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gesis
Leibniz-Institut
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Mitglied der
Leibniz-Gemeinschaft

Christoffer Green-Pedersen

The Politics of Justification

Party Competition and Welfare-State Retrenchment in Denmark and the Netherlands from 1982 to 1998

Amsterdam University Press

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For the memory of my father

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Århus, August 2002

Christoffer Green-Pedersen

Contents

Acknowledgements / 5

List of abbreviations / 11

1 Introduction / 13
The arguments in brief / 14
The structure of the book / 16

2 From theories of expansion to theories of retrenchment / 19
Theories of welfare-state expansion / 19
Theories of welfare-state retrenchment / 23

3 A framework for government choice on retrenchment / 31
Political parties: their objectives and incentives for retrenchment / 31
A justification strategy of blame avoidance / 33
Systems of party competition and their effects on the possibilities of pursuing a justification strategy / 35
Connection to the labour market: which social-security schemes will be retrenched the most? / 39
The theoretical argument in brief / 41

4 Research strategy and research design / 43
Denmark and the Netherlands – a most similar systems design / 43
The choice of social-security schemes / 49
The choice of time period / 50
Definition and measurement of retrenchment / 58
Some hypotheses / 62

5 Retrenchments in Denmark and the Netherlands / 65
Retrenchment in Denmark and the Netherlands / 65
Actual variation in extent of retrenchment / 87
The match between the actual and expected variation in retrenchment / 89

6 Dutch Politics and welfare-state retrenchment. How party competition produced consensus / 93
Depillarisation and fumbling response to the oil crises / 93
The first and second Lubbers governments: No-nonsense policy and an emerging consensus / 96
The third Lubbers government: WAO affair and the fall of the CDA / 102
Purple governments: centrist policy without the CDA / 106
The Dutch case – a general view / 107

7 Danish politics and welfare-state retrenchment: The difficulties of a right-wing government and the possibilities of a left-wing government / 111
Landslide election and fumbling socio-economic policy / 111
Right-wing governments and the difficulties of welfare-state retrenchment / 113
1993-1998: the possibilities of social democratic-led governments / 124
The Danish case – a general view / 129

8 The evidence on balance and some quibbles / 131
The empirical support for the framework on balance / 131
Alternative explanations / 134
Balance / 141

9 Party politics matter – summary and implications / 143
The main findings / 143
The implications for the retrenchment debate / 144
The politics of miracles and the dilemmas of European Social Democracy / 149

Appendix / 153
Summary / 159
Notes / 165
References / 175
Index / 197

List of abbreviations

Political Parties

ARP	Anti Revolutionaire Partij (Dutch Protestant/Calvinist party)
CD	CentrumDemokraterne (Danish Centre Party)
CDA	Christen Democratisch Appèl (Dutch Christian Democratic party)
CHU	Christelijk-Historische Unie (Dutch Protestant party)
D66	Democraten 1966 (Dutch social liberal party)
KVP	Katholieke Volks Partij (Dutch Catholic party)
PPR	Politieke Partij Radicalen (Dutch left-wing Catholic party)
PvdA	Partij van de Arbeid (Dutch Social Democratic party)
SF	Socialistisk Folkeparti (Danish moderate left-wing party)
VVD	Volkspartij voor Vrijheid en Democratie (Dutch liberal party)

Social-security schemes

AAW	Algemene arbeidongeschiktheidswet (Dutch disability-pension scheme)
AOW	Algemene ouderdomswet (Dutch old-age pension)
WAO	Wet op de arbeidsongeschiktheidsverzekering (Dutch disability pension)
VUT	Vervroegde uittreding (Dutch occupational early retirement scheme)
WW	Werkloosheidswet (Dutch unemployment-benefit scheme)
WWV	Wet werkloosheidsvoorziening (Dutch unemployment-benefit scheme)

Other Abbreviations

CNV	Christelijk Nationaal Vakverbond (Dutch Protestant federation of trade unions)
CTSV	College van Toezicht Sociale Verzekeringen (Dutch institution for the supervision of some social-security schemes)
FNV	Federatie Nederlandse Vakbewegening (Dutch federation of trade unions)
GMD	Gemeenschappelijke Medische Dienst (Dutch institution for the awarding of disability pensions)
OECD	Organization for Economic Cooperation and Development
LISV	Landelijk Instituut Sociale Verzekeringen (Dutch institution for the coordination of some social-security schemes)
SVB	Sociale Verzekeringsbank (Dutch institution for the administration of some social-security schemes
SVR	Sociale Verzekeringsraad (Dutch institution for the supervision and coordination of some social-security schemes)

1 Introduction

The development of modern welfare states is an issue that has attracted enormous attention within social science. One could easily fill an impressive library with books and articles about the issue. The reasons for this interest are straightforward. The welfare state is a highly important phenomenon in Western societies. It strongly influences the life of nearly the entire population in the Western world. Thus, researchers interested in different subjects such as gender relations (e.g. Lewis 1992; Orloff 1993) or poverty (e.g. Korpi & Palme 1998) automatically come to focus on the welfare state.

Until about 20 years ago, studying the development of modern welfare states was synonymous with studying their growth. This no longer applies. Welfare-state retrenchment has been on the political agenda of most of the rich OECD countries for the last 20 years, and almost all countries have experienced welfare-state retrenchments (Stephens, Huber, & Ray 1999). This has been part of a larger attempt of Western societies to adjust their models of welfare capitalism to a changed economic environment (cf. Kitschelt *et al.* 1999; Regini 2000; Scharpf & Schmidt 2000a). Evidently, the recent development of modern welfare states has also affected the scholarly interest. Research into welfare-state growth is still ongoing (e.g. Hicks 2000; Iversen & Cusack 2000; Mares 2000; Huber & Stephens 2001a). However, starting with Pierson's (1994; 1996) groundbreaking studies of welfare-state retrenchment in primarily the United States and Britain, a scholarly debate about retrenchment has gained momentum.

This book is an investigation of retrenchment in Denmark and in the Netherlands during the period 1982 to 1998, focussing on retrenchment of old-age pensions, unemployment benefits, and disability pensions/early retirement benefits. The general aim of the book is to contribute to the scholarly debate about welfare-state retrenchment in a number of ways. The main aim is to add to the knowledge of the factors causing variation in retrenchment between countries and across social-security schemes. Here, the argument of the book is that politics is the main factor causing variation. In this way, the book differs from most other writings on retrenchment that

follow the new institutional wave within political science in general, highlighting the role of institutional factors. An additional aim of the book is to add to the empirical knowledge about retrenchment. As argued by Alber (1996: 3), '… systematic studies of retrenchment processes in a comparative perspective are still thoroughly missing.' This book aims to fill a small part of that vacuum.

However, this book should not only interest scholars engaged in the debate about welfare-state retrenchment. As argued above, welfare-state retrenchment is part of the broader effort of Western governments to adjust their models of welfare capitalism to a new economic environment. Welfare-state retrenchments are probably the most controversial part of this effort, and this book, therefore, contributes to the understanding of different country's capacity to adjust their models of welfare capitalism. Further, Denmark and the Netherlands have come to be seen as two of the success stories with regard to this adjustment process. Scholars are thus debating both a Dutch and a Danish miracle (cf. Visser & Hemerijck 1997; Schwartz 2001a, and Green-Pedersen 2001a). The book draws attention to the role that party politics has played in the adjustment processes within the two countries. This includes both the development of the party systems in the two countries and the situation of the Social Democratic Parties. The discussion of the latter factor also contributes to the wider debate about the dilemmas of European Social Democracy.

Before presenting a brief overview of the book, it is worth spelling out the main arguments of the book.

The arguments in brief

In its briefest form, the theoretical argument of this book is that politics matter for welfare-state retrenchment. But what does that mean, politics matter? This claim consists of two parts. First, the argument is that governments' possibilities of implementing retrenchment measures are crucially dependent on their capabilities of justifying the measures in the eyes of the electorate. If voters consider retrenchment measures unfair or driven by hidden ideological motives, they are likely to punish governments at the polls. In this way, as Pierson (1994) argues, the politics of retrenchment are the politics of blame avoidance. Instead, governments must convince the electorate that they are retrenching the welfare state to improve its financial viability or to remedy some of the policy failures that may follow from it. The question then is which factors determine governments' capabilities of justifying retrenchment measures?

Two linked factors relating to party politics produce variation between countries because they shape governments' possibilities of justifying retrenchments. First, the electorate has certain standard views of political parties. Parties of the left are expected to focus on social justice and to support the welfare state, whereas parties of the right are expected to concentrate on keeping taxation down and things such as economic management. Christian Democratic Centre Parties fall in between. In addition, they have a reputation for political compromise and social accommodation that may facilitate the justification of retrenchment measures. These standard views of political parties influence the electorate's judgment of the political parties' arguments concerning retrenchment. They are much more likely to accept a left-wing parties' attempt at justifying retrenchment than they are to accept arguments from right-wing parties. In the latter case, they tend to believe that there are hidden ideological motives. Second, the way political parties compete affects governments' possibilities of justifying retrenchment measures. What governments need in order to be successful with their justification strategy is a party consensus in the sense that no other major party attacks their strategies of justification. Whether or not such a consensus emerges depends on the system of party competition and the party-color of the government. In bloc systems of party competition, a consensus emerges only if the left-wing bloc holds office. Bloc systems are systems where a left wing and a right-wing bloc compete over government power by seeking as many votes as possible. The reason for this dynamic in bloc systems is that due to voters' standard expectations of political parties explained above, the right-wing bloc has no votes to gain by attacking a left-wing government for retrenchment. Pivot systems of party competition are systems in which a centre party, often a Christian-Democratic one, is pivotal as it can determine whether it wants to govern with the major left or right-wing party. Such a system produces a party consensus on retrenchment when the centre party opts for retrenchment because the left-wing party then has to accommodate the centre party if it wants to gain office. The factor argued to cause variation across social-security schemes is the degree of connection to the labour market of different social-security schemes. This factor first affects governments' options of justifying retrenchments. For instance, retrenching unemployment benefits can be justified by arguing that generous unemployment benefits encourage passivity. Further, the economic incentives to retrench schemes with close connection to the labour market are greater.

Generally, the developments in Denmark and the Netherlands during the period 1982 to 1998 support the arguments. The book thus offers an expla-

nation why, despite a number of similarities between the two countries, more retrenchment has been implemented in the Netherlands than in Denmark. They both have very extensive and popular welfare states with fairly similar institutional characteristics; they have faced basically the same macro-economic challenges in the period, and have quite similar macro-political institutions. The difference in systems of party competition, bloc system in Denmark vs. pivot system in the Netherlands, explains the variation between the two countries. The argument also offers an explanation why more retrenchment has been implemented in Denmark after 1993 than during the period 1982 to 1993: Denmark was governed by social democratic-led governments from 1993 and during the rest of the period studied. Finally, the theoretical argument also provides an explanation as to why old-age pension schemes have experienced the least retrenchment in both countries; when governments in both countries started focussing on fighting inactivity, old-age pension schemes were out of focus because of their more limited connection to the labour market.

The structure of the book

Chapter 2 is devoted to giving a review of the literature on welfare-state development. The main focus is on the literature on welfare-state retrenchment. However, to make sense of this latter debate, a short introduction to the debate about the growth of the welfare state is also provided. Concerning the literature on welfare-state retrenchment, the focus will be on the arguments about variation across social-security schemes and between countries.

Chapter 3 sets up a theoretical framework for governments' choices about retrenchment. The main argument of this framework is the one presented above. That is, several factors cause variation in retrenchment because they affect governments' possibilities of justifying retrenchment in the eyes of the electorate. In addition, the chapter also argues that office- and vote-seeking governments are prompted towards welfare-state retrenchment by economic factors.

Chapter 4 has two primary aims. The first aim is to justify the choice of cases, that is the choice of countries, social-security schemes and time period. Second, the chapter outlines the theoretical and operational definition of retrenchment used in this book. Here, it is worth emphasizing from the outset that the book builds on a fairly narrow theoretical definition of retrenchment as another word for cutting-back or scaling-down social-security ben-

efits.[1] The chapter ends by deriving 6 hypotheses about the scale of retrenchment to be expected in the two countries.

Chapter 5 uses the definition and operationalisation of retrenchment presented in chapter 4 to evaluate changes in old-age pensions, unemployment benefits, and disability pensions/early retirement benefits in Denmark and in the Netherlands from 1982 to 1998.[2] The chapter then summarises the variation in retrenchment identified and discusses to what extent it matches the hypotheses derived in chapter 4.

Chapter 6 and 7 provide in-depth case studies of the politics of welfare-state retrenchment in the Netherlands and Denmark, focussing mainly on the period 1982 to 1998. The aim of these case studies is to explore to what extent the causal mechanisms surrounding retrenchment actually are the ones suggested in chapter 3. What is provided in chapter 5 is basically correlation evidence for the theoretical argument; that is the correlation between the predicted and the actual welfare-state retrenchment. Yet, the question remains whether the variation has actually come about for the reasons suggested in chapter 3.

Chapter 8 first summarises the results of the two different types of empirical evidence for the theoretical argument; that is both the correlation evidence and the in-depth case studies. The chapter then continues with a discussion of a number of alternative explanations for the variation in retrenchment identified in chapter 5. The point is whether the theoretical argument of this book can explain more of the variation in retrenchment than other theoretical arguments.

Finally, chapter 9 summarises the entire book and tries to draw some lessons from it at two levels. First, the lessons for the retrenchment debate will be discussed. Then the chapter moves on to discuss the broader issue of the two country's apparent success in adjusting their models of welfare capitalism to a changed economic environment.

2 From theories of expansion to theories of retrenchment

Following Pierson's seminal work (1994; 1996), it has become conventional wisdom within the literature on welfare-state retrenchment that retrenchment politics are fundamentally different from expansion politics. This indicates that the scholarly debate about welfare-state retrenchment would be markedly different from the debate about welfare-state expansion, which in several respects is also the case (Green-Pedersen & Haverland 2002). Nevertheless, as will become clear below, the retrenchment debate has not started from scratch. It has been influenced by the preceding and ongoing debate about the growth of the welfare state. Therefore, it is necessary to start with a short introduction to the voluminous literature on welfare-state expansion.

Theories of welfare-state expansion

In the following, a brief sketch of the main positions with regard to the growth of the welfare state will be given.[1] This should provide the reader with the necessary background for understanding the retrenchment debate. In general terms, theoretical arguments about the expansion of the welfare state fall into three groups; namely structural or functional theories, theories emphasising the role of politics, especially party politics, and state-centered or institutional theories.

Structural theories all link the emergence of the welfare state to structural changes in society such as modernisation, democratisation, economic growth, or changes in labour market structures (Wilensky 1975; Flora & Alber 1984; Iversen & Cusack 2000, cf. also Pierson 1991: chap. 1 & 2). These societal changes have lead to the emergence of the welfare state. The main aim of these theories has been to explain why all Western countries developed some kind of welfare state. Less attention has been paid to comparative differences. Still, some 'structural studies' have focussed on variation among welfare states. By way of example, Cameron (1978) and Katzenstein

(1985) emphasize the degree of openness of the economy as a factor leading to different welfare-state developments. Nevertheless, the main impact of the 'structural theories' has been to highlight the existence of certain prerequisites for welfare-state development such as democratisation, modernisation etc.

The second group of theories all emphasize the role of politics, especially party politics, in the expansion of the welfare state. With the structural theories, these theories share the ambition of explaining the growth of the welfare state in general. However, the focus of this second group of theories has also very much been on explaining comparative differences both in welfare effort, that is how much is spent, and in the content of welfare states, that is the way it is spent.

The most prominent of these theories and probably among all theories of welfare-state expansion is what is known as 'power-resources theory' (cf. Castles 1978; Stephens 1979; Korpi 1983; 1989; Shalev 1983; Esping-Andersen 1985b; 1990; Esping-Andersen & van Kersbergen 1992; Hicks 2000; Huber & Stephens 2001a). The core idea of power-resources theory is that the welfare state is part of the distributional struggle in capitalist societies between the working class and the bourgeoisie. A rapid transition from capitalism to socialism never occurred, but instead the welfare state was established. Its basic aim is to secure workers against the perils of the market, that is to de-commodify them.

The establishment of the welfare state became possible with the introduction of universal suffrage and the numerical rise of the working class. Both developments strengthened the political position of the working class compared to other classes. Social Democratic Parties backed by trade unions and opposed by bourgeois parties could implement welfare legislation. Thus, in the sense of the party-color of the government, politics matter (Castles & McKinlay 1979; 1997; Jackman 1986; Esping-Andersen & van Kersbergen 1992). Welfare-state variation has sometimes been explained simply by the power resources of the working class, that is its numerical strength, the strength of trade unions and the extent of social democratic government participation (Korpi 1989). Other studies have given more complicated explanations by including such factors as the possibilities of an alliance with the middle class (Esping-Andersen 1985b; 1990) and the unity of the bourgeois opposition (Castles 1978). However, the bottom line remains that the welfare state is seen as an opportunity for the working class to limit the influence of the market on the distribution of wealth in society (cf. Esping-Andersen 1985c).

Increasingly, scholars arguing from the power-resources approach have

emphasized that the goal of the working class and social democracy has not just been the establishment of a generous welfare state, but the establishment of a generous welfare state with certain characteristics. This is the argument behind Esping-Andersen's (1990) famous identification of three welfare-state regimes. For instance, Esping-Andersen (1985b; 1990) argues that the achievement of Social Democratic Parties in Scandinavia is an institutional welfare state, that is a welfare state relying on especially universal welfare benefits. Along the same lines, Huber & Stephens (2000) argue that Social Democratic Parties, unlike Christian Democratic Parties, have responded to women's entry to the labour market by expanding publicly funded and publicly provided welfare services.

In the 1990's, a number of studies have challenged the strong focus within the power-resources theory on social democracy. They have all argued that political parties or interest groups other than Social Democratic Parties and trade unions have been driving forces behind the creation of modern welfare states. This claim has been strong in relation to the role of Christian Democratic Parties in the building of the welfare states in Continental Europe.[2] Van Kersbergen (1995) has shown how Christian Democratic Parties have established their own version of the welfare state distinct from Social Democratic welfare states (cf. also Castles 1994). Still, studies highlighting the positive role played by political forces other than Social Democratic ones have not focussed merely on Christian Democratic Parties. Baldwin (1990) has shown the importance of agrarian and middle-class interests for the introduction of universal welfare benefits in a number of countries, including the Scandinavian ones. Finally, a new literature is emerging stressing the positive role in welfare-state expansion played by employers (Swenson 1991; Martin 1995; Mares 2000, cf. Pierson 2000b).

The third group of theories about welfare-state expansion is known as state-centered or institutional theories. This is the most heterogeneous group of theories, and basically it is just a heading for a number of theories emphasizing how 'the state' has affected welfare-state expansion (Heclo 1974; DeViney 1983; Skocpol & Ikenberry 1983; Weir & Skocpol 1985; Skocpol & Amenta 1986). Where both structural and 'political' theories explain welfare-state expansion by focussing on societal forces such as political parties, interest groups, or economic changes, all the studies belonging to this third group argue that the state has had an independent effect on the welfare state.

The heterogeneity of this group of theories is due to the quite different conceptualisations of 'the state'. Thus, Heclo (1974) points to the role played by bureaucrats in the shaping of the British and Swedish welfare

states as well as learning from previous policies. Weir & Skocpol (1985) point to the same two variables, but also the role played by state structures and state capacities. As a third example, DeViney (1983) operationalises the role of the state as the impact of, among other things, the resources of the state bureaucracy, reliance on indirect taxes and a centralised state. Altogether, the claim that 'the state' has played an autonomous role in the shaping of modern welfare states points to the impact of quite different factors, and consequently testing the claim has proven difficult. The main contribution of this group of theories has probably been in explaining American exceptionalism, that is why the American welfare state developed quite differently from its European counterparts (cf. Skocpol & Ikerberry 1983).

One of the latest waves within the study of the growth of the welfare state consists of a number of quantitative studies of welfare-state expansion using new methodological tools such as pooled time-series and cross-sectional data (Hicks & Swank 1992; Hicks & Misra 1993; Huber, Ragin & Stephens 1993; Huber & Stephens 1993; Birchfield & Crepaz 1998; Crepaz 1998; Huber & Stephens 2001a), or Boolean techniques (Hicks, Misra and Ng 1995). These studies have tested a number of hypotheses derived from the above three groups of theories. Not surprisingly, the findings do not point to one single cause of welfare-state expansion. Yet, the main finding is that party politics matter (but see Birchfield & Crepaz 1998; Crepaz 1998). The positive impact of Social Democratic Parties on welfare-state expansion is generally repeated in these studies. However, the role of other political forces, especially Christian Democratic Parties, is also clear and these studies thus add to the criticism of the power-resources model for focussing too much on the role of social democracy.

Altogether, even with the latest wave of quantitative studies, the debate about the creation of modern welfare states has not come to an end in the sense that one single explanation for the expansion of modern welfare states has been found. However, there is considerable evidence that political parties, but not necessarily Social Democratic ones, have been the main driving force behind the expansion of modern welfare states. In other words, party politics matter.

The changed economic environment of the welfare state was already clearly visible 20 years ago. The first reaction that this provoked within scholarship was a literature on 'the crisis of the welfare state' (O'Connor 1973; Gough 1979; Offe 1984, cf. also Moran 1988). The gist of these often Marxist-inspired crisis theories was that the problems of the welfare state were not just problems, but rather expressions of crisis in the sense of a fundamental contradiction between modern welfare states and a capitalist

economy. What could be derived from these studies was the expectation that modern welfare states could not survive, at least not without fundamental changes. Yet, this proved false. Modern welfare states did survive and most often without fundamental changes (Klein 1993; van Kersbergen 2000). Therefore, as will be explained below, it is not surprising that the starting point for the recent retrenchment debate has been just the opposite of the crisis literature; namely the persistence of the welfare state.

Theories of welfare-state retrenchment

As mentioned above, the scholarly debate about welfare-state retrenchment was initiated by Pierson's seminal work (1994; 1996). Therefore, a brief introduction to this work is essential as a starting point for a survey of the retrenchment debate.

Pierson – the new politics of the welfare state and blame avoidance

One of the central claims in Pierson's work is that one cannot expect theories explaining welfare-state expansion to explain welfare-state retrenchment. The reason is that the political logic of retrenchment is fundamentally different from that of expansion. According to Pierson (1994: 17-19; 1996: 144-147), there are two reasons for this. First, retrenchment is by itself hazardous since it implies imposing losses on concentrated groups in return for dispersed gains to, say, all taxpayers. The interests surrounding retrenchment are asymmetrically distributed to the disadvantage of retrenchment. In addition, what is known as 'the negative bias of voters' makes retrenchment politically dangerous. The negative bias of voters refers to the finding of electoral research that voters react more strongly if something is taken away from them than if something is given to them (cf. Lau 1985). According to Pierson, the second reason why the political logic of retrenchment is different from that of welfare-state expansion is the growth of the welfare state itself. Under the label of 'the new politics of the welfare state', Pierson mentions two feedback effects from the expansion of the welfare state, which he argues influence the politics of retrenchment. First, welfare programmes have gained strong popularity among the electorate. One can speak of a 'popular entrenchment' of the welfare state. Second, the growth of the welfare state has created a number of interest groups such as organisations for the elderly and unions of public employees likely to meet suggestions of retrenchment with stiff opposition.

In what way is the political logic of retrenchment then fundamentally dif-

ferent from the logic of expansion? For the two reasons outlined above, Pierson argues that the politics of welfare-state retrenchment are an exercise in blame avoidance as laid out by Weaver (1986). Due to the electoral dangers seemingly involved, politicians worrying about their chances of being re-elected will shun retrenchment, unless they find some way of minimising the electoral dangers.

As mentioned before, Pierson's work has been the starting point for the whole debate about welfare-state retrenchment (cf. Ross 2000c). The argument that the politics of retrenchment are different from the politics of expansion and that the former is about how to avoid blame, has become conventional wisdom within the literature on retrenchment (e.g. Esping-Andersen 1996a; Stephens, Huber & Ray 1999; Vail 1999; Ross 2000a; Kitschelt 2001). This may be due to the fact that the hypothesis about welfare-state continuity that can be derived from the argument has generally been confirmed (cf. Stephens, Huber & Ray 1999; Kuhnle 2000; van Kersbergen 2000). As Esping-Andersen (1996a: 266-267) puts it: '....contemporary politics of the welfare state is a politics of status quo'.

Increasingly, however, variation in welfare-state retrenchment has come into focus. Even if the general picture is one of continuity, it is clear that there is variation in the limited extent of retrenchment that has taken place, and this has drawn increased attention. Variation in welfare-state retrenchment can be identified at two levels. First, variation can be identified among countries. Thus, one challenge for theoretical propositions about welfare-state retrenchment is to explain why some countries have implemented more retrenchment than others. Second, variation can be found among different social-security schemes. Some schemes have fared better than others and this must be explained by theoretical arguments about welfare-state retrenchment as well.

Theories of variation in retrenchment across social-security schemes

Pierson (1994: 166-176) himself focussed on explaining variation across social-security schemes. The main variable he singled out as the cause of such variation is an institutional one, namely what he labels 'the programmatic structure' of social-security schemes. This variable is basically a shorthand for a number of characteristics of the rules concerning social-security schemes. The programmatic structure can be identified by answering such questions as, how are eligibility and duration decided? who administers benefits?; etc. In other words, former political decisions about the structure of social-security schemes have feedback effects on the politics of re-

trenchment, and the possibilities of implementing retrenchments will be path-dependent (cf. Pierson 1993; 2000a).

Pierson's (1994: 19-26) argument about why the programmatic structure is likely to be decisive for how different schemes fare is the following: Despite the electoral risks involved, politicians facing 'permanent austerity' (Pierson 1998) are willing to engage in retrenchment if they are able to pursue some kind of blame avoidance strategy, that is some way of minimising the electoral risks involved. Pierson himself identifies three different blame avoidance strategies: strategies of obfuscation, division, and compensation (*op. cit.*). The strategy of obfuscation goes back to Arnold's (1990) idea of causal chains. If voters are to react on a change in public policy, they have to construct a causal chain between government action and positive or negative effects on their lives. Strategies of obfuscation aim at making it more difficult for voters to construct such causal chains. The strategies of division aim at dividing the political opponents. A united opposition is harder to fight, so if a government can split its opponents, it may lessen the political costs of retrenchment. The third strategy is the compensation strategy. Here, the idea is to offer side-payments to specific groups considered to be central for the mobilisation of political opposition.

The possibilities of pursuing such blame avoidance strategies depend on the programmatic structure of the schemes. For instance, Pierson (1994: 53-73) explains Thatcher's relative success in retrenching the British pension system by, among other things, the absence of a unifying scheme, the way benefits were indexed, and the existence of private alternatives. However, Pierson does not put forward any general hypotheses about which types of programmatic structures offer the best possibilities of pursuing the three blame-avoidance strategies.

Other scholars also aiming at explaining variation across social-security schemes have generally followed in Pierson's institutional footsteps. They have also focussed on the programmatic structures of social-security schemes, especially the way they are financed. However, there is some disagreement about which form of financing, social contributions vs. tax-financing, leads to the most extensive retrenchment measures. For instance, Anderson (1998) partly explains variation across social-security schemes in Sweden in the 1990's by the degree to which they are financed by contributions from employers. Such contributions have an easily identifiable effect on international competitiveness. Yet, Alber (1996; 1998) argues that governments will be most interested in retrenching social-security schemes having a direct impact on the government budget, that is schemes financed through taxation.

Another type of argument focuses on other institutional characteristics of social-security schemes arguing that universal schemes will fare better than selective schemes. Universal schemes are schemes providing adequate levels of benefits for the majority of the population including the middle-class (cf. Rothstein 2000), whereas selective schemes are schemes providing meager and means-tested benefits for a limited part of the population. The underlying idea is that the political feedback from universal schemes protects them against retrenchment. This argument has been based on a power-resources theory (Korpi 1980), but also on the norms and attitudes towards social security that universal schemes create (Rothstein 2000).

Arguments other than institutional ones about variation across social-security schemes also exist. Partly following Pierson (1994: 164-166), it could be argued that the strength of organised interest attached to different schemes is decisive. Some schemes, for example old-age pensions, are linked with strong user groups or client networks doing whatever they can to draw political attention to retrenchment. Other schemes such as social assistance or child benefits have no or weakly organised interest to protect them. If the strength of organised interests matters, the latter type of schemes should be most vulnerable to retrenchment. In addition, trade unions have long had close links to certain schemes, especially unemployment benefits since they are involved in the administration of the schemes. However, different opinions exist as to the importance of trade-union attachment. Pierson (1994: 164-166) argues that due to the declining power of trade unions, the schemes they protect are more vulnerable than, for instance, old-age pensions. Anderson (2001), on the other hand, argues that in Sweden, where trade unions are still strong, they have been able to protect unemployment benefits from being exposed to retrenchment measures. Finally, Alber (1998) presents what he labels a Marxist perspective. Here, schemes such as unemployment and sickness benefits closely connected to the labour market are more vulnerable to retrenchment due to the interest of 'capital' in recommodifying labour.

Theories of variation in welfare-state retrenchment among countries

The debate about the factors explaining variation among countries has been more vivid than the one about variation across social-security schemes.[3] Basically, three positions can be identified in the former debate under the headings of economics, institutions, and politics. To some extent, these three groups of arguments resemble the three groups of theories of welfare-state expansion. The arguments about economics, to some degree, are simply re-

versions of the structural theories of welfare-state expansion. The institutional arguments come close to several versions of the state-centered theories. Finally, some attention has been paid to the effects of politics on welfare-state retrenchment, especially party politics, but also political discourse.

Arguments about the importance of economics can be further divided into two subtypes. The most prominent subtype relates welfare-state retrenchment to governments having to respond to macro-economic difficulties such as budget deficits, high unemployment, declining competitiveness, etc. Therefore, the extent of the retrenchment measures governments will implement depends on economic factors such as the gravity of the economic situation and how extensive and hence costly welfare states they govern are. For instance, Castles (2001) shows that the development of public expenditure from 1983-1995 depended on a number of economic factors such as unemployment and economic growth. Along the same lines, Huber & Stephens (2001a) argue that most welfare state retrenchments have been unemployment driven.

A second subtype of economic arguments is the increasing literature that, inspired by the idea of 'varieties of capitalism' (Soskice 1999), focuses on the interplay between welfare states and 'political economies', especially labour markets (cf. Pierson 2000b). This has been a leitmotif in Esping-Andersen's work (1990; 1999); Huber & Stephens (2001b) have analyzed the interplay between welfare states and production regimes, just as Iversen & Wren (1998) have discussed the challenges facing different political-economic models. The contribution of this literature to the retrenchment debate lies in its emphasis on welfare states' close connection with labour markets, implying that analyses of retrenchment cannot ignore different labour-market structures. Yet, it is not always quite clear which hypotheses concerning retrenchment to derive from such arguments. Yet, both Esping-Andersen (1996b) and (Scharpf 1997; 2000b) have emphasized the very difficult situation facing Continental welfare states with regard to the interplay between the labour market and social security.[4]

The most prevalent types of theories about variation in welfare-state retrenchment are theories focussing on the effects of institutions. The new institutional wave within political science in general (cf. Hall & Taylor 1996; Peters 1999) has certainly also swept across the welfare-state retrenchment debate. Upon a closer look, the institutions matter claim in relation to retrenchment can be divided into two groups, one focussing on macro-institutions and one focussing on micro-institutions.

Theories concentrating on macro-political institutions have focussed

mainly on formal institutions or constitutional structures, that is electoral systems, bi-cameralism, presidential vs. parliamentary systems, federalism, etc. Generally, the starting point for this group of theories is the notion of veto points developed by Immergut (1992) and Weaver & Rockman (1993). A veto point refers to a situation in which a certain actor can block a political decision. The general literature on veto points argues that an increasing number favour status quo, as the number of actors that may block political decisions increases. This argument has generally been taken over by the literature on welfare-state retrenchment in the sense that it is argued that a large number of veto points, albeit often in combination with other factors, inhibits retrenchment and vice versa (cf. Pierson 1998; Huber & Stephens 2001a, chap 7; Bonoli, George & Taylor-Gooby 2000; Merrien & Bonoli 2000; Bonoli 2001).

Crepaz & Birchfield (2000) and Swank (2001) have extended the argument by suggesting that what Lijphart (1999) labels 'consensus democracies' should experience less retrenchment than 'majoritarian' countries. A consensus democracy is a democracy with political institutions favouring inclusion and power sharing, whereas the political institutions of a majoritarian democracy aim at power-concentration and an adversarial style of politics. Following the same line of thought, two analyses of retrenchment in France (Bonoli 1997; Vail 1999) highlight the importance of a consensual vs. an adversarial style of welfare-state retrenchment. Yet, these studies conclude that consensual styles favour retrenchment.

The second group of institutional theoretical arguments focuses on micro-institutions; namely the programmatic structure of social-security schemes. Hence, this group of theories basically extends the idea of the importance of programmatic structures to entire welfare states. This is possible because, as implied by Esping-Andersen's (1990) idea of types of welfare states, social-security schemes in the same country tend to share certain institutional characteristics. One implication of a number of arguments about programmatic structures is that Continental or conservative welfare states should experience the least retrenchment. Swank (2001) argues that the involvement of labour and business in the administration of social-security schemes, which is strongest in Continental welfare states, tends to hamper retrenchment. Bonoli, George & Taylor-Gooby (2000: 144) argue that, in theory, Bismarckian insurance systems, that is conservative welfare states, should be most resistant to retrenchment, especially if employee contributions are predominant. Finally, Palier (2000: 120-121) points to the linkage between contributions and benefits in Continental insurance systems as a source of resistance to retrenchment.

