, the social partners also came to support the privatization of administration. A privatized administrative system, they argued, would nicely fit a privatized benefit system. Therefore, in 1998, two leading women in industrial negotiations, Jongerius (labour union FNV) and Snelders (employers' organization VNO/NCW), made the so-called Ladies' Accord. In the Accord, labour union FNV and employers' organization VNO/NCW agreed to support market liberalization of social insurance administration, including claim assessment, on the condition that the social partners would become the purchasers of administrative services by privatized agencies. In such a privatized administrative system, the social partners could operate as the autonomous, private demanders of privatized administrative services. Instead of introducing market incentives in order to contain social partners' freedom to move, this agreement between the largest labour union and the largest employers' organization redefined privatization as a reform trajectory that increased social partners' autonomy in administration.

### *Parliament steps in again*

In reaction to the Ladies' Accord, parliamentary parties withdrew their support to the further privatization of administration. Political parties feared that full privatization of the system under rule of the social partners would effectively reinstall the old system, in which social partners enjoyed a strong, virtually autonomous, position vis-à-vis the state. In the first place, parliament rejected that claim assessment was to become a competency executed by the social partners. Claim assessment was to remain independent from the parties involved. As a result, in the second place, further privatization of the system became a difficult issue. It had appeared difficult to separate claim assessment and other administrative tasks before. Therefore, instead of the full privatization of the system – as in the Ladies' Accord – parliament proposed to reverse the reform trajectory and fully re-nationalize the social insurance administration (retaining public claim assessment and bringing under public rule the other administrative tasks). In order to keep the incumbent pro-privatization liberal party satisfied, the re-employment services for disabled and unemployed beneficiary recipients should be completely privatized. By applying for re-nationalization of the social insurance administration, parliament obstructed the further market liberalization of disability insurance administration. Forced by parliament, the government subsequently changed its plans drastically, and opted for the re-nationalization of the administrative system, leaving intact the privatized nature of the worker re-employment services.

The new administrative structure was enacted in 2002, and included some remarkable changes compared to the earlier plans. Instead of independent competing administrative institutions with both public and private tasks, one single public institution would be established for the administration of employees' insurances, the UWV (Caminada & Goudswaard, 2003). The government decided that the

administration of the unemployment benefit and the disability benefit was a public affair, and necessarily the responsibility of a public institution, in this case the UWV. Competition was no longer considered desirable. The politicians became responsible for the policy and the supervision; the decisions in individual cases were to be made by the UWV (TK 26448, no. 7, 2000: 14). To guarantee independency, supervision became a task of the newly created agency the Inspection on Work and Income that fell under the Ministry for Social Affairs and Employment (TK 27588, no. 3, 2001: 6).

### *From corporatism to ‘marketization’ to public control*

In sum, major shifts occurred in a couple of years, from a corporatist system of administration and implementation of disability benefits, to plans for competition in the administrative system, to the re-nationalization of the system. Alongside these changes, the benefit was de-collectivized and privatized. Instead of the main policy objective in former decades – to financially compensate people who were not able to work – the main goal had now become to re-employ benefit recipients. With the new administrative structure and privatized benefits, government wished to prevent long-term unemployment and disability by placing emphasis on reintegration efforts.

All in all, the changes amounted to a shift of policy paradigm. The privatization of the benefit, the liberalization, and later re-nationalization of the administrative system, each reflect a strong shift away from the corporatist paradigm. Instead, responsibilities were replaced from organized actors to, on the one hand, individual citizens and, on the other, the state. In terms of Esping-Andersen’s (1990) typology, we see a shift away from the conservative-corporatist regime in the directions of *both* the liberal (market-oriented) and the social-democratic (state-oriented) regimes. [Table 7.3](#) presents a chronological overview of events in social insurance administration, as described above.