Another argument based on Esping-Andersen's typology is that a universal welfare state should be less vulnerable to retrenchment due to the political feedback from universal social-security schemes (Rothstein 2000).[5] Parallel to this is Korpi & Palme's (2001) argument that encompassing and state-corporatist welfare states should experience less retrenchment than basic security, targeted, and voluntary state-supported welfare states, because the former keep the middle class away from private alternatives.

As argued by Ross (2000c), party politics (*the* factor highlighted by the literature on welfare-state expansion) has generally been downplayed in the welfare-state retrenchment debate. A few studies (e.g. Borchert 1995; Hicks 2000, chap. 7; Korpi & Palme 2001) have followed the literature on welfare-state expansion arguing that retrenchment results from strong right-wing parties vs. weak left-wing parties. However, some of the main proponents of the politics matter thesis in relation to welfare-state expansion argue that politics do not matter anymore (Castles 2001), or that the role of partisanship has declined (Huber & Stephens 2001a; Stephens, Huber & Ray 1999).

Taking issue with these findings, a few recent studies have argued that party politics are still crucial for welfare-state development. Yet, the effect is visible only if conceptualised differently from the traditional welfare-state expansion debate. Ross (2000a) has argued that left-wing parties are less likely to be punished for welfare-state retrenchment by the electorate than right-wing parties. Consequently, left-wing parties can exploit a 'Nixon goes to China logic'. However, this strategic advantage tends to disappear in multi-party systems where the major parties of the left face competition from parties further to the left. Levy (1999) has argued that Social Democratic Parties in Continental Europe have been able to pursue a 'vice into virtue' strategy. They have combined retrenchments of social-security schemes with 'perverse' consequences, such as extremely generous pension systems, with progressive welfare reforms. Also, Kitschelt (2001) has argued that different configurations of party competition affect welfare-state retrenchment. For instance, retrenchment is less likely to take place in countries where party competition is primarily between a Social Democratic Party and a Christian Democratic Party, with liberal parties playing a limited role (e.g. Germany).

A number of studies also emphasize the importance of politics in the sense of political argumentation and discourse. Cox (2001) explains why welfare reforms happened in Denmark and the Netherlands but not in Germany by the social construction of imperatives for change. Schmidt (2002) highlights the importance of governments' attempts to justify welfare-state reforms

through normative discourse. A strong affinity exists between these arguments about political discourse and arguments about the importance of framing for the opportunities of implementing retrenchment (Ross 2000a).

As can be seen from the above, the debate about welfare-state retrenchment is still in the making. However, a number of plausible theoretical propositions about variation across social-security schemes and among countries have been put forward. Generally, Pierson's argument that explanations of welfare-state expansion cannot just be turned upside down to explain retrenchment has been accepted as a premise for the whole debate. Nevertheless, the factors emphasized by the literature on retrenchment are not new. Most of them were also prominent in the debate about expansion.

3 A framework for government choice on retrenchment

This chapter aims at developing a theoretical framework to explain variation in welfare-state retrenchment, both among countries and across social-security schemes. More precisely, the framework seeks to map the factors influencing government decisions on retrenchment. Theoretically, the framework draws on ideas put forward in a number of the studies referred to above and some insights developed by rational-choice theory.

Political parties: their objectives and incentives for retrenchment

As the framework is centered on political parties, it is worthwhile to start with some theoretical deliberations on them. The literature on political parties points to three different goals: office, votes, and policy (Strøm 1990a; Müller & Strøm 1999b). This framework is based on the assumption that the ultimate goal of political parties is to gain office; that is government power. However, this does not imply that they disregard votes. To gain office, any party needs votes. Consequently, in the following political parties are seen as office- and vote-seekers having office as the ultimate goal. Policy per se is not assumed to be important for political parties. Thus, the framework follows Downs (1957: 28) in arguing that, 'parties formulate policies to win elections, rather than win elections in order to formulate policies'.

In some situations, the office- and vote-seeking strategies coincide in the sense that the best way to gain office is to gain as many votes as possible. However, in other cases, parties face a trade-off between office and votes, which in effect is a trade-off between the short- and long-run (Müller & Strøm 1999b: 9-11). How parties will respond to this trade-off in a concrete situation is difficult to predict, as it will depend on the actual situation and their time preferences (cf. Müller & Strøm 1999a). Still, as gaining office is the ultimate goal, parties are not expected to sacrifice office for votes repeatedly. In situations where vote- and office-seeking possibilities are unrelated, for instance, because a party is sure to continue in power, political parties

are expected to seek as many votes as possible. The reason is that electoral success *per se* has a number of positive side effects such as a positive spirit within the party and an improvement of the party's bargaining position vis-à-vis other political parties.

As vote-seeking is assumed to be a central goal, albeit not the ultimate goal, for political parties, it is reasonable to deliberate on the situation in which vote-seeking parties find themselves in relation to retrenchment. The framework follows Pierson in seeing retrenchment as an unpopular policy. For the reasons outlined when presenting Pierson's argument in chapter 2, retrenchment is expected to be unpopular with the persons actually affected and with the electorate in general.[1] The politics of welfare-state retrenchment are the politics of blame avoidance.

This immediately provokes a puzzle. If vote seeking is an important goal for political parties and welfare-state retrenchment is unpopular since voters are likely to punish parties for retrenchment, should rational political parties not be expected to stay away from retrenchment? To some extent, the answer to this question is yes. Governments are not expected to implement sweeping retrenchment. However, vote-seeking governments do have incentives for retrenchments identified in the way voters keep governments responsible for the economic well being of their country. As argued by Kitschelt (2001), the 'push' factors for governments in relation to retrenchment are economic.

Following the idea of 'nested games', put forward by Tsebelis (1990), the politics of welfare-state retrenchment are seen as nested with the politics of economic management and visa versa. To make sense of the decisions in one arena, one needs to pay attention to the other arena. The extensive literature on vote and popularity functions has shown that governments are blamed for not keeping the economy on track (cf. Lewis-Beck 1988; Nannestad & Paldam 1994; Lewis-Beck & Paldam 2000). Thus, governments have a cross party-color incentive to welfare-state retrenchment.

At the general level, the economic push factors in relation to retrenchment are connected to the changed economic environment of the mature welfare state within the last 20 years (cf. Pierson 1998; 2001a; Scharpf 2000a).[2] There are several specific economic reasons as to why managing the economy pushes governments towards retrenchment. An obvious reason is budgetary problems. A well-managed economy requires control of budgetary deficits. Considering the fact that social-security benefits take a large share of government budgets, a strict budgetary policy tends to imply retrenchment of social security. In the cases where social-security schemes are not directly part of government budgets but financed through separate social

contributions, the incentives for retrenchment are more indirect. Social contributions will often be seen as another tax and they are often integrated into the tax system. Therefore, if they become too high, they will limit governments' possibilities of levying other taxes and thus their possibilities of balancing budgets. This provides governments with an incentive to keep the expenditures down even though they do not directly affect the government budget. However, government incentives for retrenchment do not just relate to the direct costs of social security. For instance, economists (e.g. Layard, Nickell & Jackmann 1994; OECD 1994: 171-213) have argued that generous unemployment benefits and social assistance discourage the unemployed from job seeking. In other words, generous social-security schemes may lead to higher levels of unemployment. Generous early retirement and pension schemes with easy access also encourage older workers to leave the labour market at a time when a diminishing workforce is becoming a concern for many governments (OECD 1997). Finally, limiting or abolishing automatic indexation of social-security benefits has been used as a means to fight inflation.

Altogether, the situation of vote-seeking parties in relation to welfare-state retrenchment can be summarised as a dilemma between economic constraints and popular entrenchment. If governments shun retrenchment, they risk not being able to manage the economy. If they do retrench, they risk being punished by the electorate as well. One way out for governments is to make use of blame-avoidance strategies.

A justification strategy of blame avoidance

As explained in chapter 2, Pierson suggests three types of blame-avoidance strategies: strategies of obfuscation, division, and compensation. In the following, the argument is that government decisions whether or not to retrench social-security schemes are determined by the possibilities of pursuing a somewhat different blame-avoidance strategy, labeled a 'justification strategy'. The starting point for this strategy is the importance, as suggested by extensive literature (e.g. Baumgartner & Jones 1993; Kingdon 1995), of agenda setting in politics. The fact that governments have implemented an unpopular policy does not automatically imply that voters will punish them at the polls. For this to happen, retrenchment must be politicised and come on the political agenda so voters actually evaluate governments on the basis of their retrenchment record.

Considering the importance of modern welfare states for peoples' well be-

ing, it is unlikely that governments can introduce significant retrenchments without it becoming a political issue. Pursuing a strategy of agenda denial in relation to welfare-state retrenchment is not a real option for governments. Still, what governments should avoid is not necessarily retrenchment becoming a political issue. The role of agenda setting is not just a question of issues coming on the agenda or not, but also a question of how the issues are defined or framed. As Schattschneider (1960: 68) argued long ago, 'the definition of alternatives is the supreme instrument of power', and later Riker (1986: 1-17) gave some very good examples of the importance of that power to define the issue.

Such considerations are relevant in relation to welfare-state retrenchment as well (Ross 2000b). To see why, a closer look at the research into voters' attitudes towards the welfare state is required. As noted above, this research has found broad support for the welfare state across countries. Yet, as indicated by a number of studies (Taylor-Gooby 1982, 2001; van Oorschot 2000; Andersen 1999a; Overbye 1999, cf. also Papadakis 1992), voters' attitudes towards the welfare state are complex, and basic support should not be confused with uncritical support. For instance, voters are often critical of the economic viability of extensive welfare states. They regard many social-security schemes as very complicated and open for cheating, and show limited support for further increases in taxation. To make sense of this, Andersen (1999a), inspired by Svallfors (1991) and Rothstein (1998), distinguishes between solidarity in the sense of the support for the welfare state *per se*, and trust in the way the idea of a welfare state is actually implemented. Andersen (1999a) further divides trust into three different elements: 1) that the procedures for distributing costs and benefits are fair, resulting in, for instance, low levels of fraud, 2) that the welfare state is efficient and achieves its goals, for instance, equality, and 3) that it is economically feasible.

The voters' basic support for the idea of solidarity is what makes welfare-state retrenchment a question of blame avoidance. The default reaction of the electorate to retrenchment is negative. However, voters might abstain from punishing the government if they can be persuaded that the retrenchment measures take away benefits from some undeserving group or improve the economic viability of the welfare state. To borrow an expression from Levy (1999), governments must pursue a 'vice-into-virtue strategy', arguing that retrenchment is pursued to cure some of the problems of implementing the idea of solidarity. Governments must be able to persuade voters that the welfare state is retrenched to save it or to remedy its policy failures. Altogether, any support for or lack of punishment for welfare-state retrench-

ment is contingent upon governments' ability to argue convincingly that welfare-state retrenchment improves the implementation of the principle of solidarity. If retrenchment is politicised as a matter of being for or against the welfare state *per se*, the electoral dangers will be insurmountable.

Unfortunately, pursuing this kind of justification strategy of blame avoidance is not an easy task for governments. For example, the positive effects of retrenchment on the economy are generally medium- or long-term and indirect. Understanding why retrenchment may have positive economic effects and thus may save the welfare state often requires voters to construct long and complicated causal chains. On the other hand, it is easy to understand that retrenchment has negative effects on those affected by it. In addition, even if voters might accept the necessity of retrenchments, they will still react negatively if they find that the burdens are unfairly distributed. Therefore, one should not expect governments to implement sweeping retrenchment. Yet, they have an incentive to implement some retrenchments in combination with the application of blame-avoidance strategies.

The overall situation of vote-seeking parties in relation to retrenchment can be summarised in the following way. They are caught in an unpleasant dilemma between the popular entrenchment of the welfare state and economic constraints, which may also result in electoral punishment. The best way to avoid blame from the electorate is implementing some but not sweeping retrenchment combined with a justification strategy of blame avoidance. For example, such a strategy consists of emphasizing the financial need for retrenchment. The question then becomes: which factors affect vote-seeking political parties'/governments' possibilities of pursuing a justification strategy? This question can be addressed at two levels; namely at the country level and at the level of different social-security schemes.

Systems of party competition and their effects on the possibilities of pursuing a justification strategy

Starting with the country level, the following argues that the decisive factor is party competition among political parties with the goals outlined above. To explain this, the situation of different kinds of political parties in relation to welfare-state retrenchment needs some elaboration.

Political parties find themselves in different strategic situations in relation to retrenchment. The reason should be found in what Ross (2000a) aptly coins 'issue association'. Based on the salience theory (cf. Budge & Farlie 1983), the idea is that voters have certain fixed views of what to expect from

political parties. These expectations form the basis of their evaluation of political parties. A political party can 'own' a certain issue. Left-wing parties generally own the welfare state issue in the sense that the electorate expects left-wing parties to fight hard for social security and social justice. On the other hand, the electorate is more sceptical of the abilities of left-wing parties to take good care of the economy. Voters' expectations of right-wing parties, liberal or conservative ones, are basically the expectations of the left in the reverse. Voters view the commitment of the right wing to the welfare state with scepticism, but they have confidence in its ability to manage the economy (Ross 2000a).

In addition, a third group of parties must be discussed as they play a crucial role in a number of countries; namely Christian Democratic Parties. Voters view Christian Democratic parties as holding a centre position between left and right-wing parties.[3] On the one hand, unlike parties of the right, Christian Democratic parties have a reputation as creators of the welfare state, giving them partial ownership of the welfare-state issue. However, it is limited ownership compared to that of left-wing parties. On the other hand, the electorate does not view the Christian Democratic Parties' ability to manage the economy with the same scepticism as that of the social democrats. Furthermore, it is important to note that Christian Democratic Parties are more than simply a compromise between social democracy and conservatism/liberalism. As argued by van Kersbergen (1994; 1995), Christian democracy is a distinct political phenomenon. What makes it distinct, besides its attempt to strike a balance between social democracy and conservatism/liberalism on the socio-economic dimension, is its adherence to compromise, integration and societal accommodation as goals *per se*. This has made pragmatism and flexibility two central characteristics of Christian democracy.

In relation to social and economic policies, the existence of these different 'party images' has consequences for different political parties' capabilities of pursuing a justification strategy of blame avoidance. Parties of the right find themselves in the most difficult situation. Voters are likely to be sceptical towards a claim from these parties that retrenchments are made out of, for instance, economic necessity. The voters' suspicion will be that these parties have hidden ideological motives. Furthermore, voters trust their ability to manage the economy. Consequently, right-wing parties have fewer incentives to demonstrate such ability through 'tough policies.' Parties of the left are in the opposite situation. Voters are much more likely to trust left-wing parties arguing that retrenchments are introduced merely to remedy policy failures. Therefore, left-wing parties can exploit a 'Nixon goes to

China logic' in relation to welfare-state retrenchment (cf. Ross 2000a; Kitschelt 2001). They also often have a need to prove their ability to manage the economy. As Downs argued (1957: 96-113), vote-seeking parties must appear consistent in the eyes of the electorate. This perspective limits how much left-wing parties can exploit a 'Nixon goes to China logic'. Christian Democratic Parties are in an intermediate position. Their possibilities of exploiting a 'Nixon goes to China logic' are not as good as that of the left-wing parties. On the other hand, due to their partial ownership of the welfare-state issue, they hold a better position than the right-wing parties. Furthermore, their adherence to compromise, integration, and societal accommodation is likely to represent an asset when trying to persuade the electorate to accept retrenchment.

However, governments do not engage with voters in isolation from other political parties. This is why systems of party competition must be taken into account. For instance, what makes it difficult for right-wing parties to justify retrenchment measures is not just their image among the electorate, but also the existence of left wing and/or Christian Democratic Parties likely to attack parties of the right for being on an ideological crusade against the welfare state. In addition, looking at the system of party competition also brings into the theoretical framework how the trade-off between vote- and office seeking affects political parties' strategies towards welfare-state retrenchment. The reason is that the system of party competition is a crucial variable in determining to what extent political parties face a trade-off between vote- and office seeking.

In the following, the impact of two different configurations of party competition will be discussed; namely bloc systems and pivot systems.[4] Bloc systems are dominated by a bloc of left wing and a bloc of right-wing parties.[5] Christian Democratic Parties are either non-existent or play a minor role. In such systems, vote- and office-seeking strategies will coincide. The best way to achieve government power is to seek votes. In such systems, what happens in terms of retrenchment is dependent on which of the two blocs holds government power. If the right-wing bloc holds power, a small scale of retrenchment can be expected to take place. The reason is that such a government finds it extremely difficult to pursue a justification strategy of blame avoidance. Basically, the electorate will be sceptical of its motives and the vote-seeking left-wing opposition can be expected to do everything possible to create an image of a right-wing government on an ideological crusade against the welfare state. In other words, the right-wing parties will find it difficult to avoid retrenchment being turned into a question of being for or against the welfare state, a battle they have few chances of winning.

If the left holds office, they have a good chance of exploiting the 'Nixon goes to China logic'. The only political alternative is the right-wing bloc. Yet, credibly attacking the left-wing bloc for being against the welfare state *per se* is not possible for right-wing parties. Actually, due to the fear of appearing inconsistent, the right wing will find it difficult to oppose retrenchment measures altogether. Therefore, a left-wing government has a good chance of achieving political consensus, including parliamentary support for the legislation from the opposition. Parliamentary support does not only secure government control of the way the issue is defined, it also gives the opposition a share in the possible blame.

Party competition in pivot systems works in somewhat different ways. As laid out by Keman (1994 & 1997), pivot systems are party systems in which a pivotal centre party dominates both government formation and legislation. It can choose to govern with either the major party to the left of it or with the major party to the right of it, and forming a government without it is politically impossible.[6] Because the pivot party will automatically be in power, it can focus on vote seeking. The major left or right-wing party not included in the government will face a difficult choice between vote- and office seeking. In terms of votes, the best strategy will often be to distance itself from the policy of the government. However, this also implies distancing itself from the Christian Democratic Centre Party and thus from government participation. Having this as the ultimate goal, the party will find it difficult to constitute a strong opposition for a very long time. Consequently, in a pivot system, whether or not welfare-state retrenchment will be introduced depends on the interest of the Christian Democratic Party. As the party will be vote seeking, its situation in relation to welfare-state retrenchment is the same as for any vote-seeking party outlined above. The best way out of the dilemma between economic constraints and popular entrenchment will be to implement some retrenchment measures in combination with a justification strategy of blame avoidance. The Christian Democratic Parties' reputation for societal accommodation and pragmatism is an additional asset in terms of succeeding with such a strategy. More importantly, it is almost certain that not even the left-wing party will constitute a stiff opposition for a long time, as this will imply political isolation. Thus, the same type of party consensus that may surface in bloc systems if the left-wing bloc holds office is likely to emerge in pivot systems as well, once the Christian Democratic Centre Party opts for retrenchment. This will most likely happen if the Christian Democratic Party governs with the left-wing party, since otherwise some left-wing opposition can be expected, especially in the short-run.

Summing up, the argument is that variation in the scale of welfare retrenchment implemented in different countries can be explained by different systems of party competition. Concerning bloc systems, the hypothesis that can be derived is that retrenchment will take place when the left-wing bloc governs, as it can exploit a 'Nixon goes to China logic'. If the right-wing bloc holds power, little if any retrenchment is expected since it will be found electorally too dangerous. Pivot systems of party competition are expected to be conducive to welfare-state retrenchment because of the power of the Christian Democratic Party. Once this party opts for retrenchment, a party consensus around retrenchment can be expected to emerge. Thus, *ceteris paribus,* the hypothesis is that more retrenchment will be implemented in countries with pivot systems of party competition than in countries with bloc systems of party competition. Only if bloc systems are governed solely by the left, the same scale of retrenchment seen in pivot systems can be expected. Furthermore, in pivot systems, it is expected that more retrenchment will take place if the Christian Democratic Party governs with the left-wing party than if it governs with the right-wing party.

Connection to the labour market: which social-security schemes will be retrenched the most?

The next step is to investigate governments' possibilities of pursuing a justification strategy in relation to individual social-security schemes. Governments do not retrench welfare states; they retrench old-age pension schemes, social-assistance schemes, etc. Thus, a justification strategy of blame avoidance must also relate to specific social-security schemes and this level of analysis must be included as well. Yet, including it does not imply that governments' decisions whether or not to introduce retrenchment can be understood solely by focussing on factors at this level. General political considerations such as the reactions of competing political parties will be crucial when governments consider whether or not to retrench at all, and at which scale. However, which social-security schemes should be targeted depends on factors at the level of social-security schemes.

The following argument is that the connection to the labour market is decisive for the vulnerability of social-security schemes to retrenchment. This factor was introduced as a Marxist perspective in chapter 2, arguing that schemes covering risks generated by the labour market were most vulnerable to retrenchment because of a government or a capitalist interest in recommodifying labour. From a non-Marxist perspective, social-security

schemes covering social risks generated by the labour market are likely to be more vulnerable to retrenchment for two related reasons. First, governments have stronger incentives to retrench schemes closely linked to the labour market. The reason is that they tend to have negative effects on the labour market. As already mentioned, economists (e.g. Layard, Nickell & Jackmann 1994; OECD 1994: 171-213) have argued that the generosity of unemployment benefits affects the willingness of the unemployed to search for a job. Another example is that generous early retirement schemes reduce the supply of labour. Second, a close connection with the labour market also provides governments with ways of justifying retrenchment. Schemes closely linked to the labour market can be considered 'evils' in the sense that most people will agree that, irrespective of the expenditure, having a large number of sick or unemployed is a problem, and that keeping down the number of claimants can be considered a goal *per se*. Ideally, claimants of schemes closely connected to the labour market should be working. Thus, a large number of unemployed or disabled can be argued to be a policy failure of the welfare state. Related to this, the popular images of claimants of schemes with limited connection to labour tend to be more positive. Old-age pensioners or families with children are often seen as deserving their benefits, for instance, after a long working life. The same sense of deservingness is not present in relation to schemes closely connected to labour, such as unemployment benefits. Benefits are given to the unemployed because they cannot find a job, not because they deserve it.

Summing up, governments have different ways of pursuing a justification strategy in relation to different social-security schemes. They also have different degrees of incentive for retrenchment. In relation to schemes with limited connection to the labour market, the only relevant question is 'how much can we afford to give to this deserving group'. Governments can only legitimise retrenchment measures by referring to the cost of the schemes. Even such arguments about cost are weak since it can be argued that less deserving groups should be affected. In relation to schemes closely linked to the labour market, governments have far better capabilities of justifying retrenchment. Apart from cost considerations, governments can, for example, refer to the problem of too many claimants and argue that the schemes have gone 'way out of hand'. In relation to schemes closely connected to the labour market, governments also have stronger incentives to introduce retrenchment measures.

It is now possible to derive some hypotheses about the scale of vulnerability of different social-security schemes. Schemes such as old-age pension schemes and child-allowance schemes have limited connection to the labour

market. Such schemes are expected to suffer the least retrenchment. The opposite group consists of schemes with claimants with a close connection to the labour market. The most obvious example in this group is unemployment benefits, which are expected to be highly vulnerable to retrenchment.

The theoretical argument in brief

The aim of this chapter is to put forward a theoretical framework mapping the factors affecting government decisions concerning retrenchment. The starting point for the framework is political parties assumed to be vote- and office seekers with the latter as their ultimate goal. Their incentive for welfare-state retrenchment is generated by a changed economic environment and an electoral need to govern the economy successfully. Yet, the popularity of welfare states makes retrenchment an exercise in blame avoidance. Political parties are caught in an unpleasant dilemma between popular entrenchment and economic constraints. The best way out is argued to be the implementation of some retrenchment measures in combination with a justification strategy of blame avoidance. This raises the question of determining the factors affecting governments' possibilities of pursuing such a strategy. Concerning variation among countries, the argument, based on the notion that political parties own certain issues, is that different systems of party competition are the decisive factor. The system of party competition shapes political parties' trade-off between votes and office. With respect to variation across social-security schemes, this is expected to depend on the schemes' connection to the labour market. Different degrees of labour market connection affect governments' possibilities of justifying retrenchment as well as their incentives to retrench.

A number of hypotheses can be derived from this framework. One hypothesis is that given the electoral dangers for vote-seeking governments, sweeping retrenchment is not a real option. In bloc systems, welfare-state retrenchment is expected to take place only if the left-wing party is in government. Only then will the kind of consensus necessary for the application of justification strategy of blame avoidance emerge. More retrenchment is expected to take place in pivot systems. In such systems, parties of the left and right can only obtain government power by cooperating with the Christian Democratic Centre Party. This is expected to produce a political consensus conducive to welfare-state retrenchment because the left-wing party will be forced to accept retrenchment measures in order to gain power. The most retrenchment-favorable political climate is expected to be when the

centre party governs with the left-wing party. As regards variation across social-security schemes, schemes such as unemployment benefits with close connection to the labour market are expected to experience the most retrenchment. Schemes such as old-age pensions with a more limited connection to the labour market are expected to experience the least retrenchment.

4 Research strategy and research design

The aim of this chapter is to present the research strategy and research design of the study. As will be further explained below, the overall research strategy of this study is comparable case studies. The chapter therefore starts with a discussion of the choice of cases. This includes both the choice of countries, social-security programmes, and time period. The chapter then goes on to discuss the definition and measurement of the dependent variable, namely retrenchment. The overall aim of the empirical parts of the study is to determine whether or not there is empirical support for the theoretical framework developed in chapter 3. Following King, Keohane & Verba (1994), the best way to investigate the explanatory power of a framework is to derive as many empirically observable implications or empirical hypotheses from it as possible and to see whether these match the actual empirical developments. Therefore, this chapter ends by developing 6 hypotheses about variation in retrenchment across the selected cases.

Denmark and the Netherlands – a most similar systems design

Starting with the country level, the study is based on a most similar systems design (Lijphart 1971; Frendreis 1983). This implies that the two ideal cases for this study would be two countries representing the two different modes of party competition discussed in chapter 3, while at the same time being similar in all other relevant respects. The relevant respects with regard to this study are the institutional and economic factors discussed in chapter 2. Two such ideal countries do not exist. However, as will be argued below, Denmark and the Netherlands are fairly close and have been investigated.

As will be further argued in chapters 6 and 7, the two countries exemplify the two different modes of party competition. Denmark represents the bloc type of party competition. It is either governed by social democratic governments, often including one or several small centre parties,[1] or right-wing governments, mostly involving both the two major right-wing parties, the

Conservatives and the Liberals (Damgaard 1992). The Netherlands represents the pivotal type of party competition. The pivotal party is the Christian Democratic Party or CDA.[2] Until 1994, the party could usually choose to govern with either the Social Democrats (PvdA) or the Liberals (VVD) (Andeweg & Irwin 1993; Keman 1996).[3]

As displayed in Table 1 below, Denmark was governed by 5 different governments of right-wing parties from 1982 to 1993, but by social democratic-led governments from 1993 onwards. In the Netherlands (cf. table 2), the CDA governed with both the VVD, from 1982 to 1989, and with the PvdA, from 1989 to 1994.[4] Thus, the composition of the government has varied in both countries, providing additional cases for investigation of the empirical support for the theoretical framework presented in chapter 3.

As regards to economic factors, Tables 3 to 8 provide a number of macro-economic indicators for the two countries for the period investigated, 1982-1998 as well as for the preceding years, 1973-1981.[5] For both countries, the period 1973 to 1981 was the end of the booming economy of the 1960's. Both countries experienced years of negative growth. Unemployment, which was more or less non-existent in 1973, rose steadily causing rapid growth in social-security expenditure. Inflation reached double figures and budget surpluses disappeared. It seems that Denmark was hit the hardest. On average, unemployment and inflation were higher in Denmark than in the Netherlands and growth was lower. In addition, Denmark's chronic, current account deficit was further aggravated while the Netherlands, partly due to its natural gas resources, had current account surpluses during most of the years. Public deficits were, however, generally higher in the Netherlands.

If we turn to the period studied, 1982-1998, the two countries have fared somewhat similarly with regard to most of the macro-economic indicators presented in Tables 3 to 8. Average growth and unemployment, when using the standardised unemployment figures, were very similar. Furthermore, both countries have continued to spend a large portion of their GDP on social security. Inflation has been slightly higher in Denmark than in the Netherlands, but broad unemployment has been slightly higher in the Netherlands[6] and the same goes for public deficits. The major macro-economic difference between the two countries was Denmark's current account deficit in the 1980's. The deficit was problematic because Denmark had had a significant current account deficit since the beginning of the 1960's (Hansen *et al.* 1994: 291). In 1982, Denmark had an external debt equal to 32% of GDP (*op. cit.*; OECD, *National Accounts*). Altogether, in terms of macro-economic troubles, the two countries can generally be con-

sidered most similar cases. If the theoretical argument about the degree of macro-economic difficulties were to predict any differences between the two cases in terms of retrenchment, it would be that Denmark should have experienced the most retrenchment because of its chronic current account problem.

The macro-economic trajectories of the two countries from 1982 to 1998 have been quite similar as well. Both countries found themselves in dire economic straits during the first half of the 1980's. When excluding the current account, the Danish economy recovered quite well in the mid-1980's but then experienced another recession until 1994. In the Netherlands, the economy improved at a steadier rate during the last part of the 1980's, but then worsened again around 1992 and 1993. From 1994 and onwards, the two countries have been macro-economic success stories. Growth has been high, inflation low, public deficits have disappeared and unemployment has declined steadily. It has become common to speak of both a Dutch (Visser & Hemerijck 1997) and a Danish miracle (Schwartz 2001a; Green-Pedersen 2001a). The fact that both countries went through macro-economic ups and downs during this period opens up the possibility of investigating the theoretical argument about the effects of macro-economic difficulties over time in both countries (cf. chapter 8).

The second group of economic arguments about retrenchment contains arguments about the interplay between welfare states and different country's political economies, and their labour markets in particular. Scholars working along these lines (Iversen & Wren 1998; Huber & Stephens 2001b) have clustered countries into groups fairly similar to Esping-Andersen's (1990) three welfare-state regimes. In the clustering of both Huber & Stephens (*op. cit.*) and Iversen & Wren (*op. cit.*), Denmark is seen as an example of a social democratic political economy, and the Netherlands as an example of a Christian democratic political economy. Simply put, the difference between the two types of political economies is that the social democratic ones have aimed to maximize labour force participation for women, and parallel to that have expanded publicly provided welfare-state services. In contrast, Christian democratic political economies are to a large extent based on a small and very productive male labour force. That these descriptions also fit Denmark and the Netherlands is best observed by examining women's labour force participation. In 1983, the female labour force as a percentage of females aged 15-64 was 39% in the Netherlands and 73% in Denmark. In 1997, the figures were 62% in the Netherlands and 75% in Denmark (Scharpf & Schmidt 2000b: table A.12).

As argued in chapter 2, what to expect in terms of retrenchment from the

arguments about differences in political economies is not apparent. However, there seems to be some agreement that the Christian democratic political economies were facing the most severe economic problems due to their very low levels of overall employment. To the extent that the solution to this problem is retrenchment of social security, one should expect the most retrenchment in Christian democratic political economies, and hence more retrenchment in the Netherlands than in Denmark. In this regard, the two countries are not most similar cases.

The other major group of theoretical arguments about retrenchment identified in chapter 2 was institutional arguments, found in both a macro and a micro version. As to the theoretical arguments about macro-institutions, these were found in two subversions. Some focussed solely on formal institutions while others focussed on a broader range of macro-institutions. With regard to the formal political structures, these are quite similar in the two countries. Both countries are parliamentary systems with proportional electoral systems and are unitary states. The only notable difference is Dutch bicameralism. However, the Dutch First Chamber only plays a marginal role. The Second Chamber is 'the real political arena' (Andeweg & Irwin 1993: 139) and Dutch bicameralism can be ignored.[7]

Some of the arguments about macro-institutions took a broader focus by referring to Lijphart's (1999) idea of consensual vs. majoritarian democracies. On both dimensions used by Lijphart (1999: 312-314), the two countries have quite similar scores and can also be considered most similar cases in this regard (cf. also Lijphart 1999: chap. 14). Before concluding that the two countries are also most similar cases with regard to macro-institutions in general, one difference between them is important to note. As demonstrated in Tables 1 and 2, the Netherlands has had majority governments during the entire period studied here, mostly minimal winning coalitions, whereas Denmark has had almost solely minority governments. In this regard, the two cases are not most similar.

Turning to micro-institutions, the theoretical argument explained in chapter 2 was that the programmatic structure of social-security schemes would affect the extent of retrenchment. In addition, social-security schemes in the same countries tend to share certain characteristics. Consequently, it makes sense to discuss the institutional characteristics of entire welfare states.