**Table 7.3 Chronological overview of events in social insurance administration in the 1990s**

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<b>Anatomy of disability administration reform</b>		
<b>Year</b>	<b>The attempt</b>	<b>Outcome</b>
1992–1993	Parliament wants to stall benefit cutbacks and submits a motion to decrease the role of social partners in the supervision of administration. Mainly content reform attempts.	The State Secretary is unwilling to implement the motion, in order to prevent disruption of social partners' efforts to reduce the number of disability recipients. As a consequence, parliament demands a Parliamentary Enquiry.
1993	Parliamentary Enquiry induces an administrative reform of the disability insurance system.	The Parliamentary Enquiry shows the abusive use of the insurance system by social partners. Social partners are then thrown out of the institutional structure by a new temporary organizational law, which will ultimately lead toward a market-driven benefit administration.
1994–1998	Several changes in financial responsibilities of employers, which diminish the strategic position of the social partners. Content reforms.	Employers become financially responsible for the income coverage in the first six weeks and, later, the whole first year of impairment. Social partners agree because they believe they will become the purchasers of administrative services in a privatized administration system.
1998–2002	After a period of further increasing the power of social partners, the implementation of new administrative structure in 2002.	Parliamentary parties withdraw support for further privatization of administration out of fear for reinstallation of the old system. Social insurance administration is re-nationalized, and the re-employment services are fully privatised.

### **Explaining reform: Changing preferences precede structural change**

With this reform, the government was able to overrule the social partners, with whom they had been in a tug-of-war regarding the administration ever since the introduction of the Social Security (Organization) Act in 1952 (Bannink, 2004). In addition, changes in the insurance policy were introduced that marked a watershed in the policy's history (Aarts et al, 2002: 3; Jaspers, 2001: 39). What changed the willingness and ability of actors within the Dutch policy-making system to push for reform of both disability insurance policy and administration? How is it possible to explain this surprising shift? The calculus approach – such as presented in [chapter 1](#) – instructs us to look at changed decision-making procedures, structures, and actors' institutional capacities that affected the ability to reform. The cultural approach directs attention to the changed preferences of policy-making actors: the social partners and the political parties.

#### ***Crisis creation by leadership***

It is argued that large-scale reforms are often preceded by a crisis that underlines a sense of urgency and severity of the situation (Boin & 't Hart, 2000). In this case, the crisis was evoked by the Dutch prime minister in 1990 when he publicly stated that 'the Netherlands are sick,' in referring to the

unprecedented number of nearly one million people receiving disability benefits. Prime Minister Lubbers tied his political faith to the limit of one million: if the number of disability claims passed this limit, he would resign. His statements firmly placed the issue on the political agenda and drew a blaze of publicity (Kuipers, 2006; Bos, 1999). In reaction, the Social Economic Council – including representatives of both employers and trade unions – unanimously recommended that more efforts should be directed to curb the growth of the disability program (Van Wijnbergen, 2000), probably in an effort to retain the initiative in the debate on disability insurance (Bannink, 2004).

The Cabinet decided to seize this opportunity and proposed a reform package targeted at saving 3.75 billion Dutch guilders (1.7 billion euro) during its incumbency (Vlek, 1997: 568). With a prime minister who wished to finish his job (Lubbers was governing his third term, and had pursued a long-term agenda of sound budgetary strictness) and a Minister of Finance who wished to show that even Social Democrats could pursue austerity policies, there was little room for mercy. The Ministry of Social Affairs was one of the largest spending departments and therefore also faced the largest cutbacks (Kuipers, 2006). Apart from saving money through cutbacks, the Cabinet attempted to curb the benefit dependency growth by making the benefits less attractive and the claimants less eligible.

### *Changing preferences in Parliament*

Lubbers's crisis narrative coincided with changing preferences in Parliament. In Parliament, attention shifted from the adjustment of benefits to the issue of administration. The Social Democrats found an unlikely ally in the right wing opposition party, who strongly advocated a minimal role for social partners in policymaking and implementation. For the Social Democrats, this alliance was a means to stall the cutbacks on benefits that the Cabinet had agreed to (Bannink, 2004; Kuipers, 2006). Together, the Social Democrats and the Liberals issued a Parliamentary Enquiry into social insurance administration. The conclusions of the enquiry were strongly dismissive regarding the social partners' role in the administrative system. The ad hoc parliamentary alliance that initiated the Enquiry clearly rejected the social partners' emphasis on the interconnected benefit policy and its administration. The parliamentary enquiry committee showed that not so much the policy, but the administration, was the cause of disability insurance volume growth. Now the political discussion on benefits and administration became separated: the social partners were blamed for serious flaws in the administration, and were therefore denied their traditional role in policy-making. As a result, social partners lost some of their veto power. This impotence became abundantly clear when the proposed 1989 administrative model, in which the social partners would become fully responsible for the administrative system, and which was strongly supported by the social partners, was rejected in Parliament. Instead, Parliament followed the lead of the parliamentary enquiry committee and reduced social partners' influence in administration.