One attempt at measuring the institutional characteristics of different welfare states is Esping-Andersen's (1990) idea of three different welfare-state regimes. Different welfare states are placed in the different regimes on the basis of indices measuring two dimensions; namely the degree of de-

commodification and the way in which social policy stratifies. In terms of de-commodification, the Danish welfare state is ranked as the third most de-commodifying among the 18 countries covered, while the Netherlands is ranked fourth (*op. cit.*: 52). The way social policy stratifies is measured by several indicators on the basis of which welfare states are clustered into three groups corresponding to the three worlds of welfare capitalism (*op. cit.*: 69-78). Both Denmark and the Netherlands are argued to belong to the socialism (social democratic) cluster (*op. cit.*: 76).[8] Altogether, Esping-Andersen's analysis indicates that the institutional characteristics of the Danish and Dutch welfare states are not radically different (cf. also Goodin & Smitsman 2000). Korpi & Palme (1998) also classify both welfare states as basic security models. Finally, both countries have very comprehensive welfare states in the sense that they spend a large portion of their GDP on social security. As displayed in Tables 4 and 7, in 1982, Denmark spent 29.5% of its GDP on social expenditure while the Netherlands spent 30%.[9]

However, upon closer inspection, there are differences in the programmatic structures of social-security schemes in the two countries that must be taken into account. Two differences are worth emphasizing; namely a difference in the way benefits are financed and in the role of social partners in social-security organisation. In Denmark, social security is almost exclusively financed from general taxation (cf. chap. 5). In the Netherlands, the picture is more diversified.[10] Dutch social-security schemes can be divided into three types, which are financed in different ways; namely people's/national insurance (*volksverzekeringen*), workers' insurance (*werknemersverzekeringen*), and social provisions (*sociale voorzieningen*). Both the people's insurance and the workers' insurance are financed mainly (cf. chapter 5) through social contributions. The contributions are paid into specific funds covering the expenditure on the schemes and are generally regulated to meet the expenditure. However, in the people's insurance, everyone is automatically insured and pays a percentage of their income in general, not just income from work, above a certain level and with a maximum amount. Thus, in reality, the people's insurance is financed through an earmarked income tax. In the workers' insurance, only people working are insured and the contributions from employers and employees are calculated as a percentage of income from work. Social provisions are financed from general taxation. Altogether, social security in the Netherlands is financed from a mixture of sources. Yet, it is important to note that contributions from employers are not as extensive in the Netherlands as in many other Continental European countries (cf. OECD 1999: table A.4).

In the Netherlands, the social partners were closely involved in the admin-

istration of the workers' insurance. These schemes were administered by organisations at industry level controlled by representatives from Employers Associations and Trade Unions. In Denmark, unemployment benefits (*arbejdsløshedsdagpenge*) and early retirement benefits (*efterløn*) are administered by unemployment funds with a close relationship with the trade unions. Hence, social partners play a role in the administration of these schemes. However, since all the other social-security schemes apart from workers' accident insurance are administered by central or local government, social partners play a more limited role in Denmark than in the Netherlands.

Altogether, despite the general similarities in the programmatic structures of social-security schemes in the two countries, there are differences with regard to the funding and involvement of social partners. These differences are important because a number of the theoretical arguments about programmatic structures focus on exactly these two aspects. The argument was that close involvement of the social partners would imply less retrenchment. On this basis, one should expect the most retrenchment measures in Denmark. Based on the arguments about the effects of the financing of social security schemes, one should also expect more retrenchment in the Netherlands than in Denmark due to the importance of social contributions in the Netherlands.

Other than the similarities relating to economics and institutions, Denmark and the Netherlands are similar with regard to public support for the welfare state. Survey research in each of the two countries points to the popularity of the welfare state (on Denmark: Nannestad & Paldam 1993; Andersen 1999a; on the Netherlands: Bijlsma & Koopmans 1991; van Oorschot 1997). In addition, Ferrera (1993) has conducted a study on attitudes towards social security asking the same questions in the EU countries. In this study, the Danes and Dutch gave almost identical answers to general questions about support for social security (*op. cit.*: 5).

Summing up on the comparison, it should be emphasized that arguing that these two countries can be used for a 'most similar systems' design does not imply that they are similar in all respects. What they share are a number of basic similarities. The most important ones relate to the macro-economic difficulties they faced from 1982 to 1998, their formal political institutions, and the institutional characteristics of their welfare states. At the same time, they represent different types of party competition; a bloc system vs. a pivot system. Upon closer examination, there will always be differences between two countries. Governments in the Netherlands in the period studied were all majority governments, whereas all Danish governments except one were

minority governments. A great part of social security in the Netherlands is financed through social contributions while almost all security schemes in Denmark are financed through general taxation. Furthermore, social partners played a greater role in the implementation of Dutch social security. Also, the political-economic models in the two countries are different, substantiated by the different labour-force participation rates for women. As theoretical arguments have been put forward explaining why such differences could lead to different degrees of retrenchment, there must be a further discussion of the effects of these differences. This discussion is provided in chapter 8.

The choice of social-security schemes

This study analyses old-age pensions, unemployment benefits, and disability pensions/early retirement benefits. There are two considerations behind the choice of these schemes. First, in order to carry out a general analysis of the 'politics' surrounding welfare-state retrenchment in the two countries, a focus on the most important social-security schemes is required. Second, the schemes providing the best possibilities of investigating the explanatory power of the theoretical framework put forward in chapter 3 and alternative theoretical propositions should be chosen.

The old-age pension schemes in the two countries, '*folkepension*' in Denmark and 'AOW' (*algemene ouderdomswet*) in the Netherlands, are the most costly social-security schemes. Therefore, they are obvious candidates for this study. In Denmark, the unemployment-benefit scheme (*arbejdsløshedsdagpenge*) is the other scheme imposing great costs on the welfare state, whereas the disability-pension schemes, WAO (*Wet op de arbeidsongeschiktheids-verzekering*) and AAW (*Algemene arbeidongeschiktheidswet*), are central in the Netherlands. Thus, focussing on old-age pensions, unemployment benefits and disability pensions offers good possibilities for investigating politics in general in the two countries.

In addition, focussing on these three schemes provides opportunities for investigating the explanatory power of the theoretical framework put forward in chapter 3, since it predicts variation in the extent of retrenchment across the three schemes. Also, as will be shown in chapter 8, choosing these schemes also provides fairly good possibilities for empirical analyses of alternative theoretical propositions about variation across social-security schemes. Alternative theoretical propositions generally predict a different pattern of variation across the three types of schemes from the one predicted by the theoretical framework of this study.

Before turning to the choice of time period, some delimitation problems must be addressed. '*Folkepension*' in Denmark and the 'AOW' in the Netherlands are the only public pension schemes in the two countries.[11] Thus, investigating these two schemes does not create any specific delimitation problems.[12] In relation to unemployment benefits, the most important delimitation is that social-assistance schemes covering unemployment are not included as this would imply investigating social assistance in general, that is adding a fourth type of social-security scheme to the study. In Denmark, '*arbejdsløshedsdagpenge*' is studied. In the Netherlands, the two closely connected unemployment-benefit schemes that existed in 1982, WW (*werkloosheidswet*) and WWV (w*et werkloosheidsvoorziening*) are studied. Finally, concerning disability pensions, the two closely connected Dutch disability schemes, WAO and AAW, have been analysed together with *'førtidspension'* in Denmark. However, as will be explained in chapter 5, the administration of the Dutch disability-pension schemes was so lenient that they de facto came to function as early-retirement schemes. Thus, simply comparing the Dutch disability-pension schemes with the Danish disability-pension scheme would not be appropriate. Therefore, both the Danish disability-pension scheme (f*ørtidspension*) and the Danish early-retirement scheme (*efterløn*) have been analysed and compared to the Dutch disability-pension schemes.

The choice of time period

The time period studied is 1982-1998. The reason for starting the investigation at the beginning of the 1980's is that around this time when the effects of the second oil crisis were visible, it was becoming clear to governments in the Western World that the macro-economic difficulties they were facing were not simply signs of a temporary crisis. The macro-economic difficulties indicated that the economic order of the 1950's and 1960's was definitely history. From an international perspective, the 'embedded liberalism' order was disappearing (Ruggie 1982; Keohane 1984). From a national perspective, the varieties of Keynesian compromises were becoming increasingly vulnerable. This was clearly illustrated by the fate of the Keynesian policy pursued by the new socialist government in France at the beginning of the 1980's (Scharpf 1984). Expansion of the welfare state had been an integrated part of both Keynesianism and 'embedded liberalism'. The emerging, new economic environment necessitated an adaptation of the different models of welfare capitalism bringing welfare-state retrenchment onto the

Table 1 Governments in Denmark, 1982-2002

	Prime Minister	Party composition	Minority/Majority
1982-1984	Poul Schlüter (Conservative)	Conservatives, Liberals, CD, and Christian People's Party	Minority
1984-1987	Poul Schlüter (Conservative)	Conservatives, Liberals, CD, and Christian People's Party	Minority
1987-1988	Poul Schlüter (Conservative)	Conservatives, Liberals, CD, and Christian People's Party	Minority
1988-1990	Poul Schlüter (Conservative)	Conservatives, Liberals, and Social Liberals	Minority
1990-1993	Poul Schlüter (Conservative)	Conservatives and Liberals	Minority
1993-1994	Poul Nyrup Rasmussen (Social Democrat)	Social Democrats, Social Liberals, CD, and Christian People's Party	Majority
1994-1998	Poul Nyrup Rasmussen (Social Democrat)	Social Democrats, Social Liberals, and CD (stepped out in 1996)	Minority
1998-2001	Poul Nyrup Rasmussen (Social Democrat)	Social Democrats and Social Liberals	Minority

Table 2 Governments in the Netherlands, 1982-2002

	Prime Minister	Party composition	Minority/Majority
1982-1986	Ruud Lubbers (CDA)	CDA and VVD	Majority
1986-1989	Ruud Lubbers (CDA)	CDA and VVD	Majority
1989-1994	Ruud Lubbers (CDA)	CDA and PvdA	Majority
1994-1998	Wim Kok (PvdA)	PvdA, VVD, and D66	Majority
1998-2002	Wim Kok (PvdA)	PvdA, VVD, and D66	Majority

Table 3 **Macro-economic indicators for Denmark, 1973-1981**

	Growth of real GDP (percent)*	Current account balance (percentage of GDP)*	Inflation (Change in consumer prices)*	General government financial balances (as percentage of GDP)*	Unemployment (percent)*	Social expenditure (as percentage of GDP)#
1973	3.6	-1.7	9.3	5.2	1	
1974	-0.9	-3	15.3	3.1	2.3	
1975	-0.7	-1.5	9.6	-1.4	5.3	
1976	6.5	-4.8	9	-0.3	5.3	
1977	1.6	-3.7	11.1	-0.6	6.4	
1978	1.5	-2.5	10	-0.4	7.3	
1979	3.5	-4.5	9.6	-1.7	6.2	
1980	-0.4	-3.7	12.3	-3.3	7	29.1
1981	-0.9	-3.2	11.7	-6.9	9.2	29.4
Average	**1.5**	**-3.2**	**10.9**	**-0.7**	**5.6**	

* Source: OECD, Economic Outlook (various years)

\# Source: OECD, National Accounts (various years), and OECD, Social Expenditure Data Base, 1980-1998

Table 4 **Macro-economic indicators for Denmark, 1982-1998**

	Growth of real GDP (percent)*	Current account balance (as percentage of GDP)*	Inflation (Change in consumer prices)*	General government financial balances (as percentage of GDP)*	Social expenditure (as percentage of GDP)#
1982	3	-3.9	10.1	-9.1	29.5
1983	2.5	-2.4	6.9	-7.2	29.9
1984	4.4	-3.1	6.3	-4.1	28.7
1985	4.3	-4.6	4.7	-2	27.9
1986	3.6	-5.3	3.7	3.4	27
1987	0.3	-2.9	4	2.4	27.8
1988	1.2	-1.4	4.5	0.5	29.2
1989	0.2	-1.3	4.8	-0.8	29.5
1990	1	0.9	2.6	-1.6	29.3
1991	1.1	1.4	2.4	-2.4	30.2
1992	0.6	2.6	2.1	-2.2	30.7
1993	0	3.3	1.3	-2.9	32.3
1994	5.5	1.8	2	-2.4	33.1
1995	2.8	1	2.1	-2.3	32.4
1996	2.5	1.8	2.1	-1	31.7
1997	3.1	0.6	2.2	0.1	30.7
1998	2.3	-1.2	1.8	0.9	29.8
Average	**2.5**	**-0.7**	**3.7**	**-1.8**	**30**

* Source: OECD, *Economic Outlook,* (various years)

\# Source: OECD, National Accounts (various years), and OECD, Social Expenditure Data Base, 1980-1998

Table 5	Unemployment indicators for Denmark, 1982-1998		
	Unemployment (percent)*	Standardised unemployment (percent)*	Broad Unemployment (percentage of broad labour force receiving social-security benefits[1], 18-66 years old)#
1982	9.7	8.4	
1983	10.3	9	
1984	9.9	8.5	20
1985	8.9	7.1	19.1
1986	7.7	5.4	18.2
1987	7.7	5.4	18.7
1988	8.4	6	19.6
1989	9.2	7.3	20.6
1990	9.4	7.7	20.7
1991	10.3	8.4	21.9
1992	11	9.2	22.7
1993	12.1	10.1	24
1994	12	8.2	26
1995	10.2	7.2	25.6
1996	8.7	6.8	25
1997	7.7	5.6	24.1
1998	6.4	5.2	23.3
Average	**9.4**	**7.4**	**22**

* Source: OECD, Economic Outlook, (various years)

\# Source: Danmarks Statistik, Statistisk tiårsoversigt (1999; 2000)

1 See note 6 for additional information

Table 6 Macro-economic indicators for the Netherlands, 1973-1981

	Growth of real GDP (percent)*	Current account balance (percentage of GDP)*	Inflation (Change in consumer prices)*	General government financial balances (as percentage of GDP)*	Unemployment (percent)*	Social expenditure (as percentage of GDP)#
1973	4.7	3.8	8	0.9	1.4	
1974	4	4.1	9.6	-0.2	1.7	
1975	-0.1	2.7	10.2	-2.8	3.3	
1976	4.8	3.6	8.8	-2.6	3.5	
1977	2.6	1.1	6.4	-1.8	3.4	
1978	2.4	-0.9	4.1	-2.7	3.4	
1979	2.3	0.1	4.2	-3.7	3.5	
1980	0.9	-0.6	6.5	-4	4.1	27.4
1981	-0.7	2.5	6.7	-5.5	6.3	28.4
Average	**2.3**	**1.8**	**7.2**	**-2.5**	**3.4**	

* Source: OECD, *Economic Outlook*, (various years)

\# Source: OECD, National Accounts (various years), and OECD, Social Expenditure Data Base, 1980-1998

Table 7 Macro-economic indicators for the Netherlands, 1982-1998

	Growth of real GDP (percent)*	Current account balance (percentage of GDP)*	Inflation (Change in consumer prices)*	General government financial balances (as percentage of GDP)*	Social expenditure (as percentage of GDP)#
1982	-1.2	3.4	5.9	-7.1	30
1983	1.7	3.5	2.7	-6.4	30.3
1984	3.3	4.8	3.3	-6.3	29.1
1985	3.1	3.2	2.3	-4.8	27.6
1986	2.8	2.4	0.1	-6.1	27.2
1987	1.4	1.9	-0.7	-6.5	27.5
1988	2.6	2.9	0.7	-5.1	27.1
1989	4.7	4.2	1.1	-5.3	26.5
1990	4.1	3.1	2.5	-3.2	28
1991	2.3	2.6	3.2	-4.4	28.1
1992	2	2.2	3.2	-3.6	28.6
1993	0.8	4.2	2.6	-4.2	28.8
1994	3.2	5.1	2.8	-4.2	27.1
1995	2.3	5.8	1.9	-1.8	25.9
1996	3	5.4	2	-1.2	25.3
1997	3.8	7.5	2.2	-0.8	24.9
1998	3.7	5.5	2	0.5	23.8
Average	**2.6**	**4**	**2.2**	**-4.1**	**27.4**

* Source: OECD, *Economic Outlook* (various years)

\# Source: OECD, National Accounts (various years), and OECD, Social Expenditure Data Base, 1980-1998

Table 8 Unemployment indicators for the Netherlands, 1982-1998

	Unemployment (percent)*	Standardised unemployment (percent)*	Broad Unemployment (percentage of broad labour force receiving social-security benefits[1], 15-64 years old)#
1982	8.5	8.1	24.1
1983	11	9.7	25.6
1984	10.6	9.3	26.4
1985	9.2	8.3	25.3
1986	8.4	8.3	24.5
1987	8	8.1	23.8
1988	7.7	7.6	23.4
1989	6.9	6.9	23.4
1990	6	6.2	23.1
1991	5.4	5.8	23.1
1992	5.4	5.6	23.2
1993	6.6	6.6	23.6
1994	7.6	7.1	24.2
1995	7.1	6.9	23.7
1996	6.6	6.3	23.8
1997	5.5	5.2	22.8
1998	4.2	4	21.8
Average	**7.3**	**7.1**	**23.9**

* Source: OECD, *Economic Outlook* (various years)

\# Source: Sociaal en Cultureel Planbureau, *Sociaal en Cultureel Rapport* (1998)

[1] See note 6 for additional information

agenda of the rich OECD countries (cf. Scharpf 2000c). The OECD (1981) now declared the welfare state in crisis, marking the end of its Golden Age.

As illustrated in Tables 3 to 8, Denmark and the Netherlands also found themselves in dire economic straits at the beginning of the 1980's, forecasting new policy measures. The new times were clearly indicated by the new governments taking office in the autumn of 1982; the first Lubbers government in the Netherlands and the first Schlüter government in Denmark. Therefore, the autumn of 1982 is an obvious starting point for this study, covering the period until 1998.

The next step is then to develop a number of hypotheses about variation in the extent of retrenchment across the selected case. It is, however, necessary to discuss the definition and measurement of the dependent variable, i.e. retrenchment, further and in advance.

Definition and measurement of retrenchment

The definition and measurement of retrenchment are problems haunting much of the work within this field. In the wake of Pierson's seminal work on welfare-state retrenchment, a separate 'dependent variable debate' has thus emerged (Pierson 1994; 1996; 2001(a); Alber 1996; Clayton & Pontusson 1998; Lindbom 2001; van der Veen, Trommel & de Vroom 1999; Kitschelt 2001; Green-Pedersen 2002a).

As a starting point, it is important to keep one thing in mind: the questions about conceptualisation and measurement of the dependent variable are necessarily closely connected to the theoretical approach as well as to the research question (King, Keohane & Verba 1994: 55-63; Peters 1998: 218-219). There is no such thing as retrenchment *per se*. Therefore, the following first outlines the theoretical definition of retrenchment and then goes on to the operational definition.[13]

A theoretical definition of retrenchment

In this study, retrenchment of a certain social-security scheme has been defined as *a change in the scheme making it less attractive to the (potential) claimants*. The 'attractiveness' of social-security schemes includes two dimensions, the quality of the benefits and the criteria that have to be fulfilled to ensure eligibility for benefits. For example, the quality of the benefits implies the amount of money you receive and the duration of the period in which you are entitled to benefits. Retrenchment is any change in social-security schemes affecting one of these two aspects negatively. It is another

word for cutting back, scaling down, or curtailing benefits. Hence, examples of changes considered as retrenchment in this study are lowering benefits, tightening eligibility, shortening duration, etc.

The choice of this fairly narrow definition is based on the theoretical perspective of this study as outlined in chapter 3. Theoretically, the focus in this study is on the interplay between political parties and the electorate, or, to use Rokkan's terminology (1966), on the 'electoral channels of politics'. One of the premises of this focus is that the electorate actually pays attention to the changes in social security and, if they have the character of retrenchments, dislikes them, although the government is not necessarily punished. This premise seems fulfilled once the focus is on changes to social-security schemes that affect their 'attractiveness', as defined above. Such changes have an obvious positive or negative effect on the claimants.

If the focus of the study had been broadened by choosing a more encompassing definition of retrenchment, it would be an open question whether this premise was fulfilled. For example, it is not apparent that the electorate would care about changes to the organisational structure of social security if the changes had no impact on 'attractiveness'. In contrast, organised interests such a trade unions would care very much if, for instance, the government would try to take the administration of a certain social security away from them, regardless of the impact on 'attractiveness'. Thus, to explain this type of changes to social security, a different theoretical perspective would probably be needed. Instead of focussing on the interplay between political parties and the electorate, this perspective would probably have to focus on the power of different organised interests and their negotiations with the government.

Therefore, one must distinguish between retrenchments as defined here and what could be labelled 'restructuring reforms'. Examples of such reforms are:

1 Reforms aiming to change the content of social-security schemes such as the introduction of active labour market policies. This change may contain elements of retrenchment that must be included in this study (see below). However, the main aim of these reforms is not to curtail benefits, but rather to add an element of education or activation (cf. Clasen 2000).
2 Reforms aiming to change the organisation and financing of social-security schemes, for instance privatisation. If such changes imply retrenchment in line with the above definition, they should be included in this study. However, a change in the organisational structure and financing alone will not be considered retrenchment. The reason is that it is unclear whether such changes of social-security schemes affect their attractiveness.

An operational definition of retrenchment

The next step is to provide an operational definition of retrenchment. An additional reason for choosing the fairly narrow definition of retrenchment outlined above is that it makes the operationalisation more manageable. As Alber (1996: 7-13) points out, the lurking danger is to end up with only very imprecise measurements such as 'substantial', 'less than one might expect', 'extensive', etc. There would be no guarantee that the measurements would be reproducible and this would seriously bring the whole study into question.

Basically, there are two ways of meeting these requirements; namely a macro-level and a micro-level approach (cf. Kitschelt 2001). A macro-level approach implies the use of aggregate social-security expenditure data, perhaps disaggregated to the level of individual social-security schemes. Such an approach is widespread within welfare-state research. Yet, it poses a problem since changes in social-security expenditure are not necessarily due to changes in legislation. For instance, changes in the unemployment rate automatically affect social-security expenditure as more or fewer people claim benefits. In addition, the effects of many changes in social-security schemes only gradually manifest in social-security expenditure. For instance, the full effects of a number of the changes in social-security schemes that will be discussed in chapter 5 will only be visible in social-security expenditure in 10 to 20 years. Therefore, a micro-level approach will be applied in this study. It consists of providing a measurement of the effects of each change in social-security legislation. The question then is which micro-level measure to apply.

In this study, the extent of retrenchment following a specific change in a social-security scheme has been measured by its budgetary implications. More specifically, the *likely* budgetary savings as a percentage of the total expenditure on the scheme have been calculated and used as the basic measure of retrenchment. This operational definition should provide the necessary kind of reproducible and quantitative retrenchment indicators without implying the same problems as a macro-level approach. It also provides a common yardstick for comparing very different changes in very different social-security schemes. For instance, tightened eligibility criteria of the Dutch unemployment-insurance scheme have been compared to a freeze of the benefits of the Danish early-retirement scheme. Budgetary implications seem to be the only type of measure allowing the comparison of such rather different changes. Some elaborating comments on this operational definition are warranted.

First of all, it should be stressed that the aim is to explain the political decisions concerning retrenchment. As these are based on the *likely* budgetary consequences of the changes, they are of principal interest. However, determining the likely budgetary implications of specific changes in social-security schemes is not always an easy task and may involve great uncertainties. In order to ensure as valid estimations as possible, two measures have therefore been used. Apart from the principal measurement defined above, the outcome of the decisions in the sense of the actual spending consequences of changes has been studied as well. Due to changes in factors such as the level of unemployment, the level of inflation, or implementation problems, the amount of cash actually saved may differ significantly from the likely outcome as seen from the time when the changes were passed. However, by correcting the figures for changes in, for instance, the level of inflation and the level of unemployment, the worst of these problems are hopefully avoided. As the expected savings are the principal interest, the actual savings are the less important of the two measures. It has been included as a way of ensuring that the former measure does not entail serious misjudgments of the budgetary consequences.

Needless to say, even the combination of two measures does not take away all uncertainties about the budgetary implications of changes in social-security schemes. Therefore, the results must be interpreted cautiously and conclusions should not be based on minor differences in the extent of retrenchment. These may simply be due to measurement errors. Thus, the figures will be interpreted on an ordinal level. If significant differences in retrenchment are found, conclusions about the extent of retrenchment can be drawn. Conclusions on an interval scale will not be drawn. Due to the uncertainties involved, the figures can say something about the magnitude of retrenchment implied by a certain change, but they cannot give a very precise measure. Furthermore, when comparing figures for the expected and actual budgetary effects, an identical result is unrealistic in light of the measurement uncertainties involved. This operational definition, of course, raises a number of questions about delimitation, which figures to use, etc. Appendix 1 discusses a number of these questions and provides two examples of the calculations.

A further caveat against the operational definition is that it has difficulties handling indirect retrenchments, i.e. retrenchments working over very long periods or in a very indirect way. Following the idea of blame-avoidance strategies, implementing retrenchment working indirectly and/or over long periods would be attractive for governments (cf. also Bonoli & Palier 1998; Taylor-Gooby 1999). Two things will be done to address this point of criti-

cism. First, as explained in appendix 1, the focus will be on the budgetary implications of fully implemented changes. At least in some situations, this should make it possible to measure gradually implemented retrenchments. Second, when going through changes in the social-security schemes, major changes in rules that do not directly regulate the attractiveness of schemes will receive attention as well. In other words, in relation to each scheme, there will be an examination into whether or not restructuring reforms have taken place with indirect retrenchment effects modifying the conclusions drawn from examining retrenchment in accordance with the above outline.

Summing up, each social-security scheme has been investigated as follows. All legislative changes have been recorded and, whenever possible, likely and actual budgetary implications have been measured in accordance with the operational definition. On the basis of these figures, a conclusion about the magnitude of retrenchment in each scheme will be drawn. Finally, there will be a discussion of possible retrenchment effects of restructuring reforms. The results of this will be presented in the next chapter.

Some hypotheses

After having discussed the definition and measurement of retrenchment, the rest of the chapter is devoted to presenting the hypotheses about the cases derived from the theoretical framework put forward in chapter 3. First of all, the framework predicts that sweeping retrenchment will not have taken place in either of the two cases.[14] Further, the framework predicts that more retrenchment will have taken place in the Netherlands than in Denmark. The reason is the different systems of party competition. In a bloc system like the Danish one, retrenchment is expected only when the left-wing bloc governs. As the right-wing bloc governed Denmark in the main part of the period studied (1982-1993), little retrenchment is predicted to have taken place. In contrast, pivot systems are expected to be conducive to retrenchment, paving the way for a larger scale of retrenchment in the Netherlands. If the focus is on Denmark exclusively, the framework predicts more retrenchment to have taken place from 1993 to 1998, the period of left-wing rule, than during the preceding period of right-wing rule. When concentrating only on the Netherlands, the framework predicts that more retrenchment will have taken place from 1989 to 1994, when the CDA governed with the PvdA, than from 1982-1989, when the CDA governed with the VVD. The reason is that the CDA-PvdA government did not have any major opponents

Table 9	Hypotheses concerning (variation) in retrenchment in Denmark and the Netherlands, 1982-1998
No 'sweeping' retrenchment	
More retrenchment in the Netherlands than in Denmark	
More retrenchment in Denmark from 1993 to 1998 than from 1982 to 1993	
More retrenchment in the Netherlands from 1989 to 1994 than from 1994 to 1998 and more from 1994 to 1998 than from 1982 to 1989	
More retrenchment in the Netherlands of unemployment benefits than of disability pension and old-age pension	
More retrenchment in Denmark of unemployment benefits and early retirement benefits than of disability pension and old-age pension	

to the left. The 'purple governments' from 1994 and beyond represent somewhat of a problem for the framework, as they constitute a break with the pivotal position of the CDA in Dutch politics. The hypothesis that can be derived from the framework is that less retrenchment will have taken place after 1994 than under CDA-PvdA rule, but more than under CDA-VVD rule. The reason is that the 'purple governments' have faced an opposition party, the CDA, which with some credibility could argue that the purple governments were attacking the welfare state *per se*. Yet, due to the participation of the PvdA, the purple governments have been in a much more favourable position than the CDA-VVD governments.

Turning to variation across social-security schemes, the framework would predict schemes with strong labour market connection to be retrenched more than schemes with limited labour market connection. In Denmark, the old-age pension and the disability-pension schemes can be argued to have limited labour market connection. Old-age and disabled persons are not expected to be part of the labour market. Unemployment benefits and early retirement benefits are, on the other hand, closely connected to the labour market. The claimants in both schemes could just as well be working. Therefore, these two schemes are expected to suffer the most retrenchment. In the Netherlands, unemployment benefits are expected to suffer more retrenchment than the old age and the disability pensions. Table 9 provides a survey of the hypotheses concerning the cases derived from the theoretical framework.

5 Retrenchments in Denmark and the Netherlands

This chapter first reports the results of the investigation of the extent of retrenchment in each of the selected social-security schemes carried out as described in chapter 4 and appendix 1. The discussion of each scheme is divided into two parts. First, there will be a short description of the scheme as of 1982. Second, there will be an analysis of developments in the scheme from 1982 to 1998, based on the reported calculations of expected and actual savings.[1] These are reported in tables.[2] The chapter then summarises the findings of variation in retrenchment,[3] and compares them with the hypotheses developed in chapter 4 to see to what extent the theoretical framework developed in chapter 3 has been capable of predicting the actual variation in retrenchment.

Retrenchment in Denmark and the Netherlands

The Danish old-age pension

The Danish old-age pension, 'folkepension', was[4] a pension for all citizens aged 67 or more with two types of benefits.[5] A basic amount paid to everyone regardless of other income and an income-tested pension supplement. In 1982, 49% of all pensioners received the full supplement, 19% part of it, and 32% no supplement at all (Danmarks Statistik, *Statistiske efterretninger afdeling A* 1982: 1282-1283). Compared to the basic amount, the supplement was of limited importance, as the maximum supplement in 1982 amounted to only 18% of the basic amount.[6] Benefits could also be awarded to persons under the age of 67 in two cases. First, single females aged 62-67 were entitled to a pension. Second, if special, social or medical conditions were present, a pension could be awarded to people aged 55-67. In both cases, the basic amount and the pension supplement were subject to an income test. Benefits were taxable as any other income, but single pensioners were entitled to an enhanced personal tax-exemption. Thus, single pensioners living from only the national pension paid no income tax. Bene-

fits were linked to the development in prices and tax financed on a pay-as-you-go basis.

Development of the Danish old-age pension from 1982 to 1998

Table 10 provides an overview of changes in the Danish old-age pension from 1982 to 1998 and their budgetary implications, if measurable. The main conclusion from Table 10 is that the Danish old-age pension has not been retrenched. Actually, it has been expanded. From 1986 to 1990, benefits were raised in general and the income testing of the pension supplement eased. The changes in the structure of benefits when the special tax-exemption for single pensioners was abolished implied a minor retrenchment, but taken together, all the changes equal an expansion of 10.4%.[7] Furthermore, benefits have been tied to the development in wages instead of prices, a change that will imply expansion in the long run. Finally, all possibilities of receiving pensions before the age of 67 were transferred to the new disability-pension scheme as of 1984, and the pension age was lowered to 65 in 1999.[8]

The issue then is if the scheme has been subject to restructuring reforms indirectly implying retrenchment. The basic structure of the scheme has been unchanged within the period. The scheme is still a tax-financed pay-as-you-go scheme. Still, one change warrants attention in this connection.

As mentioned above, the benefit structure was changed when the special tax-exemption for single pensioners was abolished. In the short-run, the budgetary consequence was a small retrenchment. This retrenchment was the result of enhanced importance of income testing within the scheme, as the importance of the income-tested pension supplement relative to the basic amount was raised quite considerably. Thus, the pension supplement as a percentage of the basic amount increased from 26% in 1993 to 44% in 1994. When the special-pension supplement, which temporarily compensated single pensioners for the loss of the special tax-exemption, had been fully transferred to the normal-pension supplement in 1999, the basic amount and pension supplement were almost identical for single pensioners. Once the number of pensioners with additional pensions rises, it will have retrenchment effects.[9] For instance, if the calculations made in relation to the changes (see Green-Pedersen 2000: 210-212) are redone with 50% of all pensioners being entitled to the full supplement, 20% to half of it, and 30% to no pension supplement, the retrenchment increases from 0.8% of the total expenditure in 1993 to 5.2%. Thus, this change will imply retrenchment in the long run, but exactly how much will depend on the income-situation of the future pensioners.

Table 10 Changes in the Danish old-age pension, 1982-1998

Law number	Passed	Effect	Content	Expected budgetary consequences	Actual budgetary consequences
L 136,137 1982-1983	June 1983	January 1984	All possibilities of receiving a pension for people under 67 were transferred to the new disability-pension scheme[1]		
L 119 1986-1987	June 1987	January 1988	Income testing of pension supplement was eased	+[2]2.1%	+3.0% (covers part of L 168 as well)
L 218 1986-1987	April 1987	April 1987	Pension supplement increased	+1.1%	
L 168 1987-1988	March 1988	July 1988	All benefit levels were increased and the easing of the income testing of the pension supplement was hastened and followed by a further ease	+6.4%	+6.2% (covers only parts of the law)
L 223 1989-1990	June 1990	January 1991	Benefits were tied to the development in real wages	No measurable budgetary implications, but expansion in the long-run	
L 224 1989-1990	June 1990	January 1991	The basic amount was raised for most married pensioners	+1.6%	
L 314 1993-1994	May 1993	January 1994	Conversion of benefits for single pensioners into taxable income. Improvements of the pension supplement. Cutback of the basic amount	-0.8%	+1.3%
L 175 1998-1999	April 1999	July 1999	Pension age lowered from 67 to 65 years[3]		
Total				**+10.4%**	

1 Analysed in connection with the Danish disability-pension scheme.
2 + indicates expansion of the scheme; – indicates retrenchment.
3 Analysed in connection with the Danish early-retirement benefits scheme.

Summing up, the general picture of the Danish national pension is still one of expansion, although the expansion seems less once the long-term consequences of the changes in 1993 are taken into account.

The Dutch old-age pension

In the Dutch old-age pension, AOW, everyone was entitled to a pension from the age of 65.[10] Benefits were flat rate and not related to other income. On the other hand, they depended on matrimonial status and were related to the net minimum wage as follows. A married couple was entitled to 100% of the net minimum wage and a single pensioner to 70%. In general, married women had no personal right to a pension. Whether a married couple was entitled to a pension depended on the age of the husband. However, if the wife reached the age of 65 before her husband, she was entitled to the pension for married couples in certain cases.

The net value of benefits was linked to the development of the net minimum wage, that is the gross minimum wage minus income taxes and social contributions. The gross minimum wage was linked to the development of wages (*index regelingslonen*), so benefits would be affected by development in wages. Benefits were indexed twice a year (cf. Vording 1993: 14-28). In principle, benefits were taxable income, yet special rules implied that old-age pensioners paid limited income tax and social contributions from the AOW. The scheme was a peoples' insurance scheme (cf. chapter 4) administered by the Social Insurance Bank (SVB) and mainly financed from a *de facto* earmarked income tax. Yet, the state, that is general taxation, supported the scheme with minor contributions. In 1982, this amounted to 4.2% of the total expenditure (Centraal bureau voor de statistiek, *Statistisch Jaarboek* 1984: 328-329).

Development of the Dutch old-age pension from 1982 to 1998

Table 11 gives an overview of the legislative changes in the Dutch old-age pension from 1982 to 1998. The general picture emerging is one of somewhat retrenchment of the scheme. This is primarily the result of limited indexation of benefits from 1982 to 1984[11] and from 1993 to 1995. Still, the abolishment of the special supplement for pensioners with a partner younger than 65 contributes as well.

Apart from the changes reported in Table 11, a number of minor changes have taken place in relation to the special supplement for pensioners with a partner younger than 65. This supplement was introduced in 1985 when the

Table 11 Changes in the Dutch old-age pension, 1982-1998

Law number	Passed	Effect	Content	Expected budgetary consequences	Actual budgetary consequences
L 749, 1982	December 1982	January 1983	Indexation of benefits limited to 1% in 1983	-[1]6.6%[2]	
L 674, 1983	December 1983	January 1984	Benefits frozen for 1984	-2.7%	
L 652, 1984	December 1984	January 1985	Benefits frozen for 1985	-1.5%	
L 627, 1987	December 1987	January 1988	Benefits frozen for 1988	+1%	
L 625, 1988	December 1988	January 1989	Benefits frozen for 1989	+2.3%	
L 624, 1991	November 1991	December 1991	New indexation rules	No direct budgetary implications	
Freeze of social security benefits for 1993[3]			Benefits frozen for 1993	-1.6%	
Freeze of social security benefits for 1994[3]			Benefits frozen for 1994	-1.9%	
Freeze of social security benefits for 1995[3]			Benefits frozen for 1995	-1%	
L 696, 1995	December 1995	January 1996/97	The special supplement for pensioners with a partner younger than 65 abolished	-5.4%	Not yet measurable
Total				**-17.4%**	

[1] + indicates expansion of the scheme; – indicates retrenchment

[2] Due to the way benefits were indexed, providing measures for actual budgetary implications of the freezes is impossible (see Green-Pedersen 2000: 213-216)

[3] The decision was taken in the autumn of the preceding year

scheme was 'individualized.'[12] Each married person became entitled to a pension equal to 50% of the net minimum wage. The special supplement, equal to 50% of the net minimum wage, was then introduced for pensioners married to a person younger than 65 with no right to his/her own pension. In the case where the man was older than his wife, this had no material consequences compared to before. However, a number of couples where the wife was older than her husband now became entitled to a pension. To reduce the expenditure, the government gradually introduced income testing on the supplement. In the following years, the rules concerning this supplement were changed a number of times until it was finally abolished in 1995.

Before concluding that a retrenchment of 17.4% has taken place in relation to the Dutch old-age pension, it must be investigated whether any restructuring reforms have taken place. The basic principles of the Dutch old-age pension scheme have remained unchanged. It is still a pay-as-you-go scheme. The financing changed within the period as the government withdrew its support for the scheme. However, the government has recently decided to support the scheme again. A new law concerning the financing of the peoples' insurance was passed in 1998. The law placed a maximum on the contributions to the scheme and left the rest of the expenditure for the government. To meet some of these expenditures, the government is creating a special fund. The estimation in the law was that when the expenditure on the pension peaks in 2040, the government will pay approximately 31% of the total expenditure (Tweede Kamer der Staten-Generaal 1997-1998: 25699, nr. 3, 11, cf. also van Oorschot & Boos 1999). The question is whether this will indirectly affect the scheme. For two reasons, this is unlikely. First, the major part of the expenditure will still be paid by contributions. Second, as will be argued in chapter 8, different ways of financing social-security schemes do not seem to have much effect on their vulnerability to retrenchment measures.

The Danish unemployment-benefit scheme

The Danish unemployment-benefit scheme was a voluntary insurance scheme administered by the unemployment funds.[13] As mentioned in chapter 4, these funds were independent organisations with close links to the trade unions. In 1982, 66.6% of the labour force was insured (Danmarks Statistik, *Statistisk tiårsoversigt* 1991).

Membership in itself was not sufficient to be eligible for benefits in the case of unemployment. One year of membership plus 26 weeks of work within the last three years were required. The unemployed person had to

register at the employment service, be willing to accept a job when offered one, and be actively seeking a job. Whether these requirements were met, was decided by the unemployment funds.

Benefits were in principle equal to 90% of the former wage, but a maximum rate existed. In 1982, 35% of all claimants received the maximum rate. Most of the remainder received an amount just below this. Thus, average benefits were equal to 89% of the maximum benefits in 1982 (Direktoratet for Arbejdsløshedsforsikring 1983). All benefits were taxed in the same way as earnings from work and were linked to the development in real wages.

An unemployed person was entitled to benefits as long as he or she, before each monthly payment, fulfilled the requirement of 26 weeks of work within the last three years. This rule implied that the unemployed would lose their right to benefits after approximately two and a half years. However, in reality, benefits were continuous due to a law passed in 1978 (*Lov om arbejdstilbud til ledige*) that entitled the unemployed to a job offer lasting at least 26 weeks in due time before losing their right to benefits.

The scheme was financed by three sources: General taxation, employer contributions, and member contributions.[14] Each member paid a tax-deductible premium plus an amount to cover the administration expenditure of the funds, and the employers paid a contribution for each employee. The government, that is general taxation, paid the expenditure exceeding the revenues from the two types of contributions and thus carried the marginal burden. It also paid the major part of the expenditure. In 1982, 86% of the total expenditure on unemployment benefits and early-retirement benefits was paid by the government (Danmarks Statistik, *Statistisk tiårsoversigt* 1991; Danmarks Statistik, *Skatter og afgifter: Oversigt* 1992).

Development of the Danish unemployment benefits from 1982 to 1998

Table 12 gives an overview of the legislative changes in the Danish unemployment-benefit scheme from 1982 to 1998. The general picture emerging from Table 12 is one of significant retrenchment. The freeze of benefits from 1982 to 1986 had significant effects, even if it was somewhat modified by the raising of maximum benefits in 1987. The limitation in the duration of benefits and introduction of extended benefits in 1985 also implied retrenchment, but was given up in 1988 before having real effects. In the 1990's, eligibility criteria were tightened from 26 to 52 weeks of work within the last three years, the duration of benefits was reduced to 4 years, and

Table 12 Changes in Danish unemployment benefits, 1982-1998

Law number	Passed	Effect	Content	Expected budgetary consequences	Actual budgetary consequences
L 10/11 1982-1983	October 1982	January 1983	Full or partial freeze of benefit levels for 2½ years	-[1]18.8%	-18.4%
L 165 1983-1984	May 1984	October 1985	Freeze of the maximum level of benefits for one year	-2.8%	Not measurable
L 109/110 1984-1985	June 1985	July 1985	De facto shortening of duration of benefits and introduction of extended benefits	-2.3%	Not measurable
L 160/161 1987-1988	March 1988	July 1988 January 1989	Maximum benefits increased. Rules concerning extended benefits given up	+7.1	+5.3
L 223 1989-1990	June 1990	Januari 1991	Benefits tied to the development in real wages	No direct budgetary implications	
L 272-275 1992-1993	June 1993	January 1994	Labour market reform	No direct budgetary implications	
L 14-15 1995-1996	December 1995	January 1996 January 1997	Cuts in benefits for young people with no qualifying education after six months of unemployment. Duration of benefits shortened to five years. Eligibility rules tightened	-9%	Not measurable
L 32 1998-1999	December 1998	January 1999	Duration limited to four years, and rules tightened for unemployed over 50	-4.2%	Not measurable
Total				**-30%**	

[1] + indicates expansion of the scheme; – indicates retrenchment

benefits for younger unemployed persons were cut. After the freezing of benefits from 1982 to 1986, benefits were indexed by parliament on a year-to-year basis until 1990 when they were tied to real wages again.

The next question then is whether any restructuring reforms that may indirectly lead to retrenchment have been implemented. The organisational structure of the scheme has basically remained unchanged (cf. Nørgaard 1997: 271-337). Regarding the financing of the scheme, the general picture is also one of continuity. The government, that is general taxation, still pays most of the expenditure and carries the marginal burden. Member contributions were raised somewhat in 1982 and the following years, but still remain fairly limited. The contributions from employers were abolished in 1988, but they were forced to pay for the first two days of unemployment in the following years.

Finally, Danish labour-market policy has changed. Starting in the 1980's (Jensen et al. 1991) and most pronounced with the labour-market reform in 1993, Danish labour-market policy has become more active. This implies a stronger focus on upgrading and improving skills, on individual plans for training and education, establishment of subsidised jobs, introduction of leave arrangements, etc. (Cox 1998; Etherington 1998; Jensen 1999). The question is whether some of these changes imply retrenchment. As participation in the various activation measures is mandatory to acquire eligibility for benefits, one could argue that some of these measures make unemployment benefits less attractive. The new labour-market policy contains a stronger focus on the requirement of being willing to accept a job. Yet, it is also an offensive policy aiming to improve the skills of the work force (cf. Etherington 1998; Jensen 1999). Furthermore, it must be kept in mind that certain demands on the claimants of unemployment benefits, for instance, the requirement of being at the disposal of the labour market, have always existed (Nørgaard 1999). The long duration of unemployment benefits introduced in 1978 was also based on the acceptance of job offers.

Altogether, a number of restructuring reforms of the Danish unemployment-benefits scheme have been implemented, but there is no indication that any of the reforms will have significant retrenchment effects and thus will disturb the conclusion about significant retrenchment.

The Dutch unemployment-benefit scheme(s)

In 1982, the Netherlands had two schemes covering the risk of unemployment. The WW and the WWV.[15] The WW was a workers' insurance and the WWV a social provision.

To be eligible for WW, 130 days of work within the last year was required. Furthermore, the unemployed were required to register at the labour exchange, be willing to accept suitable work, and be actively seeking work. WW benefits were equal to 80% of the former wage with a fairly high maximum. The duration of WW was 26 weeks. The WWV was basically an extension of the WW. However, benefits were lower; namely 75% of the former wage, also with a fairly high maximum. The duration of the WWV was two years. Both benefits from the WW and from the WWV were taxable income in the same way as income from work. The WWV benefits were indexed twice a year on the basis of the changes in wages (cf. Vording 1993: 14-28).

Development of the Dutch unemployment-benefit scheme(s), from 1982 to 1998

Table 13 reports the legislative changes in the Dutch unemployment-benefit scheme(s) from 1982 to 1998. The picture emerging from Table 13 is one of significant retrenchment. The level of benefits has been reduced significantly as a result of the freezing of benefits from 1982 to 1987 and 1993 to 1995 and as a result, the reduction of the level of benefits from 80/75% of former wage to 70%.[16] Eligibility has also been tightened, especially as a result of L 955. In relation to the duration, the picture is mixed. For the young unemployed, the duration has been shortened significantly, whereas for older unemployed, there has been an expansion.

Looking at the institutional arrangement of the scheme, there are several important changes. The merging of the WW and WWV implied that unemployment benefits were now fully financed by contributions from employers and employees. In other words, the tax financing was removed. However, it is difficult to determine whether this change would imply more or less retrenchment. As will be argued in chapter 8, there is no clear indication that the way of financing social-security schemes affects their vulnerability to retrenchment.

The changes in the administrative structure of the schemes are more interesting (cf. Teulings, van der Veen & Trommel 1997; Bannink 1999; van der Veen & Trommel 1999): In 1994, a new organisational act abolished the SVR, a body with representatives from trade unions and employer organisations and independent members appointed by the government surveying the work of the Industrial Insurance Organisations. After some intermediate arrangements, the coordinating functions were transferred to the LISV (*Landelijk Instituut Sociale Verzekeringen*). This institution has a tripartite structure with an independent chairman. The supervisory tasks of the SVR

Table 13 Changes in Dutch unemployment-benefits scheme(s), 1982-1998

Law number	Passed	Effect	Content	Expected budgetary consequences	Actual budgetary consequences
L 737 1982	December 1982	January 1983	Tightening of the rules concerning minimum benefits	-[1]1.1%	See below
L 749 1982	December 1982	January 1983	Indexation of benefits limited to 1% in 1983	-4.2%	-3.3% (includes L 737 as well)
L 278 1983	June 1983	July 1983	Duration of benefits limited for most unemployed under 23 years of age	-2.9%	Not measurable
L 674 1983	December 1983	January 1984	Most benefits frozen for 1984. Benefits cut by 2.3/2.4%	-3.8%	-3%
L 652 1984	December 1984	January 1985	Most benefits frozen for 1985	-2.3%	See below
L 633 1984	December 1984	January 1985	Benefits in both schemes reduced to 70% of former wage. Earlier, nominal cuts in benefits reversed	-5.5%	-10.7% (includes L 652 as well)
L 704 1985	December 1985	January 1986	Most benefits frozen for 1986	-1.6%	
L 566	November 1986	January 1987	A new unemployment-benefit scheme introduced. ww and wwv merged	0% (see appendix 1)	
L 624 1991	November 1991	December 1991	New indexation rules	No direct budgetary implications	
Freeze of social-security benefits for 1993[2]			Most benefits frozen for 1993	-2.2%	-2.3%
Freeze of social-security benefits for 1994[2]			Most benefits frozen for 1994	-1.8% for 1994	see below
Freeze of social-security benefits for 1995[2]			Most benefits frozen for 1995	-1.9% for 1995	see below
L 955 1994	December 1994	March 1995	Eligibility rules tightened	-6.4%	-3.0% (covers the freeze in 1995 as well, but only part of the effects of L955).
Total				**-33.7%**	

1 + indicates expansion of the scheme: – indicates retrenchment
2 The decision was taken in the autumn of the preceding year

were taken over by the CTSV (*College van Toezicht Sociale Verzekeringen*). This is an independent institution headed by three government-appointed leaders. The Industry Insurance Associations were long planned to be transformed into market organisations competing with each other, but in the end, new government agencies responsible for the administration of benefits in workers' insurance were chosen. Reintegration efforts, however, were privatised.

The issue is whether these changes may indirectly lead to retrenchment of the scheme. The main reason for the changes was to limit the influence of the social partners on the administration of the scheme, since it was considered too lenient. In other words, retrenchment, in the sense of a more strict administration of the schemes, was the purpose for the changes. However, the impact of these changes remains to be seen. The administrative arrangement is most important in situations where the rules leave considerable discretion to whoever is administering the scheme. Generally, the rules concerning the WW do not allow much discretion. The rules concerning eligibility, duration and the level of benefits are quite simple and clear. When it comes to the question of being willing to accept a job, actively seeking a job, etc., who administers the rules is probably more important. Thus, the administrative changes may imply further retrenchment, but it seems unlikely that the impact will affect the conclusion of significant retrenchment of the scheme.

Just as Denmark, the Netherlands has witnessed the introduction of an active labour-market policy (cf. Visser & Hemerijk 1997: 155-178; Cox 1998; van der Veen & Trommel 1999). The Dutch active labour-market policy has consisted of elements such as, subsidised jobs, reforms of the unemployment service, and stronger focus on the duties of the unemployed, for instance, through changes in the definition of 'suitable jobs'. As in relation to the Danish active labour-market policy, the question is whether this may 'scare off' some of the unemployed. The stronger focus on the duties of the unemployed may have such effects. Thus, van der Veen & Trommel (1999: 305) report a significant rise in the use of sanctions in the scheme. Such sanctions are imposed if the unemployed person is not willing to accept an offered job or if the job-searching efforts are found to be insufficient. However, other changes such as the introduction of subsidised jobs, may be perceived as an improvement since it enhances the possibilities of re-entering the labour market. In other words, also in the Dutch version of active labour-market policy, an offensive element is present. In summary, the introduction of active labour-market policy may have some retrenchment effects through the increased focus on the duties of the unemployed, but parallel to the administrative changes, significant retrenchment seems an unlikely result.

Altogether, a number of restructuring reforms have been passed in relation to Dutch unemployment benefits. There has been a shift in financing from tax financing to social contributions, the influence of the social partners on the administration has been limited, and an active labour-market policy has been introduced. These changes may result in some retrenchment. Particularly, the combination of the changes in the administrative structure and the stronger focus on the duties of the unemployed may make this scheme less attractive for the unemployed. It is difficult to anticipate the precise extent of such retrenchments, let alone convert them into figures, but it seems unlikely to have much effect on the conclusion of significant retrenchment.

The Danish disability-pension scheme

The Danish disability-pension scheme known as '*invalidepension*' could award a disability pension to everyone aged 15-67.[17] The scheme was administered by the municipalities, but they did not award pensions. This competence had been given to the regional 'boards of rehabilitation and pension'. Members of these boards were partly local politicians and partly experts appointed by the Minister of Social Affairs. Central government reimbursed the expenditure of the municipalities by 100%.

The basic criterion for being awarded a pension was a permanent reduction of work capacity. Whether or not this had occurred was mainly a medical judgment, but certain social criteria were involved as well. Three levels of benefits were awarded depending on the degree of reduction in work capacity. To be eligible for the highest level, the remaining work capacity had to be zero or insignificant. The middle level was awarded if the person had lost around two-thirds of his or her work capacity. The lowest level was awarded if the applicant had lost more than half but less than two-thirds of his or her work capacity. In other words, applicants who were judged to have more than half of their work capacity intact were not eligible for benefits.

The highest level of benefits consisted of four different types: The basic amount and the pension supplement of the old-age pension (see above), yet both of them were subject to an income test. Furthermore, an invalidity supplement and a work-incapacity supplement were awarded regardless of other income. Both supplements were equal to approximately half of the basic amount. The middle level of benefits consisted of the basic amount, the pension supplement, both subjected to an income test, and the invalidity amount. The lowest level of benefits consisted of half of the basic amount, subject to an income test, and half of the invalidity amount.

The invalidity amount was tax-free, whereas the other types of benefits were taxable income. However, the special tax rules that made the old-age pension for single pensioners with no other income tax-free also applied to disability pensioners. Once benefits were awarded, the person would be eligible until he or she turned 67. Benefits were linked to the development in prices.

Development of the Danish disability-pension scheme from 1982 to 1998

Table 14 below summarizes the legislative changes in the Danish disability-pension scheme from 1982 to 1998. The general picture emerging from Table 14 is not one of retrenchment but one of significant expansion of the scheme. Benefits were improved two times from 1986 to 1988, and slightly in 1993. From 1990, benefits were also tied to the development in wages instead of prices. However, the major expansion came with the 1983 reform of the scheme, introducing three new levels of benefits:

1 The highest level could be awarded to anyone aged 18-59 upon the condition that he or she, due to health problems, had lost any significant capacity to work. Benefits were the same as the highest level in the old scheme.
2 The middle level was awarded to anyone aged 18-59 who, due to health problems, had lost around two-thirds of his or her work capacity, or to anyone aged 60-66 who fulfilled the criteria for obtaining the highest level of benefits. Benefits were the same as the middle level in the old scheme.
3 The normal level of benefits could be awarded in three different situations. First, to anyone who, due to health problems, had lost less than two-thirds but more than half of his or her work capacity. Second, to anyone aged 18-66 whose work capacity, due to either health or 'social' problems, had been reduced by at least 50%. A need for provision, established through means testing, had to be present as well. Third, anyone aged 50-66 could be awarded normal benefits for 'social reasons'.

Also in this case, a need for provision had to be documented. Normal benefits were equal to the basic amount plus the pension supplement of the old-age pension, but both types of benefits were subject to an income test. As of 1985, everyone awarded a normal pension before the age of 60 would be entitled to a tax-free and not income-tested supplement equal to half of the invalidity amount. Apart from including the elements of disability pension that had existed in other schemes, this new scheme significantly expanded the possibilities of awarding a pension for other than strictly medical reasons. In addition, the reform improved benefits slightly.

Table 14 Changes in the Danish disability-pension scheme, 1982-1998

Law number	Passed	Effect	Content	Expected budgetary consequences	Actual budgetary consequences
L 136,137 1982-1983	June 1983	January 1984	New disability-pension scheme: All elements of disability pensions from other schemes transferred to this scheme. Benefits improved. Increased possibilities of awarding pensions for 'social reasons'	+[1]15% (rough estimation partly based on the development in actual expenditure)	
L 119 1986-1987	June 1987	January 1988	Income testing for the basic amount and pension supplement eased	+4.2%	+3.3% (covers part of L168)
L 168 1987-1988	March 1988	July 1988	Benefit levels increased, the easing of the income testing for the pension supplement hastened, and the income testing further eased	+3.4%	+5% (covers only parts of the law)
L 223 1989-1990	June 1990	January 1991	Benefits tied to the development in real wages	No measurable budgetary implications, yet expansion in the long-run	
L 314 1993-1994	May 1993	January 1994	Changes of some benefits for single pensioners into taxable income. Improvements of the pension supplement. Cutback in the basic amount	+1.8%	-0.9%
Total				**+24.4%**	

1 + indicates expansion of the scheme; – indicates retrenchment

The next question is whether there have been any restructuring reforms that may indirectly lead to expansion or retrenchment. This is indeed the case. In the 1990's, the financing and the competence to award pensions were changed a number of times making it significantly more difficult to obtain a pension (Christiansen 2000). In 1991, taking effect in 1992, the right to award normal benefits was transferred from the boards of rehabilitation and pension to the municipalities. At the same time, the reimbursement from the central government was changed from 100% of the expenditure to 50% in relation to all new, normal pensions being awarded. However, central government still reimbursed the entire expenditure on all pensioners aged over 60. Taken together, these changes gave the municipalities a financial interest in awarding as few normal pensions as possible, an interest that the boards of rehabilitation and pensions had not had (*op. cit.*).

In 1994, the rules were changed again. The municipalities could now apply for the right to award the highest and middle level of benefits. In 1997, this right was fully transferred to the municipalities. Furthermore, the joint financing of central and local government was extended to all new pensioners, and the process of awarding a pension could no longer be initiated by the disabled, but only by the municipality. In other words, the municipalities achieved much more control of the awarding process. In 1998, the financing was changed again as central government reimbursement for new pensioners was cut back from 50% to 35%. Thus, the incentives for the municipalities to limit the number of pensions being awarded were significantly strengthened and the competence of the municipalities has been spread out to all types of disability pensions.

As Christiansen (2000) shows, the effect of these changes is a reduction of 20% in the number of awarded pensions from 1990 to 1997. The effect of the most recent changes seems to be an even more significant reduction in the number of awarded pensions (*op. cit.*). The falling level of unemployment has probably played a role as well. Yet, Christiansen's analysis shows that the role has been limited. Due to transitional effects in the awarding of pensions (*op. cit.*), the exact magnitude of the reduction in the number of awarded pensions can only be established after some years. However, it is already obvious that these changes strongly affect the conclusion of significant expansion of the scheme. A conclusion of neither retrenchment nor expansion seems more appropriate when these institutional changes are taken into account.[18]

The Danish early-retirement benefits scheme (efterløn)

The Danish early-retirement benefit scheme (*efterløn*) offered the possibility of early retirement for people aged 60 to 66.[19] It was organised as an extension of the unemployment-benefit scheme. Thus, it was administered by the unemployment funds and financed in the same ways as unemployment benefits. Anyone aged 60-66 could retire if he or she fulfilled two requirements. First, he or she had to fulfill the eligibility criteria in the unemployment-benefit scheme (see above). Second, membership in an unemployment fund for 10 of the last 15 years was required.

Benefits were equal to the unemployment benefit as long as the claimant fulfilled the eligibility criteria for unemployment benefits. When this was no longer the case, most often after 2½ years, benefits were reduced to 80% of the maximum amount. After another two years, benefits were further reduced to 70% of the maximum amount. Benefits were taxable like any other income, and linked to the development in prices and wages in the same way as the unemployment benefit.

Development of the Danish early-retirement benefit scheme from 1982 to 1998

Table 15 reports the legislative changes in the Danish early-retirement benefit scheme from 1982 to 1998. The picture emerging from Table 15 is one of significant retrenchment. As in unemployment benefits, the partial freeze of benefits for 2½ years dating from 1982 with a later extension of one year implied significant retrenchment.[20] The improvements passed in 1986 and 1987 implied, among other things, that the 70% level of benefits was changed to 80% and that the earlier retrenchments were compensated to some extent. In 1990, benefits were again linked to the development in real wages, as they had been at the beginning of the period. The most dramatic retrenchment was the reform of the scheme negotiated in the autumn of 1998. This reform implied that future claimants would be entitled only to the less generous old-age pension when they turned 65, that strong incentives were introduced not to join the scheme before the age of 62, and that a special contribution had to be paid starting from the age of 35, which will probably lead to less claimants.

When looking at the institutional structure surrounding the scheme, changes have taken place only in relation to the financing of the scheme. The changes mentioned in connection with the Danish unemployment benefit affected the early-retirement benefits since they were financed in the same

Table 15 Changes in Danish early-retirement benefits, 1982-1998

Law number	Passed	Effect	Content	Expected budgetary consequences	Actual budgetary consequences
L 10/11 1982-1983	October 1982	January 1983	Fully or partly freeze of benefits for 2½ years	-[1]19.4%	-18.9%
L 165 1983-1984	May 1984	October 1985	Freeze of most benefits for another year	-4.5%	Not measurable
L 49 1986-1987	December 1986	January 1987	The 70% level of benefits abolished and replaced by 80%	+3.2%	+2.9%
L 160 1987-1988	March 1988	July 1988	Most benefits increased	+5.2%	+2%
L 223 1989-1990	June 1990	January 1991	Benefits tied to the development in real wages	No direct budgetary implications	
L 125, 174 and 175 1998-1999	April 1999	July 1999	Early retirement reform. Pension age lowered from 67 to 65 years. Special contribution introduced, and strong incentives for later retirement introduced	-19.6% (very uncertain estimation)	Not measurable
Total				**-35.1%**	

[1] + indicates expansion of the scheme; – indicates retrenchment

way. Two changes affecting only the early-retirement scheme further underline the tendency towards less government financing following these changes. In 1991, the number of years of membership required to be eligible for early-retirement benefits was raised from 10 of the last 15 years to 20 of the last 25 years. This change gave the unemployment funds around 100,000 new members (calculations based on Danmarks Statistik, *Statistisk tiårsoversigt* 1996) and thus raised the revenue from member contributions significantly. Apart from a possible lower number of claimants in the future, the special contribution introduced in connection with the reform in 1998 also implied increased financing from members, both because the special contribution is higher and because it has to be paid for 25 years.

The question then is whether the increased financing from members would indirectly lead to more or less retrenchment. Most likely, it will not

have much effect. It is important to note that the basic features of the financing of the scheme are left unchanged. The government still carries the marginal burden of the expenditure and pays the majority of it. Thus, even 25 years of payment of the new contribution to the early-retirement scheme equals less than one year's benefits. Altogether, none of the restructuring reforms affect the conclusion of significant retrenchment.

The Dutch disability-pension schemes

The Netherlands had two closely connected schemes covering the risk of disability[21]; the AAW, which was a peoples' insurance scheme and the WAO, which was a workers' insurance scheme. The WAO paid benefits to workers and the AAW to people not eligible for benefits in the WAO. Despite the AAW being a peoples' insurance scheme, both schemes were managed by the Industry Insurance Associations. Applications for a disability pension were considered by the Joint Medical Committee (GMD), a medical and vocational body connected to the Industry Insurance Associations. The schemes were financed from contributions from employers and employees and from state support. In 1982, the state covered 4.5% of the total expenditure (Centraal Bureau voor de Statistiek, *Statistisch Jaarboek* 1984: 328-329).

The schemes covered persons between 18 and 64. The entry into both schemes was sickness benefits. After receiving sickness benefits for one year, a person could apply for a disability pension, provided he or she had some connection with the labour market prior to becoming disabled. The basic criterion for judging the application was a person's ability to fulfill a commensurate job, in the sense of a job matching his or her qualifications.

Table 16 The connection between degree of disability and benefits in the Dutch disability-pension schemes

Degree of disability	% of basis or former wage
80-100	80
65-80	65
55-65	50
45-65	40
35-45	30
25-35	20
15-25 (only WAO)	10

Hence, the scheme was meant to cover the loss of income from not being able to perform such a commensurate job, not to cover disability *per se*, and the cause of the inability was irrelevant. In other words, the scheme did not distinguish between *risque professional* and *risque social*. Furthermore, the law stipulated that the GMD should consider how the disability would affect the person's possibility of actually finding a commensurate job (known as 'the labour-market consideration'). Finally, the administrative practice concerning the awarding of disability pensions was very lenient. In fact, the Industry Insurance Associations had decided to give the claimants all the benefit of the doubt. This implied that people applying for a disability pension, almost as a matter of *pro forma,* were awarded a full disability pension. Only the very doubtful cases were in fact considered by the GMD (Aarts & de Jong 1996a: 22-26). Thus, 85% of the disability pensioners in 1982 were fully disabled (Centraal Bureau voor de Statistiek, *Statistisch Jaarboek* 1983: 324).

The level of benefits was decided according to the table shown below. Anyone employed had their benefits calculated from former wage, whereas people with no former employment had it calculated from the so-called 'basis', which in 1982 was approximately NLG 2,250 per month. Both benefits in the AAW and in the WAO were indexed twice a year (cf. Vording 1993: 14-28).

Development of the Dutch disability-pension schemes from 1982 to 1998

Table 17 below shows the legislative changes in the Dutch disability-pension schemes from 1982 to 1998. The picture emerging from Table 17 is one of drastic retrenchment. The Dutch disability schemes have been retrenched in many ways. Benefits were frozen from 1982 through 1989 and from 1993 through 1995, yet in some years with marginal budgetary effects due to limited inflation. In 1984, benefits were also cut, and the labour-market consideration was removed from the awarding of benefits in 1986. Finally, another reform added significant retrenchment in 1993: Eligibility was tightened due to new rules about commensurate jobs and due to the requirement that the relationship between the impairment and the disability is objectively assessable. New claimants will also face significantly lower levels of benefits when after some years in the scheme, their benefits only to some extent will be related to their former wage. Especially young claimants will face significantly lower levels of benefits as the length of the period on wage-related benefits will be dependent on age, just as the level of benefits after this wage-related period will be partly dependent on age.

The final question in relation to the Dutch disability-pension scheme is

Table 17 Changes in Dutch disability-pension schemes, 1982-1998

Law number	Passed	Effect	Content	Expected budgetary consequences	Actual budgetary consequences
L 749 1982	December 1982	January 1983	Indexation of benefits limited to 1% in 1983	-[1]6.7 %	-5%
L 674 1983	December 1983	January 1984	Benefits frozen for another year. Most benefits cut by 2.4%	-4.3%	-5.7% (covers L 271 as well)
L 271 1984	June 1984	July 1984	Most benefits cut by 2.4%	-1.6%	
L 652 1984	December 1984	January 1985	Benefits frozen for 1985	-3.3%	See below
L 633 1984	December 1984	January 1985	Maximum benefits in the wao reduced to 70% of former wage. Earlier cuts in nominal benefits reversed	-4.4%	See below
L 704 1985	December 1985	January 1986	Benefits frozen for 1986	-2.3%	-12.4% (covers L 652 and L 633 as well)
L 561 1986	November 1986	January 1987	'The Labour-market consideration' abolished	-6% (uncertain estimation)	See appendix 1
L 624 1991	November 1991	December 1991	New indexation rules	No direct budgetary implications	
Freeze of social- security benefits for 1993[2]			Benefits frozen for 1993	-3.2%	-4%
L 412 1993	July 1993	January 1994	Tightened eligibility criteria, cuts in benefits	-23.9% (uncertain estimation)	See appendix 1
Freeze of social- security benefits for 1994[2]			Benefits frozen for 1994	-2.6%	-3.2%
Freeze of social- security benefits for 1995[2]			Benefits frozen for 1995	-2.8%	-3.3%
Total				**-61.1%**	

1 + indicates expansion of the scheme; – indicates retrenchment
2 The decision was taken in the autumn of the year before

whether any institutional changes affect the above conclusion of drastic retrenchment. The institutional structures surrounding the Dutch disability schemes have undergone significant changes (cf. Teulings, van der Veen & Trommel 1997; Bannink 1999; van der Veen & Trommel 1999).

First of all, the administrative changes discussed in relation to unemployment benefits implying a decreased influence of the social partners also affected the disability-pension schemes, since they were administered in the same way. In addition, the GMD was abolished as of 1995, leading to a transfer of the tasks to the LISV. The question is whether these changes will indirectly imply retrenchment. The awarding of disability pensions almost automatically involves an element of discretion. Therefore, who actually awards benefits is crucial. The reason for reducing the influence of the social partners was that their administration was considered too lenient. Therefore, there are good reasons to believe that these changes in the administration of the disability-pension schemes will imply a stricter administration of the scheme and, hence, indirectly retrenchment. However, no quantitative evidence has been found.