### *A reform window opens, agents step in*

In sum, the window of reform opened by the public statements of the Prime Minister and the social partners' own indicated willingness to curb further volume growth had produced a joint proposal to drastically change the disability benefits policy. In reaction, an ad hoc coalition was formed that triggered substantial reform of the administrative structure. The trade unions and employers' organizations, traditionally able to bar such changes, were compromised by the outcomes of the Parliamentary Enquiry. The social partners' expertise and influence was now seen as incriminating evidence of their ongoing abuse of undemocratic power. They were no longer able to oppose administrative reform as they had done in the decades before.

In [chapter 1](#), it was argued that reform-oriented actors that use such a *window of opportunity* need to go with the flow and make their reforms compatible with current national and international trends. This was clearly the case for Dutch policy makers on disability insurance, because the institutional sclerosis of corporatism was severely disputed in the early 1990s (Therborn, 1986; Visser & Hemerijck, 1997; Hendriks & Toonen, 2001). The propositions to reform social insurance administration made in the first half of the 1990s explicitly addressed the corporatist nature of the system.

Later on, the flow was followed again when market-oriented reforms of the system were proposed. What is more, however, some parliamentary actors actually *designed* the flow in Dutch politics. Social Democratic MPs rejecting benefit cutbacks, together with Liberal MPs rejecting the corporatist administrative monopoly, took the initiative to start the Parliamentary Enquiry procedure. Subsequently, the enquiry conclusions strongly affected political debate. The Cabinet indeed followed this flow, but only after pressure to do so by Parliament. The Assistant Secretary was only willing to adjust his draft for a new Social Security (Organization) Act after parliament accepted a number of motions that were submitted in the debate on the Parliamentary Enquiry conclusions (TK 23141, no. 12, 1993; TK 22730, no. 18, 20, 24, 1993; see also Bannink, 2004: 155–9). Here we see an instance of *agency* overruling institutional barriers. Social partners fought to protect their powerful position in the administration of disability insurance benefits. In the beginning, they linked changes in the benefit policy (i.e. the assessment criteria, the level of the benefit) in order to retain their powerful position in administration. Changes to the financial structures of the system, which entailed a partial privatization, did not result in the expected problems for the trade unions. Hence, the social partners no longer saw a problem in further privatizing the system, and came to support the further privatization of administration.

Consequently, but unintended, the privatization of parts of the administration of benefits had brought the social partners back to the centre stage of social insurance administration. Until the Ladies' Accord – the agreement between social partners to support the privatization of benefit administration – Parliament had accepted the resurfacing and expanding role (as market players) of social partners in the administrative system, possibly to facilitate social partners' acceptance of the shift of the disability risk from collective to private 'shoulders'. The Ladies' Accord made Parliament realize that old players regained their old positions in a new form, as the social partners had again provided themselves substantial autonomy vis-à-vis the state. Therefore Parliament opted for the re-nationalization of the social insurance administration, without changing its views on the privatization of benefits policy. This, eventually, led to the implementation of another new act of social insurance administration, the Work and Income (Implementation Structure) Act of 2002.

## Conclusion

In this chapter the reform of Dutch disability insurance benefits and administration has been analyzed. A reform, according to the definition in [chapter 1](#), is a fundamental, intended, and enforced change of the policy paradigm and the organizational structure of a policy sector. The reform in our case study complies with this description. It was surprising because it took place after years of deadlock, and because the changes produced a system that no longer complied with the corporatist regime logic.

The most important barriers to reform in this case can be attributed to institutional and cultural constraints (see [Table 7.4](#)). The organizational structure was a legacy from the past. The Netherlands is known for the corporatist organization of policies. Social security, and more specifically the disability insurance, epitomized this kind of organization. Social partners' prominent role in that structure supported their strength in decision-making. Social partners had, for a long time, been able to block reform by emphasising and using the interconnection between the disability insurance benefit and the administration.