The financing of the scheme has also undergone several changes. Through the 1980's, contributions from the employers to the WAO were gradually removed. From 1990, employer contributions to the AAW were abolished and replaced by contributions from employees. The government had also gradually removed its financial support for the schemes. However, from 1990 to 1993, it strongly supported the schemes, paying between 40% and 50% of the total expenditure (Centraal Bureau voor de Statistiek, *Statistisch Jaarboek* 1993: 292-293; 1995: 298-299). As a result of the 'Bolkenstein motion'[22] (Tweede Kamer der Staten-Generaal 1993-1994: 22730, 21), all state support for the schemes were removed as of 1994. In 1997, taking effect in 1998, the financing of the schemes was changed again.[23] From then onwards, the WAO would be financed solely by contributions from employers. Their contributions would consist of a basis contribution equal for all employers and a contribution partly dependent on the level of disability in each firm. The latter contribution was meant to cover the costs of the first 5 years of disability. The employers could choose to opt out of the scheme and not pay the differentiated contribution. However, the employer then had to pay for the first 5 years of disability himself or take out insurance. In other words, the financing of the scheme was changed to provide employers with an incentive to try to keep down the number of disability claimants. At this stage, it is impossible to say anything precisely about this potential indirect effect.

Altogether, the two types of restructuring reforms add to the picture of drastic retrenchment emerging from Table 17, even though the exact effects are impossible to quantify.

Actual variation in extent of retrenchment

After having documented the retrenchments implemented in the selected social-security schemes, the question is what variation in retrenchment can be observed. Starting with the question of variation between the two countries, the general picture is that more retrenchment has been implemented in the Netherlands than in Denmark. The Danish old-age pension was actually expanded, 10.4%,[24] whereas the Dutch old-age pension was retrenched somewhat, 17.4%. The figures also suggest that the Dutch unemployment-benefit scheme(s) was retrenched more than the Danish with 33.7% compared to 30%. When considering the uncertainties involved in measuring the budgetary impact of retrenchments, the difference is not large enough to warrant a conclusion that unemployment benefits in the Netherlands have been retrenched more than unemployment benefits in Denmark. The difference of 3.7% might simply be due to measurement errors.[25] Therefore, a more obvious conclusion is that unemployment benefits in the two countries have been retrenched equally. Finally, disability pension/early-retirement benefit schemes have been retrenched to a different extent in the two countries. The Dutch disability-pension schemes have been retrenched drastically, 61.1%, and probably even more if the effects of the changes in the institutional structure surrounding the schemes are taken into account. In Denmark, the early-retirement scheme was retrenched by 35.1% while the disability pension was neither retrenched nor expanded when taking into account the effects of the administrative changes in the 1990's. Altogether, as regards two of the three types of schemes, the Dutch experienced the most retrenchment. In relation to unemployment benefits, the figures only warrant a conclusion that the schemes in the two countries have been retrenched to the same extent.

As regards the development over time in Denmark, it seems that in general the schemes fared better from 1982 to 1993, and especially from 1986 to 1989, than after 1993. In the old-age pension scheme, the expansion took place from 1986 to 1990 whereas the enhanced role of means testing, which will imply retrenchment in the future, was passed in 1993. The disability-pension scheme was expanded from 1983 to 1988, but from 1991 and onwards,[26] the implementation of the various restructuring reforms clearly implies retrenchment. Turning to the early-retirement benefit scheme, a significant retrenchment of the scheme took place in 1998. A comparable retrenchment was implemented from 1982 to 1984, but modified somewhat by the expansion from 1986 to 1988. When comparing the full development from 1982 to 1993 with the development after 1993, the early-retirement scheme

was retrenched slightly more in the latter period; 19.6% compared to 15.5%. Yet, the difference is too small to warrant a substantive conclusion about a difference in retrenchment. Concerning the development of the unemployment scheme, significant cuts were implemented from 1982 to 1984, but somewhat modified in 1987. Additional cutbacks were implemented during the 1990's. When the uncertainties of measuring the budgetary effects are taken into account, this scheme fared the same in the two periods. Altogether, 2 out of the 4 schemes, old-age pension and disability pension, fared better from 1982 to 1993 than after 1993. The other two schemes fared similarly in the two periods. A closer look at the first period reveals that significant retrenchment of 2 of the 4 schemes, unemployment benefits and early-retirement benefits, took place from 1982 to 1984. Thus, significant retrenchment measures were also implemented from 1982 to 1993.

Turning to the Netherlands, the retrenchment of the old-age pension scheme has been spread quite evenly over the pertinent time periods, 1982-1989, 1989-1994, and 1994-1998. At least the differences are too limited to warrant any conclusions about variation. Looking at the disability-pension scheme, the retrenchment has been concentrated in the first two periods. Finally, looking at unemployment benefits, the major part of the retrenchments took place in the period 1982 to 1989. Only slight retrenchments were implemented in the subsequent two periods. When studying all three schemes across all three time-periods, differences are found. In general, the most retrenchment was implemented from 1982 to 1989. Compared to the period 1989 to 1994, more retrenchment was implemented in unemployment benefits, and compared to the period 1994 to 1998, more retrenchment was implemented both in relation to unemployment benefits and to the disability pension. However, it is worth noting that the retrenchment in the first period took place almost entirely from 1982 to 1985. Finally, when comparing the period 1989 to 1994 with the period 1994 to 1998, there is a general picture of more retrenchment in the former period. This conclusion is based on the much greater extent of retrenchment of the disability-pension scheme in the former period.

When looking at the pattern of retrenchment across the different social-security schemes, it is found that in the Netherlands, the old-age pension scheme was retrenched significantly less than the two other schemes, and the disability-pension scheme significantly more than unemployment benefits. In Denmark, the early-retirement scheme and unemployment-benefit scheme were retrenched the most. The disability-pension scheme was neither retrenched nor expanded and the old-age pension scheme has been expanded.

Before comparing the actual variation in retrenchment with the hypotheses developed in chapter 4, it is worth comparing the results of other investigation of retrenchment. As discussed in chapter 4, the alternative to the micro-data used in this study would have been macro-data in the sense of social-expenditure data. Other studies have used such data. Both Castles (2001) and Siegel (2001) find that the Netherlands is the OECD country having retrenched social-security expenditure the most since 1980. This is also the case when Siegel (*op. cit.*) controls for the number of claimants. In both studies, Denmark is found to be one of the countries having conducted limited retrenchment and actually having a higher level of social expenditure in the mid-1990's than at the beginning of the 1980's. Alber (1998) has conducted a more qualitative analysis of retrenchment of a number of social-security schemes in Austria, Germany, and in the Netherlands over approximately the same time period as chosen here. He draws two conclusions of interest for this study. First, he (*op. cit.*: 41-48) concludes that the Netherlands has experienced more retrenchment than Germany and especially Austria. In other words, it is not only in comparison with Denmark that the Netherlands has had more retrenchment. Second, Alber ranks the retrenchment of the three Dutch schemes investigated in this study in the same way it has been done here. Thus, the disability-pension scheme was retrenched the most and the old-age pension scheme the least, with the unemployment-benefit scheme falling in between. In summary, some of the conclusions drawn above can be supported by Alber's research.

Without putting too much emphasis on this 'validation' of the findings, it does indicate that the findings of this study are consistent with other investigations of variation in the extent of retrenchment. The next question is whether the findings are in accordance with the hypotheses developed in chapter 4.

The match between the actual and expected variation in retrenchment

The first hypothesis concerning retrenchment in Denmark and in the Netherlands from 1982 to 1998 was that retrenchment would not be sweeping. An evaluation of this hypothesis depends on the definition of 'sweeping'. Basically, this is a question whether the glass is half empty or half full. A very narrow definition of sweeping would be that it implied the abolition of social-security schemes. When applying this definition, Denmark and the Netherlands have definitely not seen sweeping retrenchment. Using a wider definition of retrenchment, the result is obviously less clear. Yet, when look-

ing at all the schemes, it takes a wide definition of 'sweeping' to argue that retrenchment has generally been sweeping. Benefits have been cut, but generally only about 10-20%, and eligibility has been tightened, yet it has by no means become difficult to enter the schemes. Furthermore, in Denmark, the old-age pension has actually been expanded. Thus, if all the reservations about the definition of sweeping allow any conclusion, it seems that the only scheme that has suffered something like sweeping retrenchment is the Dutch disability-pension schemes. Altogether, the first hypothesis has been supported by the empirical developments.

The hypothesis concerning the two countries was that more retrenchment would have taken place in the Netherlands than in Denmark due to the different systems of party competition. This was also the picture emerging above. When looking at all the social-security schemes, the Dutch schemes have generally been retrenched more than the Danish ones.

Turning to the development over time in Denmark, the hypothesis was that more retrenchment would be implemented from 1993 to 1998 than from 1982 to 1993. This hypothesis was supported as well. Yet, the right-wing governments ruling Denmark from 1982 to 1993 actually implemented a number of significant retrenchments during their very first years in government. Later, they implemented a number of improvements to the schemes, so the final result of the period is not much retrenchment, at least less than what was implemented by the social democratic-led governments since 1993. However, the retrenchments implemented during the first years of right-wing rule were not predicted by the theoretical framework presented in chapter 3.

Looking at the development over time in the Netherlands, the hypothesis was that most retrenchment would be implemented from 1989 to 1994 followed by the period 1994 to 1998, and then the period 1982 to 1989. However, this does not correspond to the pattern found above. More retrenchment was implemented from 1989 to 1994 than from 1994 to 1998, but in contrast to the expectations, the period 1982 to 1989 was the period with the most retrenchment. When looking more closely at the period 1982 to 1989, it becomes clear that the retrenchments took place mainly from 1982 to 1985, whereas few retrenchments took place from 1986 to 1989. In other words, it is the development from 1982 to 1985 than runs counter to the hypothesis derived from the theoretical framework. If this period is ignored, the pattern over time in the Netherlands corresponds to the expected outcome.

Turning to the variation across schemes, the pattern in Denmark matches the hypothesis in the sense that unemployment benefits and early-retirement

benefits were retrenched the most and disability pensions and old-age pension the least. In general, they were actually not retrenched at all. Looking at the pattern in the Netherlands, unemployment benefits were, as expected, retrenched more than old-age pensions. However, contrary to what was expected from the theoretical framework developed in chapter 3, the disability-pension scheme was retrenched more than the other schemes and not as expected less than unemployment benefits.

Altogether, the actual variation in retrenchment in Denmark and in the Netherlands from 1982 to 1998 does match the hypotheses developed in chapter 4 considerably. More retrenchment was implemented in the Netherlands than in Denmark, and more in Denmark from 1993 to 1998 than from 1982 to 1993. However, some unexpected retrenchment was implemented in Denmark from 1982 to 1984. In the Netherlands, the development was as expected after 1985. In other words, except for the developments in both countries in the very first years studied, the theoretical framework was quite successful in predicting the variation in the extent of retrenchments across time and between the two cases. Looking at variation across schemes, the framework predicted the variation in Denmark, but not in the Netherlands where disability pensions were retrenched the most. On balance, it seems the theoretical framework presented in chapter 3 predicted the variation in welfare-state retrenchment fairly well. Yet, by no means was the value of r-square 1.

In this way of investigating the explanatory power of a theoretical framework, there is one caveat: It is based on correlation arguments, that is the match between the predicted variation and the actual one. What a correlation argument does not guarantee is that causal propositions underlying the hypotheses are in fact right. Even though the theoretical framework presented in chapter 3 predicted the variation in retrenchment in Denmark and in the Netherlands from 1982 to 1998 fairly well, it is still an open question whether the politics surrounding retrenchment do in fact work the way presented in chapter 3. Are the politics of welfare-state retrenchment the politics of blame avoidance? Do governments pursue a justification strategy of blame avoidance? Does party competition around retrenchment work the way discussed in chapter 3? The only way to answer these questions and thus provide a further investigation of the explanatory power of the theoretical framework is to do case studies of the politics of retrenchment in the two countries. This is the subject of the next two chapters. The chapters may also provide some indication as to why retrenchment has not always taken place as predicted.

6 Dutch Politics and welfare-state retrenchment. How party competition produced consensus

The aim of this chapter is to take a closer look at Dutch politics and welfare-state retrenchment from 1982 to 1998. Yet, to make sense of what has happened from 1982, it is necessary to start out with a short section on Dutch politics and welfare-state retrenchment in the preceding period, 1973 to 1982. Subsequently, there will be sections describing each of the three types of governments that ruled the Netherlands in this period; the CDA-VVD governments from 1982 to 1989, the CDA-PvdA government from 1989 to 1994, and the PvdA-VVD-D66 governments from 1994.

More specifically, the aim is to establish how party strategies around retrenchment developed in the period in relation to other political parties and in relation to the electorate. For each period, there will be an investigation into the government initiatives concerning the welfare state, the societal reactions, how the governments have tried to legitimise their policies, and the reaction of the opposition. The focus will be on social security. Nevertheless, developments in other policy areas will be included to the extent that they are necessary to make sense of what happened in relation to social security. These issues have been studied using both primary and secondary sources.[1]

Depillarisation and fumbling response to the oil crises

From a historical perspective, Dutch politics are one of the clearest examples of the politics of accommodation inherent in Lijphart's (1969) concept of 'consociational democracy'. Due to a consensus at the elite level about power sharing, autonomy for the sub-cultures and proportionality, the conflicts stemming from the 'pillarisation' of Dutch society never materialised into an adversarial style of politics that could have threatened democratic stability (Lijphart 1979; Gladdish 1991: 33-49; Andeweg & Irwin 1993: 23-49). The consensual style of politics was also clearly visible in relation to party competition. In the two decades following the Second World War, the

Netherlands was mainly governed by oversized coalitions. Members of these governments belonged to one or more of the three major denominational parties, KVP, CHU, or ARP, and either the Social Democrats (PvdA) or the Liberals (VVD) (Andeweg & Irwin 1993: 119). Thus, power sharing in the Netherlands was very much dominated by denominational centre parties, and Dutch politics in the first part of the post-war period can aptly be characterised as 'governing from the centre' (Gladdish 1991).

In the second half of the 1960's, the pillarisation of Dutch society started to collapse rapidly. The most immediate effect of 'depillarisation' on Dutch party competition was a significant decrease in the vote-share of the denominational parties. The 1967 election was the first election where the three major denominational parties did not gain at least half of the seats in the Dutch parliament.[2] At the same time, a number of small, new parties entered Dutch politics. The only lasting one was D66 (Gladdish, 1991: 42-49).[3] The reaction of the denominational parties to their rapidly declining vote-share was to initiate a merging process. During the elections in 1977, the three parties ran on a common list, and the merger into the CDA was completed in 1980 (Gladdish 1991: 54-58; Verkuil 1992).

The PvdA also saw new opportunities and it launched a 'polarisation strategy', that is a more adversarial style of politics. The party's hope was that it no longer had to govern at the mercy of the denominational parties, especially the KVP, but could become the dominating party in government (cf. also Green-Pedersen & van Kersbergen 2002). This was to become possible through a significant increase in the party's vote-share, at the expense of the declining denominational parties (Tromp 1989; Gladdish 1991: 52-54; Hillebrand & Irwin 1999). The PvdA did seem to have some success with its strategy. It gained votes in the 1971, 1972, and 1973 elections. After the 1973 election it, together with D66, PPR, KVP, and ARP, was able to form a government with its leader, Joop den Uyl, as Prime Minister.[4] At the succeeding election in 1977, the PvdA gained a historical high of 33.8% of the votes (Andeweg & Irwin 1993: 105). Yet, this was a Pyrrhic victory. A CDA-VVD government took over. After the elections in 1981, PvdA participated in a government with CDA and D66 for about 9 months, (see below), but otherwise, the party was out of office until 1989.

One of the issues at the centre of Dutch politics from 1973 to 1982 was socio-economic policy. As can be seen from Table 6, the Netherlands was quite negatively affected by the two oil crises. Yet, the governments were unable to find a coherent policy response. Monetary policy was wavering (Jones 1998) and attempts at settlements with the social partners concerning wage restraint failed (Visser & Hemerijck 1997: 93-98). In relation to

the welfare state, the period until 1982 was also characterised by wavering and failed attempts. The immediate response of the den Uyl government was an expansive Keynesian policy and a continuation of the expansion of the welfare state. Social-security benefits were linked to the wage development in general in 1974, and the AAW was introduced in 1976 (Cox 1993: 173-175). However, towards the end of the den Uyl government, its Minister of Finance launched an austerity policy consisting of a 1% norm, that is public expenditure should not rise by more than 1% of national, annual income (Rigter *et al.* 1995: 323-329). This goal was never met (Toirkens 1988: 32-52). The succeeding CDA-VVD government also opted for an austerity policy, but was hardly more successful than its predecessor. This failure was not least due to strong disagreements within the CDA, especially between the two CDA ministers Wim Alberda, Minister of Social Affairs, and Frans Andriessen, Minister of Finance (*op. cit.*: 53-85; Verkuil 1992: 190-215; Rigter *et al.* 1995: 335-339). In the 1981 election, the CDA and VVD lost their majority, and the CDA was forced to govern with the PvdA and D66 (Verkuil 1992: 22-231). This government continued the failed attempts at an austerity policy. The most famous example of this was the government's attempt at retrenching sickness benefits in the beginning of 1982. The Minister of Social Affairs, den Uyl, suggested a retrenchment of sickness benefits including, among other things, the introduction of 5 waiting days. However, after staunch resistance from the trade unions, den Uyl gave up his endeavor, and shortly afterwards the PvdA left the government with an image of being unable to implement tough but necessary measures (Anker & Oppenhuis 1989; Rigter *et al.* 1995: 340).

Altogether, the years preceding the period investigated in this study were turbulent both with regard to party competition and socio-economic policy. In relation to the latter, the result was a fumbling policy insufficient to meet the macro-economic challenges resulting from the two oil crises. 'Depillarisation' caused much unrest in Dutch politics in the 1970's (Tromp 1989), and this is one of the major reasons for the fumbling socio-economic policy. Yet, looking at the situation around 1982, Dutch party competition, as noticed by Lijphart (1989) and Wolinetz (1990b: 423), had not really changed much. Dutch politics were still 'governing from the centre' as the CDA had taken over the pivotal role of its three denominational predecessors. Numerically, the CDA was of course weaker, but the three major Christian Democratic Parties had united and a government without Christian Democratic Parties was still impossible.[5] The Netherlands was still a pivotal system of party competition now with the CDA as pivot party. The implications of which would become clear in the following years.

The first and second Lubbers governments: No-nonsense policy and an emerging consensus

The election in September 1982, resulting from the PvdA departure from the government, again produced a CDA-VVD majority in parliament and in the beginning of November, Ruud Lubbers from the CDA was able to form a government with the VVD. Under the motto of 'no nonsense', the new government launched an austerity policy. In the government's policy statement (*regeringsverklaring*) later in November, Lubbers outlined three main goals: 1) reduction of the financing deficit, interest rates and inflation; 2) strengthening of the market sector; and 3) job sharing (Keesings Historisch Archief December 3, 1982).

The new government's most immediate means to achieving these goals was wage restraint. Therefore, the government spoke of a 'breathing space' (*adempauze*), that is a freeze of wages, prices and social benefits, in connection with the coalition agreement (de Volkskrant, November 5 and 13, 1982; NRC Handelsblad, November 13, 1982). Such a breathing space would imply government intervention into collective agreements and put strong pressure on the social partners. The only way for them to avoid government intervention was to reach an agreement on wage restraint and job sharing (Kuipers 1998). Just a few days before the government policy statement in parliament, the social partners in principle agreed upon the 'Wassenaar accord' with exactly this content (*op. cit.*). As a follow-up to the agreement, the government limited the indexation of social-security benefits to 1%, implying significant retrenchment (cf. chapter 5), and froze public wages. In the following months, the new government implemented several minor retrenchments of social security, especially unemployment benefits and a nominal cut in the salaries of employees in the educational sector (Keesings Historisch Archief, March 23, 1983). Finally, after some hesitation, the first Lubbers government also pegged the Dutch Guilder to the German Mark (Jones 1998).

In the spring of 1983, the new government launched its ideas for a system change *(stelselherziening)* of social security. The discussion about a system change had begun in 1979, but now the government was ready to move. The system change was basically an umbrella for the numerous changes that were carried through in workers' insurance especially in the period until 1987, when they had all become effective (Hoffmans 1989). The majority of these changes were simply retrenchments. The most important ones were the lowering of the level of benefits in all workers' insurance to 70% of former income and the abolishment of the labour-market consideration in the

disability-pension schemes. In addition, the two unemployment-benefit schemes were merged, new rules concerning minimum levels of benefits introduced (*toeslagenwet*), and wherever necessary, benefits were individualised (cf. chapter 5). However, the retrenchments in connection with the system change were not the only retrenchments carried through by the first Lubbers government. First, the freeze of social-security benefits initiated in connection with the Waassenaar accord was continued in the entire period. Second, the first Lubbers government also implemented two nominal cutbacks in workers' insurance and in the wages of public employees. Taking effect in January 1984, a 3% cut in the wages used to calculate the level of benefits was implemented, and this was repeated in July 1984.[6]

In general, the government tried to legitimise and frame its policies along three lines. First, by referring to the dire economic straits that the Netherlands was facing. In his government's policy statement, Lubbers declared 'economic winter' in the Netherlands (de Volkskrant, November 23, 1982) and that due to the economic situation, the goal of redistribution could not be pursued (*op. cit.*, December 17, 1982: 839). The government also tried to justify the retrenchments by linking them to the job-sharing arrangements and thus the combat of unemployment (de Volkskrant, April 30, 1983; NRC Handelsblad, April 9, 1983). As Lubbers said in his government policy statement, 'work is more important than income' (NRC Handelsblad, November 22, 1982).

Second, the government sought to distance itself from its predecessors' fumbling and failed attempts at retrenchment. This was perhaps the core of the 'no nonsense' motto, or as Lubbers declared about his government, 'it is here to govern' (cited from Visser & Hemerijck 1997: 100). This approach was perhaps most visible in relation to the social partners. The first Lubbers government generally attached less importance than earlier governments to consensus with the social partners over changes in social security (Geul 1983; Roebroek & van Koten 1985). Unlike its predecessors, the government also did not yield to public unrest and protests against its policy. The nominal cutbacks in the salaries of employees in the educational sector thus provoked strikes and demonstrations against the government (Keesings Historisch Archief, December 17, 1982; March 25, 1983). The cutbacks in the nominal wages of public employees and the level of benefits in workers' insurance also proved very troublesome. The government started out in April 1983 by suggesting a 2% cut in all public wages and social insurance as of October 1983 (de Volkskrant, April 1983; NRC Handelsblad, April 1983). Referring to the worsened economic situation, the government then changed its plans to a 3.5% cut as of January 1983 (Keesings Historisch

Archief, November 4, 1983). This decision resulted in widespread strikes and demonstrations (Keesings Historisch Archief, November 25, 1983; December 2, 1983). In response, the government softened its policy slightly by reducing the cutbacks to 3%. The first Lubbers government also avoided the internal disagreements that had more or less paralysed the CDA-VVD government from 1977 to 1981.

Third, in relation to the welfare state, the government presented itself as very much a Christian democratic government. This was not least possible due to the placement of CDA politicians in almost every government position dealing with social security. Apart from the Prime Minister, the Minister of Finance, Onno Ruding, the Minister of Social Affairs and Employment, Jan de Koning, his State Secretary dealing especially with social security, Louw de Graaf, and the Minister for Welfare and Public Health, Elco Brinkman, were from the CDA. By presenting itself as very much a Christian democratic government, the first Lubbers government could link itself to the social image of the CDA – or its predecessors. In his government policy statement, Lubbers declared that 'the economic winter asked for an economy with a human face', and that 'the government would work for solidarity between income groups' (Keesings Historisch Archief, December 3, 1982: 790). The most concrete evidence of this was the special benefits given to the 'real social minimas', that is families living from just one income at the social minimum level. The expenditure on these benefits was small, but it had great symbolic value as 'the real social minimas' attracted significant attention (Rigter *et al.* 1995: 373-374).[7] The government also tried to link itself to the Christian democratic emphasis on societal accommodation and responsibility. The CDA itself (1983) spoke of 'from welfare state to welfare society', and Lubbers spoke of

> The transformation from a welfare state threatening to become prohibitive and oppressive to a caring society where people stand up for each other (Keesings Historisch Archief, December 3, 1982: 796).

Summing up, the first Lubbers government tried to present itself as a government that, due to the economic crisis, had to be harsh and could not allow more fumbling, but also as a government aiming at social fairness and societal accommodation. In other words, welfare-state retrenchment was thought justified as an economic necessity calling for societal responsibility, not as an ideological attack on the basic principle of solidarity.

For the PvdA, the new government and its 'no nonsense' approach raised

the dilemma between office and vote seeking. Should the party continue the already somewhat weakened polarisation strategy through a firm opposition policy, or should it be more moderate and hope to be rewarded through participation in the next government? A look into the party's journal, *Socialisme en Democratie*, during those years, reveals a lively debate on these issues (e.g. 1982: 11; 1983: 4 & 5; 1984: 4 & 11; 1985: 3). The most immediate response of the PvdA was a fairly firm opposition policy. The party voted against almost every cutback implemented by the first Lubbers government. The strongest opposition was held against the 'de-connecting' of wages and social-security benefits, that is the freeze of social-security benefits, but the PvdA also opposed most elements of the system change of social security.

The PvdA tried to portray the retrenchment policy of the first Lubbers governments as not just a retrenchment policy, but as an unfair one. The motto of the PvdA during those years was 'fair sharing' (*eerlijk delen*). In parliament, its leader, Joop den Uyl, declared that the government 'worked towards a society where again the right of the strong ones applied and self-interest was indicative' (Keesings Historisch Archief, November 4, 1983: 693). The PvdA also spoke of 'an atmosphere of dogmatic denounce of the welfare state' (Keesings Historisch Archief, September 30, 1983: 619), and declared that 'the contrast between strong and weak in society was substantially aggravated' (Keesings Historisch Archief, October 7, 1983: 632).

However, the opposition of the PvdA was not as strong as it may seem. Alternative polices suggested by the party were not without retrenchments (Keesings Historisch Archief, October 28, 1983: 679-680). As time went on for the CDA-VVD government, the PvdA increasingly loosened its firm opposition policy. In the autumn of 1984, with elections and thus the possibility of a new government, the party presented its ideas on socio-economic policy. Just as the government, the PvdA suggested lower benefit levels in workers' insurance; 75% of former income compared to the government level of 70%. However, the party would not guarantee that PvdA participation in the next government would imply a raise from 70% to 75%. Thus, as State Secretary for Social Affairs, de Graaf, later noted in an interview (Sociaal Bestek 1987): 'from the side of the PvdA, there was no talk of a 'frontal opposition' against the new system.' Furthermore, the party would not guarantee that a government with PvdA participation would index social-security benefits again (NRC Handelsblad, November 22, 1984; December 5-6, 1984; de Volkskrant, November 22, 1984; December 5-6, 1984). As a newspaper commentator noted, the PvdA needed room for government negotiations on its suggestions (NRC Handelsblad, November 22, 1984). The

PvdA very much wanted to return to power and den Uyl even argued that a PvdA-VVD government could be an option to remove the CDA from government (NRC Handelsblad, November 22-23, 1984; de Volkskrant, November 22-23, 1984).

Summing up, precisely the dilemma between vote- and office seeking forced the PvdA into a mixed response to the 'no-nonsense' government. On the one hand, the party, especially during the first years, constituted a firm opposition by arguing that the retrenchment policies undermined the basic principle of solidarity. Yet, when it came to concrete policy suggestions, the PvdA did not distance itself dramatically from the government as this would have implied political isolation. The party tried to have its cake and eat it too.

The elections in the spring of 1986 turned out to be the last round in the battle about socio-economic policy in the Netherlands: Before the election, the CDA announced that if the CDA and VVD could sustain their majority in parliament, the government would continue. This was unusual in Dutch politics. The motto of the CDA campaign was 'Let Lubbers finish the job', and together with the VVD, the party emphasised that the positive effects of its policies were now visible (van der Eijk & van Praag 1987; van Holsteyn & Irwin 1988). Lubbers also declared that 'the changes in social security had been painful but necessary changes' (cited from van Praag Jr. 1987: 21) and promised peace in relation to social security for the next period (*op. cit.*; de Volkskrant, May 13, 1986).

In the same way as during the years before the elections, the PvdA was caught between office- and vote seeking. On the one hand, still under the motto of 'fair sharing', the party continued to attack the government for an unfair distribution of retrenchments. The PvdA also argued that the CDA had moved closer to the VVD (de Volkskrant, May 13, 1986). However, the party declared that its only absolute demand for government participation related to the cruise missile question (Trouw, May 21, 1986).[8] Den Uyl also said that the PvdA had given up the polarisation strategy and repeated that he did not rule out a PvdA-VVD government (Trouw, May 3, 1986). In addition, the election material of the party contained few concrete promises in relation to social security. The party did not want to be accused of being irresponsible in its socio-economic policy (Gladdish 1987).

The result of the election was a major victory for the CDA, allowing the government to continue despite losses for the VVD and gains for the PvdA (van der Eijk, Irwin & Niemöller 1986). Apart from the popularity of Prime Minister Lubbers, it seems that the explanation for the CDA victory should be found in the voters' belief that a continuation of the government would

serve the Dutch economy best (Pellikaan 1987; Irwin & van Holsteyn 1989). Apparently, the CDA had been successful in justifying welfare-state retrenchment as a matter of necessary changes to fight macro troubles, and thus avoid the issue being turned into a question of advocating or opposing the welfare state *per se* (see below).

The question then is why the government was successful in framing the issue in this way? As expected, in order not to preclude itself from future government participation, the PvdA could not launch a frontal attack on the government's policy for a long time. In addition, the government could, and did, refer to the social profile of the CDA to avoid being accused of launching an ideological attack on the Dutch welfare state. Yet, the PvdA did constitute an at times firm opposition against the government. What seems to have been a great help for the first Lubbers government is that a general state of crisis dominated the Netherlands when Lubbers took office (cf. de Beus 1983). Survey data (Sociaal en Cultureel Planbureau 1988: 354-355) show that the Dutch population did not expect much from the future, in economic terms. This state of crisis clearly facilitated the first Lubbers government's reasoning about unpleasant but necessary retrenchments. Altogether, the period of the first Lubbers government was the last period with some disagreements among the three major Dutch political parties about socio-economic policy. When the PvdA, in order to be able to obtain government power again, in practice gave up the last elements of its polarisation strategy, a consensus on a no-nonsense policy became visible.

As promised if possible, the CDA and VVD continued to govern together, and the second Lubbers government implemented the last elements of the system change of social security, most importantly the merging of the WW and the WWV and the removal of the labour-market consideration in the disability-pension schemes. It also continued the freeze of most social security benefits. Otherwise, the government kept its promise of peace on the social security front.

The PvdA responded to the success of the Lubbers government at the 1986 elections in two ways. First, it changed its leadership from Joop den Uyl to the more moderate trade-union leader Wim Kok. Second, a process within the party aimed at redefining its overall strategy was initiated (van Praag Jr. 1994; Hillebrand & Irwin 1999; Wolinetz 1993). In principle, the party now gave up the polarisation strategy, which it in practical politics had already more or less been abandoned (cf. de Partij van de Arbeid 1986). A clear example of this was that the party supported the ideas of market-oriented healthcare reforms launched by the Dekker Committee in 1987 (Schut 1995).

The reasons for the more moderate approach of the second Lubbers government towards social security are obvious. As emphasised by the government during the election campaign in 1986, and as repeated by Lubbers in the new government's policy statement (Keesings Historisch Archief, August 21, 1986: 543), the immediate economic crisis of the early 1980's was gone and thus an important part of the government's justification for its retrenchments. In addition, even though the PvdA had in practice abandoned its polarisation strategy, it was still in opposition and it was unrealistic to expect that it would support further retrenchments. A CDA-VVD government that had already gone quite far could go no further in relation to retrenchment of social security. The government did start discussions about a major overhaul of the disability-pension schemes, yet concrete actions had to await the PvdA joining the government (van Wijnbergen 2000).

In the spring of 1989, the second Lubbers government was brought to a fall by the VVD parliamentary group and elections were called. In its election campaign, which had the motto 'further with Lubbers', the CDA campaigned for a continuation of the policies of the past 7 years. This time, however, the party did not declare a preferred coalition partner. The PvdA campaign focussed on showing that the party was ready to govern again, which limited its criticism of the policies of the last 7 years. Actually, the party mindfully argued that the image of being unable to make tough but necessary decisions no longer applied (Wolinetz 1990a). In general, the election campaign was quite peaceful (Keesings Historisch Archief, September 14, 1989), with environmental problems as the main theme (Aarts *et al.* 1992). The election itself did not produce any major changes either. The VVD and PvdA lost slightly, whereas the CDA was unchanged (Wolinetz *op. cit.*).

The third Lubbers government: WAO affair and the fall of the CDA

Prior to the elections, there had already been talks between the CDA and the PvdA about a government. The leadership of the CDA saw several strategic advantages in a CDA-PvdA government, among others, broader support for social-security retrenchments (Metze 1995: 174-176). Hence, it was no surprise that a CDA-PvdA government could be formed later in 1989.

As Lubbers expressed in the new government's policy statement (Keesings Historisch Archief, December 14, 1989), the aim was to continue the socio-economic policy of the two former Lubbers governments. Yet, as a concession to the PvdA, social-security benefits were indexed again for 1990, 1991

and 1992. In the meantime, a law was passed containing new indexation rules for social-security benefits. This law did not directly imply retrenchment. However, by specifying a number of conditions for not indexing social-security benefits, among others, a rise in the ratio between inactive and active on the labour market, the law did make it easier for the government to justify a full or partial freeze of social-security benefits. With reference to this ratio, benefits were not indexed for 1993 and 1994.

The linkage between this ratio and indexation of social-security benefits indicates that the focus of the government in relation to social security was changing compared to the first two Lubbers governments. The retrenchment by these two governments had mainly been carried through in order to keep down the costs of social security. The third Lubbers government started to focus more directly on the number of claimants and talk of uncontrollability and ungovernability in relation to social security. These problems were seen as part of the 'inactivity crisis' in the Netherlands (Visser & Hemerijck 1997: 136-140). One of the reasons for the inactivity problem was too lenient access to social-security benefits and attention was quickly drawn to the disability-pension schemes. The coalition agreement stated that the number of claimants of disability pension should not be allowed to grow. In the autumn of 1990, Lubbers tried to recreate a state of crisis and prepare the country for radical measures to tackle the problem. He publicly declared that 'the Netherlands was sick' and that he would resign if the number of claimants reached 1 million (Keesings Historisch Archief, September 1991).

The government, especially the PvdA, hoped that the goal in the coalition agreement could be reached with 'soft' reintegration measures. Yet, it soon became clear that this was unrealistic. The government, therefore, started to work on major changes in the disability-pension schemes. It tried to reach a compromise with the social partners on the changes, but as this failed in the summer of 1991, the government launched a plan for a major retrenchment of the scheme (Keesings Historisch Archief, September 1991; Vrij Nederland, July 13, 1996). The government argued that the retrenchments were unpleasant but necessary to end the dumping of people into the disability-pension schemes (de Volkskrant, July 15, 1991). The schemes had gotten 'out of hand' (CDA 1991). Nevertheless, the plan provoked an avalanche of political turmoil known as 'the WAO affair'.

Protest against the plan came from two sides. The Dutch trade unions, both the general FNV and the Protestant CNV, protested strongly against the plan. The leader of the CNV declared war on the government (de Volkskrant, July 13, 1991) and the trade unions arranged major demonstrations in Den

Haag. Inside the PvdA, a fierce debate broke out as large parts of the party were against the plan. Support for the party in opinion polls dropped to an all time low (NRC Handelsblad, July 31, 1991). In the end, the leader of the party organisation had to resign, and Wim Kok had to call a special party congress asking for support for his leadership before things quieted down again (Keesings Historisch Archief, September 1991; December 1991).

However, this was not the end of the WAO affair. The government chose to wait awhile before actually putting a bill before parliament. In the spring of 1992, the parliamentary group of the PvdA declared that it would only support the retrenchments if claimants already having been awarded a disability pension would not be affected by the new rules. The parliamentary group of the CDA disagreed with this demand, but in the end, Lubbers and the CDA Minister of Social Affairs, Bert de Vries, accepted it and more or less forced the CDA parliamentary group to do the same (Keesings Historisch Archief, May 1993; Metze, 1995: 11-28, 190-197). Later in 1993, the law was then passed in parliament.

One may ask why the PvdA accepted the retrenchment of the disability-pension scheme at all, or at least denounced the plan when the political turmoil broke out. Upon a closer look, however, the strategy of the PvdA is not that surprising. If the PvdA had rejected retrenchment of the disability-pension schemes, the government would most probably have been brought to a fall and the CDA would have chosen to govern with the VVD again for a long time. In short, the whole office-seeking strategy of the PvdA would have been wasted (Hillebrand & Irwin 1999). However, also in terms of vote seeking, rejecting the retrenchments would have been politically risky for the PvdA. Its competitors, most prominently the CDA, would have been quick to draw parallels to the failed attempt at retrenching sickness benefits in 1982. In other words, the PvdA would have been quite vulnerable to accusations of still being unable to make tough but necessary decisions and making it impossible to tackle the WAO problem (Vrij Nederland, July 13, 1996). The PvdA would have been back where it had been ten years before.

The retrenchment of the disability-pension schemes was not the only major development on the social security front under the third Lubbers government. In the spring of 1992, the Public Audit Office published a very critical report on the organisation of workers' insurance, and in response, the parliament set up a Parliamentary Inquiry (Keesings Historisch Archief, September 1992). The report from the inquiry, which was chaired by the social democrat Flip Buurmeijer, was published in September 1993. It was very critical to the organisational structure of social security, especially the disability-pension schemes: little if anything had been done to keep down the num-

ber of claimants and to fight fraud and misuse. The administration of the disability-pension schemes had been very lenient, literally against the law in some respects, and oversight of the system had been more or less non-existent (Parlementaire enquête uitvoeringsorganen sociale verzekeringen 1993). This report provided strong arguments for changes in the organisational structure of Dutch social security. The government then initiated the process of organisational changes in workers' insurance. Among other things, it privatised the first weeks of sickness in the sickness-benefit scheme.

In the spring of 1994, elections were called again in the Netherlands. The PvdA, which had been almost in constant decline in opinion polls after returning to government (Irwin 1995b), focussed its campaign very much on its popular leader. Its motto was 'choose Kok'. The party also tried to repair its social image after the WAO affair (Benschop 1994). However, it did not dissociate itself from the policy of the third Lubbers government (*op. cit.*) and it presented its least left-wing oriented election programme since the Second World War (Pennings 1995). For the CDA, the 1994 election developed into something of a nightmare. Prime Minister Lubbers announced that he would leave politics and the CDA had chosen Brinkman as his successor. Unfortunately, the party was internally divided; Brinkman made several political mistakes; and Lubbers did not keep his promise of not interfering in the election campaign. In the end, Lubbers actually denounced his successor and declared that he would vote for another CDA candidate (Metze 1995: 199-248). In addition to all this, the new leadership of the party around Brinkman made a major blunder in January 1994 in relation to social security. A fairly austere approach had been chosen in the election programme and the author of the economic section declared that the party would freeze the AOW for four years. Brinkman did not distance himself from this statement and freezing the AOW came to stand as a campaign issue of the CDA (Metze 1995: 207-225; Kleinnijenhuis & de Ridder 1998). In response, old-age voters gathered in stadiums to protest (NRC Handelsblad, April 13, 1994) and the CDA dropped significantly in opinion polls (Irwin 1995b). As shown by Kleinnijenhuis & de Ridder (1998: 426-427), social security, defined as poor pensions for the elderly, became an issue in the election campaign.

The elections proved disastrous for the CDA. The party dropped from 35.3% of the votes to 22.2%. The PvdA also suffered as it dropped from 31.9% to 24%. However, it had managed to regain some of its strength compared to some of the opinion polls in the years before and it became the largest party in parliament. The winners, in terms of seats were VVD, D66 and two parties for the elderly, the latter winning 7 seats not least due to the AOW blunder of the CDA (Wolinetz 1995).

The result of the 1994 election made the forming of a new government very complicated as both a CDA-PvdA and a CDA-VVD government would have to include the D66 to obtain a majority in parliament. In addition, the CDA was paralysed after the defeat. The outcome was a 'purple government', that is a government consisting of PvdA, VVD, and D66 (Wolinetz 1995).

In relation to welfare-state retrenchment, this government did not imply much change compared to the three Lubbers governments. The coalition agreement stressed the need to keep the number of claimants of social security down, as well as the need for sound public finances. The first purple government implemented several retrenchments: social-security benefits were frozen for 1995, eligibility for unemployment benefits was tightened, the pension supplement for old-age pensioners having a partner younger than 65 was abolished, and child allowances were cut back substantially. In addition, the organisational changes in workers' insurance were continued. The financing of the WAO was also partly changed and the AAW abolished. Finally, sickness benefits were almost completely privatised and a new social-assistance law introduced.

In general, the purple government tried to legitimise these changes by referring to the political goal of a more active society, that is higher labour-market participation. Jobs, jobs, and more jobs became its motto. Sound public finances and fewer people on social security achieved through retrenchments and institutional changes were argued to be necessary to obtain this goal (Keesings Historisch Archief, September 1994). The opposition policy of the CDA towards the purple government was somewhat mixed. The party was in shock after the 1994 election and had no experience with the role as opposition party. Furthermore, the party changed leadership two times before the 1998 election (Irwin & van Holsteyn 1999). The fact can be added to this that the purple government very much continued the policy of CDA-dominated governments, which made it difficult for the party to launch a frontal attack on the purple government. Nevertheless, the party did try to strengthen its social profile by opposing the cuts in the old-age pension and child allowances (Keesings Historisch Archeif, September 1994: 605-606).

The election campaign in 1998 proved very peaceful. The government had indicated that it wanted to continue to govern together, thus taking any potential excitement out of the election (Anker 1998; Aarts & Semetko 1999; Irwin & Holsteyn 1999). The CDA election programme emphasised improvements of social security and family policy, and the party moved to

the left in relation to socio-economic policy (CDA 1998; de Vries 1999). However, the party still found it difficult to organise a firm opposition (van der Brug 1999). The result of the elections was gains for the government, yet only for the PvdA and VVD, and further losses for the CDA. The purple government and its socio-economic policy could continue (Irwin 1999).

The purple governments constitute a break from the pivotal position of the CDA in Dutch politics and are the first government since the introduction of universal suffrage in 1918 without Christian democratic participation (Irwin 1995a). However, they are in two ways also very much the result of the pivotal role of the CDA in the Netherlands. First, the need of both the PvdA and VVD to accommodate the position of the CDA has drawn these two parties, especially the PvdA, towards the centre and thus close enough to accept co-governance. As argued by Pennings (1999), all Dutch parties have become more or less centre parties, thus making a government without the CDA possible. Second, for both the PvdA and the VVD, a motive behind the forming of the government was probably also a strategic interest in a government without the CDA. This would undermine the pivotal role of the CDA and strengthen the strategic position of both the PvdA and VVD. Altogether, the purple governments are more than anything 'governing from the centre', and evidently, Dutch party competition has not been turned into a bloc system. Therefore, it is no surprise that the socio-economic policy of the purple governments has very much been a continuation of the policy of the Lubbers governments (cf. Hoogerwerf 1999).

The Dutch case – a general view

The formation of the second purple government provides a natural point in time to conclude the investigation of Dutch politics and welfare-state retrenchment. Before turning to the Danish case, it seems advantageous to ask what support can be found in the Dutch case for the theoretical propositions put forward in chapter 3. This question can be answered by answering a number of more narrow questions relating to the different hypotheses derived from the framework.

The first question is whether the Dutch case supports the idea of the politics of retrenchment as the politics of blame avoidance. It seems so. Welfare-state retrenchments in the Netherlands have been met with demonstrations, public protests, and the PvdA was punished severely for taking part in the WAO affair. The fate of the CDA together with entrance into parliament after the AOW blunder of two elderly parties is a textbook example of the im-

plications of the 'new politics of the welfare state'. However, the Dutch case also shows how the first two Lubbers governments and the purple governments have been electorally quite successful conducting an austerity policy including welfare-state retrenchment. Electoral punishment is not an automatic reaction to retrenchment from the electorate.

The second question is whether the political parties try to avoid the potential blame for welfare-state retrenchment by applying a justification strategy of blame avoidance. The Dutch case supports this idea. At least it is evident that Dutch governments have constantly tried to justify retrenchments by referring to the economic need for such measures, and have said little if anything that could be perceived as an ideological attack on the welfare state. In the beginning of the period, the focus was mostly on the need to keep the costs of social security down. Later, retrenchments were justified by arguing that the number of claimants of social security had become an uncontrollable burden leading to an inactive society. The Dutch case also demonstrates how opposition parties, if left wing as the PvdA, argue that retrenchments are part of an attack on the basic principle of solidarity.

There is also evidence that Dutch governments were successful with their justification strategy. Based on agenda-setting research, Kleinnijenhuis & de Ridder (1998: 426-427, cf. also Kleinnijenhuis & Rietberg 1995) argue that 'rightist' issues such as economic management dominated Dutch politics from the beginning of the 1980's. The 1994 election, focussing on social security defined as poor pensions for the elderly, was a surprising break from the otherwise dominant issues in Dutch politics. The break was produced by the AOW blunder of the CDA. As Andeweg & Irwin conclude: 'Obviously, not all measures were popular and there has often been an attitude of 'why me?' and 'you first', but there has also been a general acceptance of the gravity of the situation.'

The third question is whether the success of Dutch governments in defining retrenchment as a matter of economic necessity can be explained by Dutch party competition. In part, the answer to this question is positive. As expected, the pivotal nature of Dutch party competition produced a convergence of the Dutch political parties on socio-economic policy. Placement of the Dutch political parties on a left-right scale based on their election programmes (Pennings 1999) clearly shows how they have converged on a centrist position. Furthermore, this conclusion is only strengthened by the fact that after 1994, the CDA, which embodied the centrist character of Dutch politics, has no longer been part of the government. However, the first Lubbers government was successful at justifying retrenchment as a matter of economic necessity at a time when the PvdA still constituted at least some

opposition. The 'social image' of the CDA partly explains this. Yet, as explained above, probably more important was the situation of a state of crisis in the Dutch population due to the economic crisis. In this indirect sense, economics has played a role. The state of crisis in the Netherlands under the first Lubbers government also explains why the hypotheses derived in chapter 4, concerning variation over time in the Netherlands, were only partly confirmed. The state of crisis opened a 'window of opportunity' (Keeler 1993), allowing the first Lubbers government to implement much more retrenchment than expected on the basis of the theoretical framework presented in chapter 3. However, the fact that Dutch governments were able to continue the austerity policy after remedying the immediate economic crisis can only be explained by Dutch party competition.

Turning to variation across social-security schemes, the question is whether the Dutch case yields support for the argument in chapter 3, that such variation can be explained by the schemes' connection to the labour market shaping both government incentives to retrench and governments' capabilities of justifying retrenchment. Starting with the AOW, the relatively limited retrenchment seems explainable by the limited connection to the labour market. When the attention of the Dutch governments shifted from just cost-control to keeping the number of claimants down, the AOW was not discussed. The number of AOW pensioners is simply not a problem of inactivity in the same sense as the number of claimants of disability pension or unemployment benefits. Further, justifying retrenchment of the AOW was highly difficult. As Kleinnijenhuis & de Ridder (1998: 427) argue:

> These pensions (AOW), however, far from being perceived as ordinary social- security benefits for the work shy, were rather seen as personal savings for which decent people had worked hard throughout their lives.

As expressed by one of the politicians interviewed: 'There are two things you must not do in Dutch politics. One is to touch the AOW'. The punishment of the CDA for its AOW blunder only substantiates this statement.

The theoretical framework presented in chapter 3 also predicted that unemployment benefits would be retrenched more than disability pensions, a hypothesis that was not confirmed. The question now is whether the closer look at Dutch politics in relation to welfare-state retrenchment gives some indication in explaining the extent of retrenchment in the disability-pension schemes. The extreme character of the Dutch disability pensions does provide some indication. Many welfare states have suffered a hidden unem-

ployment problem, in the sense that economic troubles lead to more claimants in a number of social-security schemes other than just unemployment benefits. In the Netherlands, this problem has been very much concentrated in the disability-pension schemes. The number of claimants of disability pension relative to the labour force is much higher in the Netherlands than in other countries, including Denmark (van der Veen & Trommel 1999: 293).[9] The extreme character of the Dutch disability-pension scheme implies that they are in fact much stronger connected to the labour market than one should expect from a disability-pension scheme. This provided Dutch governments with incentives to retrench these schemes dramatically, and it also provided them with very good arguments as to why unusual measures were necessary. Lubbers' famous declaration that 'the Netherlands is sick' exemplifies this aspect. The schemes were simply an obvious policy failure.

Summing up, a closer look at the Dutch case does offer at least some evidence that the relative success of the theoretical framework presented in chapter 3 in predicting variation in retrenchment is not purely accidental. In general, it seems that the hypotheses developed in this study matched the actual variation in retrenchment for the reasons outlined in chapter 3. Blame avoidance, justification strategies, party competition, and connection to the labour market are important aspects if the aim is to understand Dutch politics and retrenchment. In addition, this chapter also provided some indications as to why the theoretical framework in some instances was not successful in predicting variation in retrenchment. The state of crisis in the early 1980's and the unusual character of the Dutch disability-pension schemes are important additional factors for a full understanding of the subject.

7 Danish politics and welfare-state retrenchment: The difficulties of a right-wing government and the possibilities of a left-wing government

This chapter aims to draw a Danish parallel to the Dutch case study of the previous chapter. The chapter begins with a short section on Danish politics and the welfare state in the years preceding 1982, especially the period 1973 to 1982. A second section explores the period of right-wing rule from 1982 to 1993. The third section addresses the period of social democratic-led governments from 1993 to 1998. Finally, some general conclusions are given about the Danish case.[1]

Landslide election and fumbling socio-economic policy

Danish politics have historically been dominated by a left wing and a right-wing bloc. The former has largely been identical to the Social Democratic Party (*Socialdemokratiet*). The latter consists of the Conservative Party (*Det Konservative Folkeparti*) and the Liberals (*Venstre*), an agrarian party gradually transformed into a liberal party. The Social Liberals (*Det Radikale Venstre*) held the balance of power and hence decided which bloc should govern the country. For the first three post-war decades, primarily the Social Democrats were in power. At times, the Social Democrats ruled in majority governments including the Social Liberals, and at other times they formed single-party minority governments (Pedersen 1987; Damgaard 1992; Christensen 2000). The only major change to this pattern before 1973 was the establishment of the non-communist, moderate left-wing party, the Socialist People's Party (*Socialistisk Folkeparti, SF*), and its entrance into parliament in 1960. During the two periods 1966-1968 and 1971-1973, the Social Democrats were able to rely on the support from SF. The Social Liberals then chose to support the right-wing bloc (*op. cit.*).

The 1973 election changed this situation as a number of new parties gained seats in parliament, among which the largest one was the right-wing Progress Party (*Fremskridtspartiet*) gaining around 16% of the votes. Among the other newcomers were two centre parties, the Centre Democrats (*Centrumdemokaterne, CD*) and the Christian People's Party (*Kristeligt Folkeparti*). In addition, the Communist Party (*Danmarks Kommunistiske*

Parti) and the Justice Party (*Retsforbundet*) regained representation (Pedersen 1988). The 1973 earthquake election did not change the bloc nature of Danish party competition, yet it complicated Danish politics. Both the effective number of parties (Christensen 2000) and the number of relevant parties (Bille 1989) increased significantly, and the party system after 1973 was thus more fractionalised and more polarised. For both blocs, forming a working majority now demanded inclusion of more parties, some of which were extremist (Pedersen 1988; Bille 1989; Christensen 2000). One result was that minority governments without stable support became the prevalent government form instead of either majority governments or minority governments with stable support (Damgaard 1997). After the earthquake election, the Liberals formed a very weak minority government lasting only for about a year (Elklit 1999). The subsequent election resulted in a social democratic minority government and, with one exception, social democratic minority governments ruled Denmark until 1982. The social democratic liberal government from 1978 to 1979 was the exception and was a break from the bloc nature of Danish party competition. This government was, however, short-lived and not very successful (Damgaard 1989).

Parallel to the Netherlands, Denmark was severely struck by the first oil crisis (cf. table 3). Rising inflation was the most immediate effect of the oil crisis to which the liberal government responded with deflationary measures (Nannestad 1991: 142-147). Towards the end of 1974, it became clear that the Danish economy was moving into a recession. The response of both the liberal government and its social democratic successor was an expansive fiscal policy (*op. cit.*: 148-168). Thus, the expansive reform of social security known as 'the social-security reform' (*socialreformen*) initiated before the first oil crisis (Petersen 1998), could be terminated by introducing a new social-assistance scheme (*bistandsloven*). The expansive fiscal policy benefited the growth of the economy, which was 6.5% in 1976. Yet, unemployment did not come down and the negative effect of the policy was a sky rocketing current account deficit (cf. table 3). As a response, the social democratic and the social democratic liberal governments tried to implement a 'demand twist policy'. The essence of this policy was to replace import-heavy private consumption with employment-creating public consumption. A strategy to fight unemployment was also to improve exit possibilities from the labour market. The social democratic liberal government thus introduced the early-retirement benefit scheme (*efterløn*) in 1979. Yet, the 'demand twist' policy was not a success and the second oil crisis sent the Danish economy into the grip of an economic crisis (*op. cit.*: 170-174). As the Minister of Finance stated, the Danish economy moved towards 'the brink

of the abyss' (Nannestad & Green-Pedersen forthcoming). The social democratic governments responded with a wavering fiscal policy and repeated devaluations of the Danish Krone.

Summing up, just as in the Netherlands, the period 1973 to 1982 was turbulent with regard to politics and macro-economic policy. The 1973 earthquake election did not change the bloc-nature of Danish party competition, yet it did complicate majority building in parliament significantly. This partly explains why Danish governments responded fumblingly to the macro-economic difficulties (Green-Pedersen 2001a). An additional reason was the difficulties of the Social Democrats with regard to the question of income policy. For the Social Democrats, gaining trade unions' acceptance of income policy had always been extremely difficult, but in the 1970's it proved impossible. The trade unions demanded economic democracy based on central wage-earner funds in return for income policy acceptance, a demand supported by no party other than the Social Democrats (Esping-Andersen 1985a; Nannestad 1991: 175-181, Green-Pedersen & van Kersbergen 2002).

As its predecessors, the social democratic government following the 1981 election had difficulties in working out a coherent plan for action to combat the macro-economic difficulties. In the summer of 1982, it tried to gain political support for new measures; most importantly a tax on the interest gains from private pensions. This initiative failed and the government stepped down. By that time, the Social Liberals had lost faith in the Social Democrats and chose to support the right-wing bloc. Hence, the leader of the Conservative Party, Poul Schlüter, was able to form a minority government in September 1982 known as 'the four-leaf-clover government', consisting of his own party, the Liberals, CD, and the Christian's People's Party (Damgaard 1989).

Right-wing governments and the difficulties of welfare-state retrenchment

The new government's first action was to declare the end of devaluations, thus effectively pegging the Danish Krone to the German Mark. It also launched a 'surprise check' on the Danish economy (Avisårbogen 1982: 103) allegedly revealing that the economic situation was worse than expected. As a consequence, the government launched a number of austerity measures to bring down inflation, reduce the public deficit, and improve foreign competitiveness. The most significant measures were first a suspension of

the price indexation of wages (*dyrtidsregulering*). Second, was an introduction of tax on the interest gains of private pensions; exactly the measure that had been the stumbling bloc of the former social democratic government. Third, was a number of cuts in public expenditure including social security. The most conspicuous were the introduction of a waiting day in sickness benefits, a lowering of the benefit level in sickness, unemployment, and early-retirement benefits from 90 to 80% of former wage, and a number of cuts in social assistance (Folketinget, *Folketingstidende* FF 1982-1983: 6-60).

As a minority government, negotiations with other parties to pass proposals in parliament were unavoidable. The Social Liberals and the Progress Party, which effectively constituted the governments' parliamentary-base, supported the main elements of the proposals hence passed in parliament (Jyllands-Posten, October 6, 1982; Politiken, October 6, 1982). Yet, as a concession to the Social Liberals, the proposed cuts in social security were changed. Benefit levels in sickness-, unemployment-, and early-retirement benefits were not curtailed from 90 to 80% of former wage, but instead more or less frozen for 2½ years with basically the same effect (Jyllands-Posten, October 12, 14 and 16, 1982).

Compared to the first Lubbers government in the Netherlands, the government justified its policies along identical lines. It referred to Denmark's dire economic situation at that time and the concomitant need for strong measures. Its policy measures were presented as a 'crisis solution' (Jyllands-Posten, October 5, 1982), and in his speech at the opening of parliament, Prime Minister Schlüter declared that '1983 will be exceptionally demanding on everyone in Danish society' (Folketinget, *Folketingstidende* FF 1982-1983: 14). The parliamentary speaker of the Liberals also declared that: 'it is actually a thankless task to obtain government power at a point where the economic situation has been driven so far out…' (*op. cit.*: 128). The new government also tried to distance itself from the preceding years of 'fumbling policy' and to argue that it was the mistakes of its (social democratic) predecessors that made the various measures necessary. The parliamentary speaker of the Conservatives spoke of 'a change of economic course' (Folketinget, *Folketingstidende* FF 1982-1983: 122), and the government labelled its policy a 'restoration policy' (Avisårbogen 1983: 127). The 'surprise check' was meant to demonstrate to the public that the social democratic governments had left the country in an even worse economic situation than first expected. In addition, the Schlüter government launched a new approach to the social partners (Damgaard 1989). For example, the government did not negotiate with the social partners when it largely abolished automatic-wage indexation (Jyllands-Posten, October 6, 1982). The trade

unions responded by organising demonstrations and a number of strikes (Jyllands-Posten, October 9 and 14, 1982; Politiken, October 9, 14-16, and 26, 1982).

The new government also tried to present itself as a socially responsible government. The Prime Minister declared in the opening speech that

> The government will stress that people who obviously cannot take care of themselves will not be affected. Not least, the government will show consideration towards the elderly (Folketinget, *Folketingstidende* FF 1982-1983: 13).

In accordance with this statement, the social pensions, old-age and disability pensions, were not frozen. Finally, it tried to argue that it in fact was trying to save the Danish welfare state. As claimed by the parliamentary speaker of the Conservatives:

> Someone already said ... that the cutbacks in the social-security budgets will destroy the welfare society, but in fact the opposite is the case. If we do not clear away the problems, which everyone admits exist in our social-security system, we will not be able to afford this system in the future... (Folketinget, *Folketingstidende* FF 1982-1983: 126).

Thus, just as the Dutch Lubbers government, the Danish Schlüter government tried to present itself as a government that, due to the economic crisis, had to be harsh and could not allow more fumbling, but would also be a government aiming at social fairness.

Generally, the Social Democrats fiercely opposed the new government's austerity policy. They showed little willingness to compromise and voted against the austerity measures, except the tax on the interest gains of private pensions. One of the leading Social Democrats said that the policy 'looked like a declaration of war' (Jyllands-Posten, October 6, 1982), and the Social Democrats, in collaboration with the trade unions, portrayed the policy as anti-social and a clamp down against the weakest in society (cf. Jyllands-Posten, October 6 and 8, 1982; Politiken, October 8, 1982). During the parliamentary readings of the freeze of a number of social-security schemes, the speaker from the Social Democrats declared that: 'among all the disagreeable encroachments and cutbacks against wage-earner families and ordinary people, this bill is the toughest and most outrageous' (Folketinget, *Folketingstidende* B 1982-1983: 92). During one of the demonstrations

against the government, a union leader also declared that the cutbacks in social security 'had bombed Danish wage-earners back to the time before the social-security reforms of the 1930's' (Politiken, October 26, 1982). The alternative policy suggestions of the Social Democrats were labelled 'the solidaristic way' and strongly emphasised the need for 'social restoration' (Socialdemokratiet i Danmark 1983).

In the autumn of 1983, the government received support from the Social Liberals and the Progress Party for another economic package. The contents of this package were tax increases, but also improvements on the social security front. Maternity leave was improved and a temporary child-allowance for all children younger than 10 was introduced. In the summer of 1983, the new and more generous disability-pension scheme had already been passed in parliament.

The failure to obtain parliamentary support for its 1984 budget brought the government down in the autumn of 1983. The reason was that the Progress Party, as a matter of principle, voted against the budget and the Social Democrats then saw a chance to bring down the government (Christiansen 1994). Yet, at that time, an election was not really a problem for the government as it had had strong support in opinion polls almost since it took office (Andersen 1995: 5).

The election campaign in 1984 was in many ways a recurrence of the fight between the government and the Social Democrats over defining the issue as either one of the painful but necessary cutbacks, or as one of a clampdown against the weakest in society. The mottos of the social democratic campaign were 'stop conservatism', and stop 'the right-wing wave'. The party re-emphasised that its alternative to conservatism was 'the solidaristic way', implying 'social restoration' (Socialdemokratiet i Danmark 1984). The parties in government, on the other hand, emphasised the positive results of their socio-economic policy and the Prime Minister promised no major cuts in social security in 1984 (Avisårbogen 1983: 164-170; 1984: 1-5; Borre 1984).

The election turned out to be a victory for the government as its share of the votes increased from 36.4 to 42.8%, mainly at the expense of the Progress Party. Nevertheless, the election implied an important improvement in the government's parliamentary situation. Proposals could now be passed with the support of only the Social Liberals (Borre 1984). The reason for the government's victory should be found in its economic policy and the voters' belief that the policy was necessary to combat Denmark's dire economic situation (Andersen 1991: 163-164; 1995: 5). Thus, it seems that the government had actually been successful in justifying the cutbacks as a matter of economic necessity.

As a consequence, we must explore how the government, despite the fierce opposition from the Social Democrats, apparently managed to justify its policy so successfully. The answer should probably be found in the effects of the economic crisis on public opinion. Survey data (Petersen *et al.* 1996) show that the economic crisis had created a 'crisis feeling' among the electorate, implying a willingness to accept otherwise unpopular measures. In other words, the economic crisis had made the electorate unusually susceptible to the government's arguments about economic necessity and in this way opened a window of opportunity (Keeler 1993) for welfare-state retrenchments.

In the Spring of 1984, the government continued its austerity policy with an agreement with the Social Liberals about a continuation of the suspension of the price indexation of wages and an extension of the more or less freeze of a number of social-security benefits until October 1986 (Jyllands-Posten, April 26, 1984). The Social Democrats once again protested strongly (Politiken, May 2-3, 1984). In the autumn of 1984, the government aimed at a retrenchment of unemployment benefits. As part of the budget agreement with the Social Liberals for 1985, the right to endless job offers was to be abolished, implying that the unemployed would lose their right to unemployment benefits after approximately five years of unemployment. The aim of this retrenchment was partly budgetary savings, but the government also argued that the unemployment-benefit system itself was a cause of unemployment. It did not give the unemployed the adequate job-seeking incentives (Finansministeriet 1984).

If the Social Democrats and the trade unions had strongly opposed the former retrenchments, they vehemently attacked this proposal. Another battle about social security broke out. The unions ran an advertising campaign in the major Danish newspapers against the proposal, and there was even talk of a general strike (Jyllands-Posten, October 27 and 31, 1984). This fierce debate made the government, and especially the Social Liberals, hesitate and modify the proposal. The rules about extended benefits were introduced in the bill (Jyllands-Posten, October 18; November 10-11, 1984; Politiken, October 13 and 19; November 10, 1984). This, however, by no means dampened the political debate. When the issue was debated in the labour market committee of parliament, the Social Democrats raised a long list of questions and continued to attack the government (Politiken, May 23, 1985). The government and the Social Liberals then decided to postpone the full implementation of the law for several years (Politiken, May 21, 1985).

The entire skirmish was very much a battle of issue-definition and justification. The government and the Social Liberals fought hard to define the is-

sue as a matter of improving educational offers for the claimants and avoiding the client state. As the speaker of the Social Liberals put it: '…we are some in this room who believe that it is a good idea to train long-term unemployed. This is what this piece of legislation is about.' (Folketinget, *Folketingstidende* FF 1984-1985: 11335-11336, cf. also Jyllands-Posten, October 15, 1984; Politiken, October 23, 1984). In contrast, the left-wing parties backed by the trade unions tried to define the issue as a matter of anti-social cutbacks. The speaker of the Social Democrats called this 'an extremely malicious, vile, and miserable piece of legislation against the weakest on the labour market.' (Folketinget, *Folketingstidende* FF 1984-1985: 4426). A trade-union leader also invented the well-known image in Danish politics of 'people sliding into social mass-graves' (Jyllands-Posten, October 13, 1984).

In many ways, this partly failed retrenchment of unemployment was the turning point for the right-wing governments. A number of social-security improvements took place up to the following election in 1987. In the spring of 1985, the government reached broad political agreement, that is including social democratic support, on a tax reform. As part of this reform, a universal child-allowance was reintroduced in the form of the very generous child-family allowance. A number of other improvements and reversals of cutbacks also took place: The waiting day in sickness benefits was abolished; sickness benefits, unemployment benefits, and early-retirement benefits were indexed again; the effects of the new rules concerning the duration of unemployment benefits were postponed; social assistance became more generous; and the old-age pension was improved twice.[2]

The reason for the change should be found in the issue of justification and voters' attitudes. As Tables 4 and 5 display, the Danish economy improved significantly through 1984 and 1985, except for the current account (cf. also Nannestad & Green-Pedersen forthcoming). With the improvement of the macro-economic situation, the government's justification for its retrenchment measures disappeared. It became clear that the Social Democrats' vehement attacks on the austerity policy had in fact had an effect on the electorate. As shown by Andersen (1988: 149-154), the government had acquired an anti-social image in the sense that a majority of the voters found that the cutbacks had gone too far and had been unfairly distributed. The support for the government and its austerity policy had been very much contingent on the economic crisis (cf. also Andersen 1991). Once this was gone, the government found itself very much on the defensive in relation to the welfare state. This became very clear in the autumn of 1985, when the parties in government lost local elections. The Conservatives even had sur-

veys carried out conveying the message of the anti-social image (Andersen 1988: 153).

As already indicated, the Social Democrats actually intensified their strong opposition policy after the 1984 election. The party now started to deliberate more openly about a government either including SF or based on support from the party (Avisårbogen 1985: 66, 142). The reason for this should be found in the question of vote- and office seeking. Before the 1984 election, the Social Democrats probably hoped that the four-leaf-clover government could not survive, since it needed support from both the Social Liberals and the Progress Party. This could have forced the Social Liberals to support the Social Democrats again, a move that would had been complicated if the Social Democrats had tied themselves too closely to SF. As a consequence, the Social Democrats had to moderate their opposition policy slightly before 1984 by not tying themselves too closely to SF. After the 1984 election, it became perfectly clear that a return to power within the foreseeable future would only be possible if the Social Democrats won a majority with SF. Thus, the Social Democrats sharpened their opposition policy even further.