**Table 7.4 Barriers and facilitators reform Dutch disability insurance**

Barriers		Facilitators	
The position of the social partners in policy making and administration (policy inheritance)		Focus on rising costs made it possible for actors to change their preferences (diminished barriers, preferences remain the same)	
Barriers	Type of barrier	Facilitators	Type of facilitator
The strong involvement of social partners in policy creation (SER) as well as implementation	Opportunities: Decision-making structure	Public statements Prime Minister ('The Netherlands are sick')	Agency: Leadership
		Willingness social partners to curb further growth (in order to keep control over the debate)	Agency: Go with the flow/Find support
Social partners' focus on the volume and bipartite organization	Preferences: Vested Interests	Ad hoc coalition between left and right wing parties to trigger substantial reform of administrative structure	Agency: Find support
High sensitivity of cutbacks in level of provision	Preferences: Internalised goals	Parliamentary Enquiry into social insurance administration that compromised the trade unions and employers' organizations	Agency: Find support
		Awareness that cutbacks in insurance do not have to hurt the employees, due to collective labour agreements	Agency: Change of preference

A crisis in the early 1990s made it possible to introduce and implement new social security legislation: the social partners were cast aside when the Parliamentary Enquiry revealed their role in the abuse of the insurance system. Public blame on the social partners was an important facilitator for the separation of administration and policy on the political agenda. As a result, alternative reform directions became more acceptable and social partners lost much of their veto power. In other words, the changing preferences of parliamentary actors on the corporatist administration of benefits (cultural approach) affected the veto powers and influence of social partners in policy-making (calculus approach). This facilitated the initial step of drastic reform. Government strongly limited the role of social partners in administration and partially privatized the benefit system. This reform was initially marked by a strong shift away from the prevailing corporatist policy paradigm.

In the Ladies' Accord (1998), however, the social partners seized the opportunity to become the autonomous purchasers of social insurance services. They found a new way to pursue their ever-present preference to protect their roles in administration. In reaction to the Accord, as we have seen, parliamentary parties and government actors realized they rejected giving social partners a strong position in administration. The Ladies' Accord 're-politicized' the issue and turned the administrative structure into a highly disputed issue. As a result, parliament finally re-nationalized the administrative system.

This reform in the disability insurance is an example of what Leemans (1976: 88–9) called ‘upsetting and unsettling’ for individuals and especially organized actors. There were some strong forces in favour of the status quo, but the crisis in the disability insurance in the early 1990s made clear that changes had to be made. Now, more than a decade later, we can conclude that reform indeed took place. The new social insurance legislation as well as the administrative reforms and changes in Dutch disability benefits policy, were remarkable. However, the question remains how long they will last. In 2006, the new social insurance legislation will be evaluated. It is very well possible that a new government will change social security legislation again. However, the paradigm shift and changed preferences we witnessed during this reform process make it more likely that new adjustments will include forms of privatization and competition again. Though it is impossible to tell which reforms of the past decade will continue and which will be reversed, new marks are set for the decade to come.

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1 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 in the six years prior (Vlek, 1997: 469). Though the benefit levels were already decreased from 80% to 70% of the prior income in 1985, the new cutbacks would cut the benefits even further (Kuipers, 2006). Both the duration of the 70%-benefit and the replacement rate thereafter became age dependent, 'a sharp break from a quarter of a century of disability entitlement to wage related benefits of unlimited duration' (Aarts & De Jong, 1996: 62). The new benefit to every chronically disabled employee would decrease at least another 10% after a few years (Advisory Committee Disability Insurance, report, May 2001: 108). Many people would lose more than 10%: a 40-year-old teacher would have a replacement rate of only 53% of her prior income (-17% compared to the old benefit level).

2 Later on, this administrative privatization was reversed because parliament feared negative effects of profit maximization on the lawful assessment of claims.

3 Employers would, in the future, directly feel the costs of disability claims among their employees. Hence, employers 'producing' many disability claims among their workers would pay a higher contribution.

4 The definition of employment was adjusted to include all generally accepted occupations instead of only the work one had before the impairment. In addition, regular assessment of disability was introduced: all beneficiaries younger than 50 would be reexamined according to the new criteria. For those who could claim disability benefits, the duration of their entitlement to a full benefit (70% of previous income) would be restricted. After a few years, depending on the claimant's age, the benefit would be reduced considerably (the extent of the reduction again dependent on age and employment record). Particularly the benefit level of younger claimants (for instance around 30 years old) would be more than halved (Aarts & De Jong, 1996).

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