The 1987 election campaign was very much a recurrence of the clash between the two blocs over socio-economic policy (Bille 1992: 8). The Social Democrats ran an election campaign under the motto of 'Denmark for the entire population', thus indicating that the right-wing policies had privileged certain groups in society. The party also continued to emphasise that on return to power, it would implement a socially fair economic policy (Socialdemokratiet 1987). As the party's leader, Anker Jørgensen, put it:

> It is going to be a fight over whether we are going to have a welfare state or a society where everyone has to take care of oneself (Avisårbogen 1987: 74).

Finally, the Social Democrats re-emphasised their willingness to govern either with or based on the support of SF (Avisårbogen 1987: 73-80). This was actually the first time that the Social Democrats and SF discussed a government before an election (Bille 1992: 8). The government, on the other hand, campaigned for a continuation of its economic policy and tried to persuade the electorate that left-wing rule would imply the waste of macro-economic improvements since 1982. It also accused the Social Democrats of raising a bogy with regard to the welfare state and claimed that it had actually improved a number of social-security schemes (*op. cit.*; Bille 1998: 10-12).

The outcome of the election was a government defeat, losing 4.3% of the

votes and thus the possibility of ruling solely with the support of the Social Liberals (Borre 1988). However, with additional support from the Progress Party, the government could continue. As argued by Borre (1987), the election result was basically a return to normal Danish politics. The government support in the 1984 election had very much been the result of the economic crisis. As this had disappeared, so had the unusual support among the electorate for right-wing policies including retrenchment measures.

The first task of the new government was to gain parliamentary support for the 1988 budget. This was a difficult task due to the principal reservations of the Progress Party towards the budget and an unwillingness of the Social Liberals to negotiate with the Progress Party (Christiansen 1994; Bille 1998: 18-19). The government was, therefore, more or less forced into negotiations with the Social Democrats. The result was a compromise implying improvements of a number of social-security schemes. The new social democratic leader, Auken, coined these improvements 'the social democratic fingerprints.'

Less than a year after the latest election, a new election was called in May 1988 on the question of Denmark's foreign policy, and especially its NATO membership (Petersen 1989). The election itself did not change much. Yet, lengthy negotiations changed the government composition to include the Social Liberals instead of CD and the Christian People's Party (Jespersen 1989). This government became known as the KVR government.

One of the first actions of the new government was to negotiate an agreement with the Progress Party on agricultural policy. Thereby, the government signalled a willingness to make use of the non-socialist majority (Damgaard & Svensson 1989: 742-743; Bille 1998: 36), and avoid being forced into costly agreements with the Social Democrats such as the budget agreement for 1988. The government passed the major part of the 1989 budget with support from the non-socialist majority (Jyllands-Posten, December 9-10, 1988; Politiken, December 10, 1988), except for proposed retrenchments of unemployment benefits. Apparently, some support from the non-socialist majority could be obtained (Jyllands-Posten, November 26-27, 1988), but in the end, the government chose to make an agreement with the Social Democrats implying the abolishment of almost all the proposed retrenchments. The motive was seemingly the fear of a major battle with the Social Democrats and the trade unions over the issue (*op. cit.*; Jyllands-Posten, December 10, 1988).

The year 1989 was characterised by the launching of great plans for action on socio-economic policy from both the government and the Social Democrats. The focus in both plans was on tax reform. In addition, the govern-

ment wanted a reform of unemployment benefits, including some retrenchments, but with the main focus on a change in the financing of the scheme (Jyllands-Posten, May 25-27, 1989; Politiken, May 25-27, 1989). An implementation of the plan with the non-socialist majority was not ruled out, yet the government clearly aimed at reaching agreement with the Social Democrats (Bille 1998: 61-62). Negotiations went on into the autumn of 1989, but eventually broke down in October. Finally, the government made an agreement with the Progress Party about the 1990 budget.[3] Little, however, was left of the government's 'great plan' including the retrenchment measures (Bille 1998: 69-72).

In the autumn of 1990, the government once more tried to reach an agreement with the Social Democrats on socio-economic policy, this time with a focus solely on tax reform. With the failure to reach an agreement, the Prime Minister called an election to obtain public support for the government's proposal, which included tax relief (Bille 1998: 89-91).

Altogether, the KVR government period was one of political stalemate with regard to social security and socio-economic policy in general. The government based its rule on the support of the non-socialist majority and passed most of its budget agreements with this majority. Nevertheless, when it came to political, controversial issues such as tax reform and welfare-state retrenchments in particular, the government wanted the support of the Social Democrats. They, however, had no incentive to compromise on, for instance, retrenchments.

The 1990 election campaign was not interesting, as the electorate was unimpressed by the promised tax reductions (Borre 1991; Nielsen 1992). The Social Democrats changed their tactics somewhat compared to the prior elections. They declared a preference for a broad-coalition government with one or several right-wing parties. Yet, they were still willing to rule based on support from SF (Avisårbogen 1990: 97; Nielsen 1992). The Social Democrats also tried to present themselves as a responsible party in terms of macro-economic policy (Borre 1991). Still, there was no sign that the Social Democrats would accept welfare-state retrenchments (Avisårbogen 1990: 94-100). The government parties campaigned for a continuation of right-wing rule, and both the Liberals and the Conservatives in reality denounced the social democratic suggestion of a broad government (Avisårbogen 1990: 97; Nielsen 1992).

The outcome of the election was a major victory for the Social Democrats, increasing their share of the votes from 29.8% to 37.4%. However, a large part of these votes were taken from SF. The political balance in the Danish parliament was unchanged as the non-socialist bloc continued to hold a ma-

jority of the seats. Thus, the right-wing government could continue. The Social Liberals had, however, lost 3 out of their 10 seats and chose to withdraw from government (Borre 1991), which was then renamed the 'KV government'.

In relation to the welfare state, the focus of the KV government was also on reconstructing and retrenching unemployment benefits. In line with the preceding period, the government tried to reach an agreement with the Social Democrats. In the spring of 1991, the two parties negotiated about a change of the financing of the scheme in the direction of increased employer and employee contributions. The idea was to make the social partners focus on keeping down unemployment, for instance, through wage restraint (Jyllands-Posten, January 16, 1991; Politiken, January 16, 1991). Ultimately, an agreement could not be reached (Jyllands-Posten, May 18, 1991; Politiken, May 18, 1991, cf. also chapter 6). The focus of the government on achieving agreement with the Social Democrats on a reform of unemployment benefits did not, however, imply a general unwillingness of the government to use the non-socialist majority in parliament. In the spring of 1991, this majority passed the first change of the organisational structure of the disability pension, implying incentives for the municipalities to keep down the number of awarded disability pensions (Folketinget, *Folketingstidende* FF 1990-1991: 2. Session, 7199-7207).

In the autumn of 1991, the government tried again for a more comprehensive reform of both unemployment benefits and early-retirement benefits including significant retrenchments (Folketinget, *Folketingstidende* A 1991-1992: 334-352, 362-378). Once more the government aimed at an agreement with the Social Democrats, yet not precluding that it would try to use the non-socialist majority (Politiken, October 2, 1991). The latter possibility, however, quickly turned out to be non-existent as CD, who were trying to capture a middle position in Danish politics, denounced all major retrenchments (Politiken, October 10, 1991; Bille 1998: 114). Eventually, the government and the Social Democrats were able to reach an agreement over the 1992 budget abolishing the proposed retrenchments of unemployment benefits and early-retirement benefits (Jyllands-Posten, December 6, 1991; Politiken, December 6, 1991). Instead, the parties agreed to set up a committee, the 'Zeuthen committee', with representatives from the social partners and experts to investigate the possibilities of a reform of unemployment benefits (Jyllands-Posten, January 23, 1992).

The year 1992 was dominated by a number of other political events pushing social-security reforms to the background. In April, the Social Democrats dramatically changed leadership from Svend Auken to Poul Nyrup Ras-

mussen, and in June 1992, the electorate voted 'no' to the Maastricht Treaty. Finally, in the autumn, the focus in Danish politics shifted to the 'Tamil case', a scandal over the administration of asylum seekers compromising several prominent members of the Conservatives, including the Prime Minister. The conclusions of the committee, which had been set up to investigate the case, were very critical towards all the conservative politicians causing the government to step down. The three small centre parties then changed sides. Consequently, the Social Democrats could form a majority government with these parties under the leadership of Nyrup Rasmussen. This marked the end of more than 10 years of right-wing rule in Denmark (Bille 1998: 120-152).

Summing up on the period of right-wing rule in Denmark, it illustrates the weakness of a right-wing government in relation to welfare-state retrenchment in many ways. When disregarding the period 1982 to 1984, when an immediate economic crisis opened a window of opportunity for retrenchment measures, the right-wing government's were never able to justify retrenchments as being an economic necessity. They found themselves quite vulnerable to attacks from the left on the question of social fairness. Hence, open confrontation with the Social Democrats over retrenchments was too risky. Retrenchments could only be pursued if a consensus could be established with the Social Democrats. A number of times, the governments tried unsuccessfully to establish such a consensus, especially on a reform of unemployment benefits. The right-wing governments had to rely instead on a combination of improved social-security benefits for groups such as pensioners and families with children, and on more indirect ways of improving public budgets such as increased taxes and pushing fiscal problems on to local governments (Green-Pedersen 1999).

A consensus on welfare-state retrenchment never emerged since the Social Democrats had no incentive to abandon the electorally, very rewarding welfare-state issue. Through nearly the entire period, the only realistic office-seeking strategy of the Social Democrats was winning a majority with SF. After the 1990 election when the Social Liberals withdrew from government and CD tried to capture the centre position, the Social Democrats had some incentive to please the small centre parties as a change of sides then became realistic. As a consequence, the Social Democrats modified their opposition policy, mainly through agreements with the government over the 1992 and 1993 budgets. However, pleasing the small centre parties did not necessitate a more fundamental change of course, implying acceptance of retrenchment measures. Such a change was to come later.

The new government launched its socio-economic policy under the motto of 'new course towards better times' (Statsministeriet 1993). It had two main elements; a tax reform and a labour market reform. The general aim was to kick-start the Danish economy, which had been in recession since around 1988 (Nannestad & Green-Pedersen forthcoming). Therefore, the tax reform, which generally lowered personal income taxes and instead introduced a wide range of green taxes, was designed to be expansive during the first years, but revenue was neutral in the long run.[4] The labour-market reform, which partly followed the recommendations of the 'Zeuthen committee', was an attempt to increase the focus on active labour-market policies. The most conspicuous parts of this reform were probably the introduction of three leave-schemes, sabbatical, educational, and child-minding leave and the extension of the so-called transitional allowance to cover the 50-55 year olds as well (Loftager & Madsen 1997).

The government used its majority to pass the proposals without major changes in the spring of 1993. Both the Liberals and the Conservatives voted against the reforms and attacked the new government, even though the main elements in especially the tax reform were close to what the last Schlüter government had wanted (Jyllands-Posten, June 17-18 and 25, 1993; Politiken, June 19 and 24-25, 1993). In general, the opposition strategy of the two major right-wing parties, especially that of the Liberals which was becoming the larger of the two in opinion polls, was to emphasise their right-wing profile and to be more open towards a cooperation with the Progress Party. The reason for this move was the government participation of the small centre parties. This implied that the Liberals and the Conservatives could only regain power if they won a majority with the Progress Party, which according to opinion polls was a real option (Bille 1998: 156-184).

In September 1994, elections were called again. The campaign had no specific theme other than a battle between two alternative governments; on the one hand, the social democratic-led government and, on the other hand, a liberal-conservative government supported by the Progress Party (Borre & Andersen 1997: 86-87). The election resulted in a government loss of majority because the Christian People's Party did not gain representation and CD and the Social Democrats lost significantly. However, despite strong gains for the Liberals, the government alternative was far from obtaining a majority, and the government could continue as a minority government without the Christian People's Party (Bille 1998: 188-194).

For the first social democratic-led government, the period prior to the

1994 election had been very much dominated by the fact that it had to face voters less than two years after coming into power. In other words, it had to deliver positive results quickly. This was undoubtedly the driving force behind the tax reform in 1993 (Nannestad & Green-Pedersen forthcoming). The government also very much emphasised its ambition for 'breaking the curve', that is bringing down unemployment, which had risen steadily since 1987 (Loftager & Madsen 1997: 135). After the 1994 election, the social democratic-led government had time for more controversial reforms such as retrenchment measures.

That it was in fact willing to engage in retrenchment became clear in the autumn of 1995. In connection with the budget negotiations for 1996, the government launched a second round of the labour-market reform containing retrenchments of unemployment benefits. In the proposal put before parliament in October 1995, the government suggested cuts in the benefits for young unemployed persons and a reduction in the duration of benefits to 5 years. In addition, it was suggested that entrance to the transitional allowance would be closed immediately. The aim of the retrenchments was not so much to save cash, but more to support the government's active labour-market policy. The retrenchments should provide the unemployed with greater job-seeking incentives and avoid long-term passivity (Folketinget, *Folketingstidende* A 1995-1996: 140-167).

In general, the second social democratic-led government based its support on both political blocs. However, as regards retrenchment of unemployment benefits, it was clear from the beginning that they had to be passed with support from the right-wing parties (Jyllands-Posten, October 5, 1995). As part of the negotiations with the Liberals and the Conservatives, the government quickly proved willing to tighten eligibility criteria as well (Jyllands-Posten, November 16, 1995), thus enabling an agreement with the Conservatives (Jyllands-Posten, November 30, 1995; Politiken, November 30, 1995). Apart from obtaining parliamentary support for the proposals, the government hence managed to separate the two major right-wing parties. The Liberals' motives for leaving the negotiations were mainly tactical and the party, therefore, chose to support the retrenchments in parliament (Jyllands-Posten, December 1, 1995). The social democratic-led government had then passed the first major retrenchment of social security in Denmark since 1984.

It is interesting to compare the discussions surrounding these retrenchments with the situation in the 1980's, when suggestions of retrenchments of unemployment benefits caused vehement protests from the trade unions. In 1995, the unions were not enthusiastic about the changes and some criti-

cism of the government was voiced (Politiken, November 1, 1995). However, this time there were no demonstrations and seemingly, the unions had basically accepted the retrenchments (Politiken, October 3, 1995). Also in terms of justification, the situation surrounding this retrenchment was very different from the 1980's with the fierce debate about 'social mass-graves'. Unlike the right-wing governments in the 1980's, the government was now able to successfully link its proposals to its active labour-market policy and its general attempt to combat unemployment. The shortening of the duration of benefits was labelled 'an advance of the activation period', and the changes for the young unemployed were presented as an intensified effort to combat youth unemployment (Folketinget, *Folketingstidende* A 1995-1996: 152). During the final parliamentary debate about the bill (Folketinget, *Folketingstidende* FF 1995-1996: 2244-2321), only the left-wing parties tried unsuccessfully to challenge this justification by raising the issue of social fairness. The government and the right-wing parties continued to discuss the positive impact of these changes on unemployment and stressed the implied educational opportunities for the unemployed.

Tables 4 and 5 demonstrate that the Danish economy had, at that time, definitely moved out of the recession and the contours of a 'Danish miracle' were becoming visible (cf. Schwartz 2001a). In the period up to the subsequent election, a number of measures were passed aiming at curbing private consumption, mainly through increased indirect taxation (Bille 1998: 225-278). In relation to social security, a new social-assistance scheme was passed with broad political support in the spring of 1997. The scheme enhanced the 'active line' in social assistance (Plovsing 1998: 80) and implied further changes in the organisational structure of the disability pension, thus providing the municipalities with further incentives to limit the number of awarded disability pensions (Folketinget, *Folketingstidende* FF 1996-1997: 8301). As elections approached, it was clear that further welfare-state retrenchments had to wait until after the 1998 election.

Which political bloc would win government power was a much more open question in the 1998 election. The reason was that both CD and the Christian People's Party had been forced by their electorate to support the right-wing bloc again. The Christian People's Party had been voted out of parliament at the previous election, and CD had left the government by the end of 1996 to avoid sharing a similar fate. The focus in the beginning of the campaign was very much on new political issues such as refugees and immigrants, which did not favor the Social Democrats. The party then made a very successful effort in turning the campaign into a more traditional battle about social justice and redistribution. This change of focus was partly

achieved by exploiting the question of the early-retirement scheme. The right-wing parties had argued that it should no longer be possible to enter the scheme at the age of 60, but first at the age of 62. In response, the Prime Minister issued a guarantee that a social democratic-led government would not retrench the scheme. The Social Democrats eventually turned the awaited losses into a small gain and with a very slim margin, the government managed to hold onto power (Bille 1998: 280-283).

The new government soon faced new challenges. It was clear that something had to be done about sky rocketing housing prices and the current account, which had gone into deficit again. In June, the government, therefore, intervened with a tax reform supported by the left-wing bloc that most importantly reduced the value of the right to deduct interest payments from taxable income (Bille 1998: 287-291). This caused a significant decline for the Social Democrats in opinion polls (Andersen 1999b).

Against this background, one might have expected the government to delay retrenchment measures. Yet, in the autumn of 1998, the government reached an agreement on the 1999 budget with most of the right-wing bloc, including the Liberals and the Conservatives, implying several welfare-state retrenchments (Finansministeriet 1998; Jyllands-Posten, November 26, 1998). The first was another retrenchment of unemployment benefits following the line from 1995. A committee of civil servants had produced a number of suggestions (Arbejdsministeriet 1998) that had then been negotiated with the social partners. They quickly reached agreement on the retrenchments that were then endorsed by the government and the right-wing parties as part of the budget agreement (Jyllands-Posten, September 30, 1998; October 1, 1998; Politiken, September 30, 1998; October 1, 1998). Fractions of the trade-union movement protested against the retrenchments, but protests soon died out (Jyllands-Posten, October 8-9, 1998; Politiken, October 3, 7, 9, and 10, 1998). The government was once more able to define the retrenchments as part of its active labour-market policy. A second retrenchment was a supplementary change in the financing of the disability pension, implying further incentives for the Danish municipalities to limit the number of awarded disability pensions. A third retrenchment implied a substantial cut in housing allowances. Finally, the budget agreement involved a major retrenchment of the early-retirement benefit scheme, which according to the government would become unsustainable in the future once the labour-market effect of the aging population materialised. However, the government justified its policy along two somewhat different lines. First, it reluctantly admitted that the changes were in fact retrenchments. For instance, it argued that the change of the pension age (cf. chapter

5) was in fact an improvement (Jyllands-Posten, November 27, 1998; Politiken, November 28, 1998). Second, it argued that by reaching an agreement with the right-wing bloc, it had in fact safeguarded the scheme by preventing the right-wing bloc from completely abolishing it in the future.

This reform was met by strong protests from segments of the trade unions, and the Social Democrats dropped to a low in opinion polls (Jyllands-Posten, November 28-29, 1998; Politiken, November 27-28 and 30, 1998). The government responded with concessions to the trade unions (Jyllands-Posten, December 8, 1998; Politiken, December 2 and 8, 1998) and the protests died out (Jyllands-Posten, December 7, 1998; Politiken, December 10, 1998). Yet, the Social Democrats were still very low in opinion polls. Even a public admission from the Prime Minister that he had not kept his promise from the election campaign did not improve social democratic opinion polls (Jyllands-Posten, December 14, 1998; Politiken, December 14 and 20, 1998). Most of the changes were not passed in parliament before the beginning of 1999, and the retrenchment continued to cause problems for the Social Democrats as the trade unions wanted more concessions. Towards the end of the entire controversy, the government became more offensive in its justification of the retrenchments. It continued to argue that in fact it had safeguarded the scheme but also stressed that the retrenchments were necessary to secure higher rates of labour-force participation from the 60-65 year olds (Folketinget, *Folketingstidende* FF 1998-1999: 3873-3876).

Altogether, this period of social democratic rule in Denmark illustrates the possibilities of Social Democratic Parties in bloc systems exploiting a 'Nixon goes to China' logic. The period until 1994 was dominated by the government's short-time horizon due to the approaching election. Since then, social democratic-led governments have passed unemployment benefit and early-retirement benefit retrenchments, which were politically impossible for the right-wing governments due to the social democratic opposition. Once the Social Democrats showed willingness to pursue such retrenchment measures, a political consensus with the major right-wing parties was easily established. This opened up new possibilities of justification. For instance, limitation of the duration of unemployment benefits, which in the 1980's had been defined as an attempt to dump people into social mass-graves, was now defined as active labour-market policy and thus part of the struggle against long-term inactivity.

From this perspective, why the retrenchment of the early-retirement scheme was tremendously problematic for the Danish Social Democrats, comparable to the problems of the PvdA in 1991, obviously calls for an explanation. The problem was not that the issue was defined as one of social

fairness, but rather that the electorate had certainly not forgotten the promise of not retrenching the scheme declared by the Prime Minister during the election campaign. The electorate simply felt betrayed, resulting in a major drop in opinion polls for the Social Democrats (Andersen 1999b: 266-268). Even if Social Democratic Parties can exploit a 'Nixon goes to China' logic, consistency and trustworthiness are still important features in the eyes of the electorate.

The Danish case – a general view

As in the Dutch case study, it will be worthwhile concluding this chapter by asking a number of questions relating to different hypotheses derived from the framework in chapter 3. This should provide a basis for answering the more general question of whether the cases support the theoretical propositions put forward in chapter 3.

First, it seems relevant to ask whether the Danish case supports the idea of looking at retrenchment from the blame-avoidance perspective. In general, the answer is positive. Danish governments have been met with demonstrations, strikes, and strong protests to retrenchment proposals. Therefore, adopting a cautious strategy and demonstrating a willingness to modify retrenchment proposals were imperative. Yet, the Danish case suggests that governments are not automatically punished for retrenchments at the polls. The best example is the success of the first Schlüter government.

The second question relates to the role of justification strategies. The above analysis clearly indicates that governments try to justify retrenchments along the lines suggested in chapter 3. No Danish government ever agitated for retrenchments on the grounds of being against the basic idea of social solidarity. Not even the Schlüter governments in any way presented themselves as neo-liberal governments having welfare-state retrenchments as a goal *per se*. As did the social democratic-led governments, the Schlüter governments maintained the necessity of welfare-state retrenchments to safeguard the welfare state. Yet, the social democratic opposition strongly and successfully argued that hidden ideological motives were underlying the retrenchments.

The third question concerns whether the possibilities of Danish governments framing the welfare-state retrenchment issue are shaped by the strategies of the political parties. The answer is in part yes. Even when facing fierce social democratic opposition, the first Schlüter government was able to justify its retrenchment measures as an economic necessity due to consid-

erable crisis-awareness among the electorate. However, for the rest of the period examined, the strategies of the political parties have been decisive. Once the immediate economic crisis disappeared, the social democratic-opposition strategy paid off, and the right-wing governments had to recognise their vulnerability with regard to the fairness issues. Hence, several improvements to social security were passed. For the rest of the period until 1993, the governments refrained from open confrontation with the Social Democrats over welfare-state retrenchments. In contrast, the social democratic-led governments have easily been able to achieve a consensus with the major right-wing parties on retrenchments.[5]

Turning to variation across social-security schemes, connection to the labour market has been an important factor in explaining why the old-age pension and the disability pensions have fared the best. Under the Schlüter governments, when cost-saving was the strongest motive for retrenchments, justifying retrenchments of the two schemes was difficult as exemplified by the justification from Schlüter in 1982 for not freezing the two schemes. Both are labelled 'social pensions', implying that they are benefits given to weak and deserving people who cannot help their own situation. The improvements to both schemes around 1987-1988 were also clearly justified as a matter of improving the conditions for very well deserving groups (cf. Folketinget, *Folketingstidende* FF 1986-1987: 12878-12886). The 1983 reform of the disability pension, which implied a significant rise in the number of pensioners, effectively connected the scheme much closer to the labour market. The scheme partially became an exit option from the labour market. When labour-market considerations under the social democratic-led governments then became the driving force for retrenchments, the disability-pension scheme came into focus along side with the early-retirement scheme and the unemployment-benefit scheme, which were prime targets for retrenchments aiming at improving the functioning of the labour market and increasing labour-force participation. As shown above, the retrenchments of especially unemployment benefits were also justified as an attempt to move people away from passive benefits.

In sum, a closer look at Danish politics does largely support the theoretical framework put forward in chapter 3. Apart from the first Schlüter government, Danish governments' willingness to implement welfare-state retrenchment does indeed seem to depend on their capabilities of achieving a political consensus allowing a justification of retrenchments without being seriously challenged. At the level of social-security schemes, connection to the labour market also seems to have been a crucial factor.

8 The evidence on balance and some quibbles

This chapter aims at two things. First, at briefly summarising the results of both parts of the empirical investigation. This will be done by discussing each of the six hypotheses developed in chapter 4. Second, a number of possible quibbles and alternative explanations will be discussed. Chapter 2 presented a number of theoretical propositions about variation in welfare-state retrenchment. The general aim of the research design was to be able to rule out such alternative explanations. However, this was as always only possible to some extent, leaving a number of plausible alternative explanations that deserve discussion.

The empirical support for the framework on balance

The first hypothesis was that there would be no sweeping retrenchment. Chapter 5 revealed support for this hypothesis with the qualification that defining 'sweeping' is difficult indeed. The underlying argument was the idea of the politics of retrenchment as one of blame avoidance. The Danish as well as the Dutch case supported this idea. In both countries, retrenchment proposals were met with demonstrations and protests. Several of the governments also experienced electoral punishment for retrenchment. However, both cases also demonstrated that governments are not necessarily punished for retrenchment.

The second of the six hypotheses suggested the implementation of more retrenchment in the Netherlands than in Denmark, based on the different systems of party competition. This hypothesis was confirmed in chapter 5 and chapter 7 showed that a consensus on retrenchment policy did in fact not emerge in Denmark until after the Social Democrats regained power in 1993. As long as they were in opposition, they had no incentive to give up their ownership of the welfare-state issue by engaging in welfare-state retrenchment. The Dutch case demonstrated how the PvdA was 'forced' to abandon its ownership of the welfare-state issue through the 1980's to be-

come an acceptable government partner for the CDA. Thus, it does seem that the different systems of party competition can explain the variation between the two cases. However, it goes without saying that the framework cannot explain all the details in the party competition surrounding retrenchment. In the Dutch case, the framework would have, for instance, predicted the PvdA to choose a centrist course more rapidly than the party in fact did, and it is also surprising that the CDA gave away part of its pivotal power when it declared the VVD its preferred government partner before the 1986 election.

The third hypothesis suggested that more retrenchment would be implemented in Denmark from 1993 to 1998 than from 1982 to 1993, due to the different party-colors of the governments. The pattern of retrenchment and the case study in chapter 7 corroborated this hypothesis. Nevertheless, as argued in chapter 5, significant retrenchments took place from 1982 to 1984. The reason was the one identified in chapter 7: The immediate economic crisis within the period had created a 'crisis feeling' among the public. This opened a 'window of opportunity' for welfare-state retrenchment, yet one that quickly closed again.

The fourth hypothesis implied that the Netherlands would experience more retrenchment from 1989 to 1994 than from 1994 to 1998, and more from 1994 to 1998 than from 1982 to 1989 due to the different party compositions of the governments. The actual pattern of retrenchment was somewhat different. The period 1982 to 1989 was the one experiencing the most, not the least, retrenchment. A closer look at the data, however, revealed that the surprising retrenchments were almost entirely concentrated in the period 1982 to 1985. When disregarding this period, that is the time of the first Lubbers government, the variation in retrenchment over time was as expected. Also in the Netherlands, the immediate economic crisis around 1982 created a crisis feeling among the electorate, opening a window of opportunity for retrenchment. Chapter 6 also revealed that the difference in degrees of retrenchment between 1986-1989 and 1989-1994 had to do with politics. The CDA was well aware that including the PvdA in the government would make retrenchment politically less risky. Therefore, plans to retrench the disability-pension schemes were postponed until after inclusion in the government of the PvdA. The final period 1994 to 1998, was predicted to fall in between the other two in terms of retrenchment because even though the PvdA formed part of the government, the CDA was now in opposition. This would make the 'purple government' politically more vulnerable in relation to retrenchment than a CDA-PvdA government. Chapter 6 did not establish full support for this argument. In opposition,

the CDA did move to the left and tried to strengthen its social image. However, the impact of this strategy on the government remains unclear. The rather bad experiences of the PvdA with the WAO affair constituted an equally important factor for the somewhat more cautious course of the 'purple government' towards social security.

The fifth hypothesis concerned variation across schemes in the Netherlands. Unemployment benefits were expected to experience more retrenchment than disability pensions and old-age pensions. This only partly corresponded to the picture emerging in chapter 5. The old-age pension scheme was retrenched less than unemployment benefits, but the disability-pension schemes were retrenched more than unemployment benefits, not less. Nevertheless, chapter 6 showed that the schemes' connection to the labour market has been crucial in the Netherlands. The reason for the surprising retrenchment of the disability-pension schemes was that the very lenient administration of the rules concerning eligibility had turned them into de facto early-retirement schemes and thus connected them closely to the labour market.

The final hypothesis concerned variation across schemes in Denmark. Unemployment benefits and early-retirement benefits were expected to be subject to a larger retrenchment impact than disability pensions or old-age pensions. Chapter 5 found the pattern to be in accordance with this prediction. Chapter 7 further provided evidence for the importance of the connection to the labour market. Unemployment benefits and early-retirement benefits became prime targets for the retrenchments in the 1990's, which were driven by labour market considerations. Without being comparable to the Dutch scheme, the Danish disability-pension scheme also became more closely connected to the labour market after the 1983 reform, and thus also became a target for retrenchment in the 1990's.

On balance, the findings provide considerable support for the theoretical propositions presented in chapter 3. At the country level, the theoretical framework offers an explanation why more retrenchment was implemented in the Netherlands than in Denmark. In addition, if one 'controls for' economic crisis, the framework is capable of predicting the variation across time in the two countries. If this factor is controlled for, the Danish retrenchment pattern matches the hypothesis developed at the end of chapter 4 even better, and the pattern in the Netherlands corresponds to the expected one. However, the smaller extent of Dutch retrenchment from 1994 to 1998 then from 1989 to 1994, is probably not as much a function of the fear of the CDA in opposition as it is a function of the need for the PvdA to recuperate after the WAO affair. The framework was also quite successful at pre-

dicting variation across social-security schemes. The framework predicted a clear difference between schemes with little connection to the labour market and schemes closely connected to the labour market.

The conclusion that there is considerable empirical support for a theoretical framework is by itself not very interesting. After all, most theoretical arguments are capable of explaining some variation and few if any are capable of explaining every variation. A more relevant question in relation to the theoretical framework presented in this study is whether the framework is capable of explaining more than competing theoretical arguments. Even a theoretical argument that explains only little variation is a contribution to scientific knowledge if alternative arguments explain less variation. Along the same lines, a theoretical framework explaining considerable variation is hardly a step forward compared to a framework that explains every variation. Alternative explanations of the identified variation should therefore be discussed.

Alternative explanations

An endless number of alternative explanations will always exist and, therefore, selectively is necessary. Based on chapters 2 and 4, a number of obvious alternative explanations exist and these will be discussed in the following. Regarding the variation between the two countries, the role of the different 'political economies' and the role of minority vs. majority governments will be discussed. Concerning the variation across social-security schemes, the importance of the financing of the schemes, the organised interest attached to the schemes and the degree of universalism will be taken up.

Alternative explanations at the country level

As mentioned in chapter 4, the political economies of Denmark and the Netherlands differ. Denmark is an example of a social democratic political economy and the Netherlands is an example of a Christian democratic one, a difference that was easily identified by looking at female labour-force participation rates in the two countries. In chapter 2, the argument was further presented that Christian democratic political economies faced a specific 'welfare without work' or 'inactivity' problem. To this end, one would expect the Netherlands to have experienced more retrenchment than Denmark.

A discussion of this claim requires some further deliberations on the 'welfare without work problem', since it is unclear to what extent social-security retrenchments would solve the problem. In Continental Europe, there are two groups of 'inactive'. One is a large number of people of working age receiving social-security benefits and another comprises women of working age outside of the labour force. As regards the first group, the Netherlands certainly has a large number of people of working age receiving social-security benefits. But so has Denmark. The broad unemployment figures presented in chapter 4 did not show any major difference between the two countries. At least when compared to Denmark, the high number of people of working age receiving social-security benefits is not a particularly Dutch problem, apart from their being 'disabled' and being more concentrated in the age group 55-64 (cf. Scharpf & Schmidt 2000b: table A13).[1] The figures presented in chapter 4 proved the second group to be much larger in the Netherlands than in Denmark. However, it is not explicit how levels of female labour-force participation can be raised through social-security retrenchments as defined in this study. As suggested by Pierson (2001a), Continental European social-security schemes are in need of 'updating', or reforms of the type labelled 'restructuring reforms' in chapter 4. For instance, rules not favoring part-time work or married women working must be changed. However, it is difficult to imagine how, for instance, cuts in benefits would encourage female labour-force participation.

Actually, one may argue that low levels of female-male labour-force participation should result in less retrenchment; one of the effects of the aging population is a shrinking labour force. Apart from improving birth rates, there are basically two ways of solving this problem. One is to reduce the number of social-security claimants, and another is to increase female labour-force participation. For Nordic countries such as Denmark, the latter is hardly a possibility. The only solution is to reduce the number of people receiving social-security benefits, which was the main reason for the major retrenchment of the Danish early-retirement benefit scheme in 1998. In the Netherlands, the situation is in a way more positive. Female labour-force participation is rising, from 39.4% in 1982 to 62.2% in 1997 (Scharpf & Schmidt 2000b: table A.12), which in part solves the problem of a shrinking labour force. As a consequence, this reason for retrenching social-security schemes appears less credible in the Netherlands.

Another version of the 'welfare without work' problem of Continental Europe focusses on the employment unfriendliness of financing social security through social contributions instead of general taxation, as it is done in Denmark. This way of financing social security increases non-wage labour

costs, which is particularly damaging for low-skilled workers. They cannot compensate for the higher non-wage costs by lowering wages because their wages cannot fall below the level of social-security benefits (Scharpf 1997; 2000c; Manow & Seils 2000). However, retrenching social-security schemes is not the only way to solve this problem. Changing the system of financing to favor low-paid workers seems more attractive for governments wanting to avoid blame and is exactly what Dutch governments have done (Hemerijck, Visser & Unger 2000). Thus in 1997, the tax-wedge on low earnings in the Netherlands was lower than in other Continental European political economies, and actually lower than in Denmark (Manow & Seils 2000: table 3).

In summary, the welfare without work problem in the Netherlands does not seem a plausible alternative explanation since it is unclear whether social-security retrenchments represent a response to this problem.[2] Together with the argument that the variation between the two countries cannot be explained by different degrees of macro-economic troubles, this could be seen as a refusal of any role of 'economics' in the retrenchment process. However, economics is not unimportant for retrenchment. First, the two case studies clearly illustrated how governments can implement otherwise politically impossible retrenchment measures once macro-economic difficulties turn into an immediate economic crisis. Second, chapter 3 claimed that the push factors towards retrenchment were economic. It is for economic reasons that governments are willing to retrench at all. However, this does not imply that retrenchment is simply a function of economics.

The second alternative explanation of the variation between the two countries is the existence of majority governments in the Netherlands vs. minority governments in Denmark. Based on what Strøm (1990b) presents as 'conventional wisdom' about minority governments, a plausible argument suggests that implementation of welfare-state retrenchment is considerably easier for a majority government. As opposed to minority governments, it is not necessary for majority governments to convince opposition parties to support potentially unpopular policies. In relation to the two cases studied here, little welfare-state retrenchment arguably took place in Denmark because the minority governments could not obtain parliamentary support for such measures. The question is whether empirical support can be provided for this argument.

An investigation of macro-economic policy in Denmark after 1973 (Green-Pedersen 2001a) does not support the conventional wisdom about minority governments being weak in terms of governing capacity. If one focusses solely on retrenchments, the social democratic minority governments

after 1994 have also implemented several significant retrenchments. Consequently, an argument about weak minority governments must relate mainly to the period of right-wing governments. In chapter 7, the right-wing governments were claimed not to implement welfare-state retrenchments in order to avoid a confrontation with the Social Democrats on the issue. The argument about minority governments is that the right-wing governments would have liked to implement retrenchments, despite protests from the Social Democrats, but simply could not obtain the necessary parliamentary support.

Due to the opposition policy of the Social Democrats, the only way for the right-wing governments to obtain parliamentary support for welfare-state retrenchment was to gather support from the entire bloc of Non-Socialist Parties. This bloc of parties kept right-wing governments in office for more than 10 years. As revealed in chapter 7, the majority was somewhat unreliable because the Progress Party was weakened by internal disagreements, and the Social Liberals were not enthusiastic about striking deals with the Progress Party. This seems to corroborate the argument about minority governments wanting to implement retrenchments even in constellation with a strong social democratic opposition, yet being unable to gather parliamentary support.

The possibilities of passing legislation without the support of the Social Democrats varied considerably over the period of right-wing rule; so did the extent of retrenchment actually implemented. Based on the argument about minority governments, one should expect the patterns of variation to be related. The right-wing governments should have taken advantage of the situations where support from the entire non-socialist bloc to pass retrenchments was possible. The parliamentary situation of the right-wing governments was clearly the strongest from 1984 to 1987. This government was the only one in the period of right-wing rule that needed only one supporting party in parliament, namely the Social Liberals, and was hence only a 'formal minority government' (Strøm 1990b: 94-96). The KVR government from 1988 to 1990 was also quite strong because the Social Liberals were part of the government and because the Progress Party, despite strong internal conflicts, chose a compromising course. It gave up its principal reservation against supporting the budget. The other three governments were all weaker. If the governments from 1982 to 1984 and from 1987 to 1988 wanted to avoid compromising with the Social Democrats, they had to gather support from both the Social Liberals and from a not very compromising Progress Party. The KV government from 1990 to 1993 was weak because CD and, to some extent, also the Social Liberals made a left move and tried to distance themselves from the government.

However, the retrenchments that were actually implemented followed a somewhat different pattern. First, the period with the largest extent of retrenchment was from 1982 to 1984, when the parliamentary situation of the government was weak. Second, during the period 1984 to 1987, when the government's parliamentary situation was strong, there was a change of course towards social security and implementation of several improvements. Third, in the period 1988-1990, characterised by a strong parliamentary situation, no retrenchments were implemented. The government passed budgets with the support of the entire non-socialist bloc. However, when it came to retrenchment measures, the government wanted the support of the Social Democrats. Apparently, the only period supporting the argument about weak right-wing minority governments is from 1987 to 1988. During this period, the government was more or less forced to compromise with the Social Democrats. The result was an increase in most social-security benefits. Yet, it is important to note that the government had already given up its retrenchment policy before its parliamentary situation worsened after the 1987 election.

Altogether, the pattern of retrenchments under the right-wing governments can generally not be explained by their parliamentary situation. When their parliamentary situation was strong, they did not use it to implement retrenchments, and when it was weak they were actually capable of implementing retrenchments. Nevertheless, claiming that the parliamentary situation of the right-wing governments has been irrelevant would be wrong. As argued elsewhere (Green-Pedersen 1999), the parliamentary situation did in certain cases, the 1988 budget agreement is the best example, influence the right-wing governments' welfare-state policies. The argument here simply claims that the Danish right-wing governments being minority governments is not the most important reason for the small extent of retrenchments implemented. It was rather the opposition policy of the Social Democrats that, except for the period 1982-1984, made it electorally too risky.

The two most obvious alternative explanations for the variation between the two countries can thus not be supported upon closer scrutiny.[3] Attention can then be turned to an alternative explanation of the variation across social-security schemes.

Alternative explanations of variation across social-security schemes

As laid out in chapter 2, a number of arguments about variation across social-security schemes focus on the financing of the schemes. One argument (Alber 1998) was that tax-financed schemes would be retrenched the most

whereas another argument was that financing through employer contribution would make schemes vulnerable to retrenchment (Anderson 1998). However, the empirical material in this study does not show any clear connection between mode of financing and retrenchment. In Denmark, there was considerable variation across schemes even though all schemes were predominantly tax-financed. The fact that the Dutch old-age pension, to which employers do not contribute, suffered the least retrenchment compared to unemployment benefits and the disability pensions supports an argument claiming that schemes financed through social contributions from employers suffer the most retrenchment. However, the fact that the disability-pension schemes in the Netherlands have been retrenched more than unemployment benefits cannot be explained by this argument. As illustrated in chapter 5, employer contributions to the disability-pension schemes were completely abolished in 1990.[4] Nevertheless, the major retrenchment was implemented in 1993. Altogether, there is little evidence in favor of arguments about the effects of different ways of financing social-security schemes.

The next factor deserving discussion is the different organised interests attached to the different schemes. How this argument fairs depends on which organised interests are in focus. The two schemes subject to the largest retrenchment impact in Denmark, unemployment benefits and early-retirement benefits were the exact two schemes involving trade unions in the administration. The same goes for the Netherlands. The only Dutch scheme studied that was not administered by the social partners, namely old-age pensions, is the scheme that fared the best. In other words, the involvement of social partners, especially trade unions, did not prove an effective shield against retrenchments. This is, however, not because trade unions have not fought against retrenchments. Chapter 6 showed that Dutch trade unions combated every retrenchment proposal. The Danish trade unions also vigorously combated every attempt at retrenchment from the right-wing governments. Their position towards the retrenchments implemented by their traditional ally, the Social Democrats, was more mixed. They tried to avoid too much open conflict, yet in several cases were forced into it by rank and file members.[5]

Social partners, especially trade unions, are however not the only organised interests in relation to social security. As claimed by Pierson (1994: 164-166), client groups such as organisations for the elderly have increasingly taken over the role of trade unions as defenders of the welfare state. This situation has arisen in Denmark and the Netherlands in connection with the schemes that are not directly supported by the trade unions. In

Denmark, the organisation for the elderly 'Ældre Sagen' has developed into a large and well-funded pressure group. In relation to disability pensions, a client organisation called 'De Samvirkende Invalide Organisationer' also exists, which is, however, much less powerful in terms of members and resources. In the Netherlands, a number of organisations for the elderly exist. These organisations were most powerful when transforming into real political parties, two of which won seats in the 1994 election. Yet, not least due to internal disagreements, both parties lost representation in the 1998 election.

The question is whether the success of the old-age pension schemes and the Danish disability-pension scheme are the result of the existence of such organisations. Their actual influence is difficult to determine. They tend to exert their influence through the media and informal contacts and little, if any research in this field exists. A look at the success rate of the old-age pension schemes over the period does, however, not indicate that these organisations have been the decisive factor. In Denmark, 'Ældre Sagen' was formed in 1986 and even though the organisation made it into the Guinness Book of Records because of its rapid growth in members, its political strength is predominantly a phenomenon of the 1990's (Nielsen, V. 1996). However, the Danish old-age pension fared very well in the 1980's. In the Netherlands, the organisations for the elderly seriously entered the political stage by transforming into political parties, which gained seats in parliament in 1994. However, the Dutch old-age pension fared better than the other social-security schemes in the 1980's.

The third argument deserving discussion is the one laid out in chapter 2, that the more universal schemes are less vulnerable to retrenchment (Korpi 1980; Rothstein 2000). In other words, schemes benefiting large segments of the population are claimed to experience less retrenchment than schemes providing means-tested benefits for small segments of the population. As for the schemes studied here, none of them can be said to provide means-tested benefits to small segments of the population. However, the social-security schemes studied do vary in the size of the segments for which they provide benefits. Old-age pensions have almost the entire population as potential claimants. Hence, the fact that old-age pensions in both countries have fared the best supports the universalism argument. However, the argument is not at all successful in predicting variation across the other schemes. As for the Dutch case, the disability-pension schemes can be considered the second most inclusive schemes. The very lenient eligibility rules have turned the schemes into de facto early-retirement schemes for most of the population. This is reflected in the extraordinarily high number of claimants.

Therefore, one should expect these schemes to have fared better, not worse, than unemployment benefits. As for the Danish case, one should have expected the disability-pension scheme to have fared the worst. This scheme is the one scheme studied here that comes the closest to the description of a means-tested scheme for a small segment of the population. Yet, it fared second to the old-age pension.

Altogether, the alternative theory of variation across social-security schemes finding the most empirical support is the argument about universalism. Such an argument can explain why old-age pension schemes have fared relatively well. It can, however, not explain the rest of the variation across social-security schemes.

Balance

Summing up on the entire discussion of alternative explanations, this discussion has indirectly supported the theoretical propositions put forward in chapter 3. No other theoretical argument has been found to explain the same level or more of the variation in retrenchment. Other arguments predicting more retrenchment in the Netherlands than in Denmark do exist. However, upon a closer look, none of them found much support. At the level of social-security schemes, the degree of universalism argument was the most supported alternative, also predicting old-age pensions to have suffered the least retrenchment. However, the theoretical framework of this study also offered an explanation as to why the disability-pension scheme in Denmark fared better than the unemployment benefit and early-retirement benefit schemes. In this way, the framework can be said to find slightly more empirical support than the universalism argument.

The conclusion that the theoretical framework presented in chapter 3 is the most successful in explaining the variation in retrenchment does not imply that other factors cannot contribute to the explanation of this variation. Obviously, if one wants to increase r^2, this could be done by including other factors. As argued above, the immediate economic crisis in both countries in the first half of the 1980's clearly represent a factor that would help explaining variation over time; a variation not fully accounted for by the framework presented in chapter 3. In relation to the Danish case, the parliamentary situation of the right-wing governments constitutes a parallel factor, yet not the most important one. At the level of social-security schemes, it is more difficult to see which factor should be included to increase r^2. None of the alternative theoretical arguments discussed were capable of explaining

the variation, which could not be explained by the argument about labour-market connection.

9 Party politics matter – summary and implications

This chapter starts with a brief summary of the main findings of the study. The rest of the chapter aims at discussing a number of implications of these findings at two levels. First, the implications for the scholarly debate about welfare-state retrenchment will be discussed. This includes a discussion of the prospects of generalising the insights of this study beyond the cases studied here. Second, the chapter will address the broader question about the political background for the economic 'miracles' in the two countries and the implications that this has for the debate about a country's ability to adjust their models of welfare capitalism to a changed economic environment, and the understanding of the dilemmas of European Social Democracy.

The main findings

The main finding of this study is evidently the importance of party politics for the development of modern welfare states. This study claims that a focus on Dutch and Danish party competition is a must if one wants to know why the Netherlands has generally carried through a larger scale of retrenchment than Denmark. The same goes for the variation over time in the two countries. One must consider how the Dutch pivot system of party competition produced a party consensus around retrenchment. This consensus allowed various Dutch coalition governments to justify retrenchment measures in the eyes of the electorate. One must also consider how, except for the years of economic crisis, the Danish bloc-system of party competition implied a political stalemate in relation to retrenchment during the right-wing bloc rule. However, once the Social Democrats regained power, a party consensus around retrenchment emerged.

If an understanding of the reasons for differences in the extent of retrenchment of the various social-security schemes is desired, the schemes' connection to the labour market must be considered. It affects governments' capabilities of justifying retrenchment measures in the eyes of the electorate as

well as shapes government incentives for retrenchment. This factor explains why the old-age pension schemes in both countries fared the best in this period, and why the Danish disability-pension scheme fared better than both unemployment benefits and early-retirement benefits.

The implications for the retrenchment debate

These findings have implications for the retrenchment debate in three different, but of course related ways.

The first contribution is the theoretical argument about the importance of party politics for understanding variation in the scale of retrenchment. This should be seen in contrast to the strong focus within the retrenchment literature on economic and especially institutional factors. The claim that politics matter for the development of welfare states is of course hardly new. As stressed in chapter 2, 'politics matter' was the main conclusion from the extensive literature on the growth of the welfare state. Yet, the way in which politics are argued to matter for welfare-state development in this study clearly differentiates from the traditional 'politics matter' claims. The latter claim implies that retrenchment should be explained by strong right-wing parties versus weak left-wing parties (cf. Borchert 1995; Korpi & Palme 2001; Hicks 2000: chap 7). The conclusion of this study tends in the opposite direction; but politics still matter.

Other scholars have in two different ways stressed the importance of politics for welfare-state retrenchment as well. On the one hand, both Cox (2001) and Schmidt (2002) stress the importance of political discourse and argumentation for the process of reforming welfare states. Ross (2000a) and Kitschelt (2001) on the other hand, have drawn attention to the importance of questions of issue-ownership and party competition. In a way, this study tries to combine elements from these different arguments into a theoretical framework. The study hypothesises that to explain variation in welfare-state retrenchment, two things must be considered: first, government strategies to justify retrenchment measures. This is where the theoretical framework connects to ideas about political discourse. Second, how such possibilities for justifying retrenchment crucially depend on party politics. This is where arguments about issue-ownership and party competition are relevant.

The second contribution of this study to the retrenchment debate is the attempt at explaining variation both between countries and across social-security schemes. As demonstrated in chapter 2, the scholarly debates about

variation at these two different levels of analysis are rarely connected. This is problematic. On the one hand, governments do not retrench the welfare state, they initiate retrenchment of unemployment benefits, old-age pensions, etc. Thus, political dynamics relating to specific policy areas must be considered. On the other hand, focussing solely on such policy dynamics is problematic as well, because factors such as party politics working at the country level are easily overlooked. By focussing on how governments' possibilities of justifying retrenchment are shaped by factors at the country level and at the level of social-security schemes, this study has attempted to bridge the gap between a focus on either the country level or the level of social-security schemes.

The third contribution of this study to the retrenchment debate is empirical. As argued by both Alber (1998) and Pierson (2001a), in-depth empirical studies of the scale of retrenchment and the political processes surrounding retrenchment are much wanted within the retrenchment literature. This study, for instance, demonstrates empirically the importance of party competition, including 'Nixon goes to China' logics.

When discussing the implications for the retrenchment debate, a brief comparison with Pierson's (1994; 1996) perspective on the politics of retrenchment also seems wanted since it has very much been the starting point for the entire scholarly debate (cf. Green-Pedersen & Haverland 2002). This study has followed Pierson's claim that the politics of retrenchment are the politics of blame avoidance. However, the implications drawn from this claim are somewhat different. Pierson (*op. cit.*) argues that since the politics of retrenchment are the politics of blame avoidance, governments try to exploit institutionally created possibilities of pursuing his three suggested blame-avoidance strategies. In this study, governments are contended to have more direct ways of overcoming the electoral dangers of retrenchment. If governments are able to reframe the issue of retrenchment into, for instance, one of economic necessity, they are not confined to institutionally created possibilities of implementing retrenchment. Pierson thus underestimates the importance of political dynamics related to party politics and political argumentation, and overestimates the importance of institutional constraints and capabilities.[1]

However, this does not imply that Pierson's three blame-avoidance strategies are irrelevant for studying retrenchment. In both Denmark and the Netherlands, fine examples of Pierson's strategies can be found. In the Netherlands, the compensation strategy is clearly exemplified by the special benefits given to the 'real social minimas'. The current claimants of disability pensions being exempt from most of the effects of the major retrenchment

of the Dutch disability pensions in 1993 is an example of the division strategy. In Denmark, the organisational changes in the disability-pension scheme are a fine example of the obfuscation strategy. The government achieved a significant retrenchment of the scheme for which it did not seem responsible because local governments award disability pensions. Another good example of an obfuscation strategy is the increased means testing in the Danish old-age pension, the effect of which will not become fully visible until old-age pensioners are better off.

Yet, the question is whether the fact that such strategies have been employed can explain variation in retrenchment. An explanation along these lines would require a systematic difference between the two countries in the possibilities of pursuing such blame-avoidance strategies. Dutch governments must have had some possibilities that their Danish counterparts did not. Such differences have not been identified. The Netherlands has actually experienced retrenchments without employment of blame-avoidance strategies. For instance, nominal cuts in benefits in several social-security schemes were implemented twice in 1984. With regard to variation across schemes, one could argue a simple programmatic structure hindering, for instance, the implementation of obfuscated retrenchments to be the reason for the success of the old-age pension schemes. Yet, if one looks at some of the retrenchments implemented in other schemes, they would also have been possible in old-age pensions. For instance, freezing the Danish old-age pension in 1982 parallel to other schemes would have been no problem. Similarly, cutting back benefit levels in the Dutch old-age pension parallel to other schemes would also have been possible.

Examples can be found where unusual opportunities of pursuing these strategies make it possible for governments to implement otherwise politically risky retrenchments. The best example from this study is the retrenchment of the Danish disability-pension scheme. The right-wing governments initiated this process in 1991 at a time when retrenchments with visible effects were politically too risky. Yet in general, Pierson's three blame-avoidance strategies are rather descriptions of *how* governments implement retrenchments than explanations of *why* and *when* it is done. It is hard to imagine a situation where none of Pierson's three strategies of blame avoidance could be used. In this way, Pierson's strategies may in some cases be complementary to the justification strategy suggested in this study. How the Dutch governments provided special benefits to the 'real social minimas' constitutes an example. This compensation strategy made it easier for Dutch governments to claim that the retrenchments were socially fair and not an attack on the principle of solidarity. However, it is difficult to ascer-

tain that certain countries or social-security schemes should be systematically more open to the use of Pierson's strategies than others.

The quibble with any study of just a few cases is the prospect of generalising the results to other cases. To some extent, this is simply a question of applying the theoretical arguments of this study to more cases. However, the question is to which other cases the framework should be applicable.

At the level of social-security schemes, the argument of this study can readily be extended to other transfer payments. However, when it comes to services, extending the argument is less straightforward. Services such as healthcare and care for the elderly have limited connection to the labour market and one should, therefore, expect them to suffer limited retrenchment. However, when studying services, other factors, which are irrelevant in relation to transfers, may become important. For instance, in the Scandinavian welfare states, which have the most extensive services (Huber & Stephens 2000), most services are also the responsibility of local governments. This may provide governments with some very tempting possibilities for indirect retrenchments by pushing on the actual implementation of retrenchments to local governments. This was very much what the Danish governments did in the 1980's when services were retrenched much more than transfers (Green-Pedersen 1999). Such factors may also have played a role for the 'anti-service' strategy of the Swedish and Finish governments during the economic recessions in the 1990's (Timonen 2001, cf. also Clayton & Pontusson 1998).

A further question of generalisation relates to other types of welfare reforms than what have been defined as retrenchment in this study. In other words, could the theoretical framework be used to study restructuring reforms? As argued in chapter 4, a number of restructuring reforms may not be of the same interest to the electorate as the retrenchments studied here. Therefore, the politics around such restructuring reforms may be more dominated by specifically organised interests. Yet, some restructuring reforms can attract broad political interest including the electorate, and ideas contained in the theoretical framework of this study can then be of relevance. For example, market reforms such as contracting out of social services were a major issue in both Denmark and Sweden in the 1990's. However, Sweden has gone further than Denmark in terms of such market reforms and this can be explained by different strategies of the social democratic parties in the two countries, which has led to different framing of the issue (Green-Pedersen 2002b).

The final question of generalisation relates to the country level. Extending the arguments to more countries probably necessitates the inclusion of more

systems of party competition, as not all countries can be considered either bloc or pivot systems. Kitschelt (2001) outlines four models of party competition in his framework for studying retrenchment and party politics. Apart from looking at more countries, the reason why Kitschelt operates with more types of party competition than this study is the inclusion in his framework of factors such as the existence of other political cleavages and intra-party dynamics. Kitschelt thus distinguishes between bloc systems of party competition as the British one and the systems in Denmark and Sweden. In the latter countries, the existence of left-libertarian and right-authoritarian parties affects the strategies of the other parties. It is hard to disagree with Kitschelt that these differences exist. However, when discussing the inclusion of more factors in a theoretical framework, one always faces a trade-off between lucidity and explanatory power. Hopefully, this study has shown that one can understand the party dynamics around retrenchment in countries such as Denmark by analysing them as bloc systems such as the British one. Thus, the argument about party dynamics in bloc systems should also be applicable to a number of Scandinavian and Anglo-Saxon cases. The argument about pivot systems of party competition as the Dutch can be extended to Belgium in particular.[2]

However, if the framework should be applied to cases such as Germany and Austria, including a third type of party system seems necessary, as suggested by Kitschelt (*op. cit.*). This type refers to cases with a strong Christian Democratic Centre Party and a strong Social Democratic Party, but with only a small Liberal Party. Here, the main line of conflict is over socio-cultural issues, not economic ones. Kitschelt argues that such a system should experience the least retrenchment since there is no major party favouring a market-oriented agenda, and because the welfare state is part of a patronage network. From the perspective of this study, two hypotheses about retrenchment in such systems may be advanced. First, they resemble bloc systems with the important qualification that they are bloc systems with a social democratic and a Christian democratic bloc. As the social democratic bloc can be expected to have a stronger degree of ownership of the welfare-state issue than the Christian democratic bloc, something like the 'Nixon goes to China' dynamic in 'normal' bloc systems may exist. The recent, major retrenchment of the German pension scheme enacted by the Social Democratic /Green Coalition may be an example of this (cf. Haverland 2001). Second, in such systems 'grand coalitions' are not uncommon. As suggested by Kitschelt (2001), such 'grand coalitions' will be in a strong position to justify retrenchment.

When discussing generalisation of the arguments of this study, it is also

worth considering to what extent the arguments of this study are influenced by the choice of Denmark and the Netherlands as cases for investigation. This relates especially to the emphasis of this study on government attempts at justifying retrenchment. This can be seen in contrast to Pierson's blame-avoidance strategies, which were more focussed on hiding retrenchment from the electorate and which came out of studying retrenchment processes in the United States and Britain. A possible argument in this context would be that the kind of blame-avoidance strategy governments can apply depends on the type of welfare state they aim at retrenching. Ross (2000c), for instance, links the possibilities of framing the issue of retrenchment to Esping-Andersen's (1990) three worlds of welfare capitalism. Rothstein's (2000) argument about universalist welfare states generating their own public support (cf. chap. 2) can also be used as an argument for the need for public acceptance of retrenchment in universalist welfare states.

Being a borderline case between the universal and corporatist welfare-state regimes, the Dutch welfare state may, however, present somewhat of a puzzle with regard to such arguments. The need to justify retrenchments has been the same as in Denmark. This might suggest that the politics of retrenchment in universalist and corporatist welfare states are not so different. This suggestion can be supported by the findings of survey research, that the attitudes towards the welfare state are fairly similar in the two types of welfare regimes but different from the attitudes in the liberal welfare states (Svallfors 1998; Taylor-Gooby 2001). Instead of linking the politics of retrenchment to the different types of welfare states, it may then be that the need to justify retrenchment stems from both countries being consensual democracies in Lijphart's sense (1999). In consensual democracies, governments can be expected to seek broad political support for controversial reforms, allowing them to justify the reforms. Yet, these are hypotheses needing much further research.

The politics of miracles and the dilemmas of European Social Democracy

As claimed in chapter 1, retrenching social-security schemes is part of a larger process of adjusting the political economies of the rich OECD countries to a changed economic environment. Within the last 20 years, all the rich OECD countries have had to modify their model of welfare capitalism, including social security (cf. Kitschelt *et al.* 1999; Regini 2000; Scharpf & Schmidt 2000a). Yet, these adjustments of macro-economic policy, wage policy, social security, and taxation have put the problem-solving capacities

of the political systems to a severe test, and many countries have found it impossible to implement such adjustments. However, Denmark and the Netherlands are seen as two of the successful adjustment cases (Hemerijck & Schludi 2000), and scholars discuss the Danish and Dutch miracles (Visser & Hemerijck 1997; Schwartz 2001a). The question is how to account for the seemingly high adjustment capacities in the two countries.

Following the new institutional wave within political science (Hall & Taylor 1996; Peters 1998), one way to answer this question would be institutional (cf. Scharpf 2000b). However, providing an institutional explanation for the developments in the two countries is difficult. As outlined in chapters 6 and 7, the two countries showed very limited adjustment capacities in the 1970's and at the beginning of the 1980's, and they could be counted among the fiasco stories in Western Europe in terms of socio-economic policy. With the same basic, political institutional set-up, they were, however, much more successful in the 1990's. Thus, factors other than institutional ones must have been at play.

In this book, the argument has been that a focus on party politics is necessary to understand retrenchment politics. This argument can be extended to socio-economic policy more generally (cf. Green-Pedersen 2001a; b). To understand the development over time in the two countries with regard to socio-economic policy, one needs to look at the development of the party systems in the two countries. As outlined in chapters 6 and 7, the party systems in both countries were in a state of flux in the 1970's. In the Netherlands, this situation was the result of depillarisation reducing electoral support for the Christian Democratic Parties and leading the PvdA to launch the polarisation strategy. In Denmark, the earthquake election resulted in a more fractionalised and polarised party system, and the Social Democrats found themselves in a difficult situation with regard to the trade unions. These party-political factors made political stability around socio-economic policy impossible and the result in both countries was a fumbling socio-economic policy with disastrous results. However, in both countries, the party-systems have stabilised and party competition has produced a party-political consensus around socio-economic policy. In the Netherlands, the consensus emerged in the mid-1980's due to the pivotal role of the CDA. In Denmark, it did not emerge until the Social Democrats regained government power in 1993. This consensus has lead to a stable socio-economic policy including controversial welfare-state retrenchments with apparent successful results.

In search for explanations for the development in the Netherlands, attention has been drawn to such factors as Dutch consensus culture (Becker

2001) and policy learning (Visser & Hemerijck 1997). From a consensus-culture perspective, the development over time is, however, problematic. In neither of the two countries did a political consensus about adaptations come about simply because new challenges appeared. The success stories of Denmark and the Netherlands are not the result of small countries forced to agree internally to meet the challenges of a more hostile economic environment. As argued above, the political consensus that eventually has emerged in both countries is the result of the strategic interaction of the political parties. With regard to policy learning, arguing that policy markers in both Denmark and the Netherlands have learned from their mistakes with regard to socio-economic policy seems plausible. However, such an argument cannot stand alone as explanation for the development in the two countries. Why did policy learning seemingly occur in the Netherlands and perhaps also in Denmark, but not in many other countries? The developments over time are also difficult to explain from such a policy-learning perspective. Why did policy learning apparently happen later in Denmark than in the Netherlands? Yet, the argument about party politics might be complementary to the arguments about policy learning. It may be exactly the political consensus created by party competition that has made policy learning possible.

As indicated above, a specific focus on the Social Democratic Parties in the two countries is also necessary to understand their 'miraculous' development. The support from Social Democratic Parties has been crucial in order to secure the party-political consensus around controversial reforms. At the same time, the changed economic environment of the mature welfare states put the Social Democratic Parties under specific pressure. This undermined traditional Keynesian policies, which had served as the basis for Social Democratic strategies in the post-war period. This became evident in both countries with the failed socio-economic policy in the 1970's, which came to be seen as the fault of the Social Democratic Parties. Today, Social Democratic Parties in both countries have entered a 'third way' course (Green-Pedersen, van Kersbergen & Hemerijck 2001), and this has been crucial for the political consensus behind socio-economic policy in the two countries. This study explains the sequences of changes within the two countries. These sequences have been shaped by the strategic situation of the parties in terms of regaining office as outlined in chapters 6 and 7 (cf. also Green-Pedersen & Kersbergen forthcoming).

Altogether, party politics matter. Analysing the strategic interaction of political parties is a must for anyone aiming to understand why and how countries such as Denmark and the Netherlands have been able to respond

successfully to the challenges their models of welfare capitalism. This is also the main message of this study and political science in general. Studies of public policy rarely focus on political parties and when they do, they focus on the 'does politics matter' question. However, as suggested by this study, there may be other ways to look at party effects on public policy. The way parties compete and interact may have strong effects on public policy.

Appendix

This appendix first provides some further comments on the operational definition of retrenchment. It then explains how the budgetary figures have been calculated. Finally, it provides two examples of such calculations.

First, not all of the changes implemented in the social-security schemes studied are retrenchments. There are several examples of improvements of the schemes and these have been included and studied in the same way as retrenchments. Not including improvements would have lead to very misleading conclusions about differences in extent of retrenchment.

Second, a retrenchment can be made up of more than one single change in a social-security scheme. A number of changes may be tied together, all of which are not necessarily retrenchments. Therefore, the overall impact of changes carried through as one has been used as the baseline. This implies that a retrenchment, which is part of an overall expansion of a social-security scheme has not been analysed as a retrenchment. Consequently, changes in a social-security scheme altering the distribution of benefits between groups and of which the overall budgetary impact is zero have also not been considered retrenchment, notwithstanding the fact that such changes may have imposed considerable losses on some groups of claimants. Such changes are more appropriately viewed as a restructuring reform with greater targeting.

Third, budgetary implications in relation to changes in one social-security scheme may affect another social-security scheme, and this must be taken into account. Significant cutbacks in one social-security scheme are not likely to be of much interest to the electorate if they are simply compensated by improvements in another scheme. Therefore, when calculating the figures, the effects on other schemes have been taken into account.

A related problem is to delimit social-security schemes from the tax system. Almost all of the social-security benefits examined in this study are taxable income, so the effects of retrenchment will partly be offset by the tax system.[1] Yet, such effects have generally been disregarded for three reasons. First, due to the complexity of the tax systems in the two countries, a calcu-

lation of net-effects is almost impossible. Second, the disturbing effects that this may have for the conclusions concerning retrenchment seem limited, as almost all the benefits are taxable income. Third, the budgetary implications have been used as a way of measuring change in a social-security scheme, but not in order to examine the impact on government finances or the economy. Nor does the study aim at measuring the change in living conditions of the claimants. However, sometimes changes in social-security schemes are so closely linked to changes in taxation that disregarding the latter would lead to very counterintuitive conclusions. In those cases, such effects have been included. For instance, the taxation of the Danish national pension was changed in 1993. This implied a large increase in benefits, which was mostly offset by increased taxation. In this case, disregarding the tax system would have implied misleading conclusions about improvements.

Fourth, many changes do not have immediate consequences, but are implemented gradually over many years. This is one of the reasons why macro-level approaches are problematic. As for the micro-approach used in this study, which years to use as the basis for evaluating changes is the question. Delaying the consequences of changes is one possible retrenchment strategy. In order to take this strategy into account, the changes as fully implemented have been studied. When considering the actual budgetary implications, the focus has been on the first year in which the changes are fully implemented (cf. also below).[2] The expected spending consequences have been evaluated by analysing their budgetary consequences had they been fully implemented the year they were passed in parliament. This also helps in keeping inflation and the unemployment rate at a constant level.

Fifth, minor adjustments of social-security schemes are frequent but not necessarily of much interest. To avoid having to report and analyse a countless number of small adjustments, a 1% bottom line has been applied, thus disregarding changes with likely budgetary consequences of less than 1%. A caveat here is that one possible retrenchment strategy is to implement a large number of such small adjustments and in this way achieve significant retrenchment. Therefore, it has been checked that there has been no implementation of a number of such small changes in one direction, improvements or retrenchments. This has not been found to be the case in relation to any of the selected schemes.

How to calculate budgetary consequences

Estimations of the *likely* budgetary consequences are calculated as follows. When changes are fairly uncomplicated and the necessary data available, estimations have been made by the author himself. The data used for these calculations have mainly been statistics documenting how the schemes work. In some situations, research into the functioning of the schemes has been included as well. When it was not possible for the author himself to make the estimations, estimations from the parliamentary inquiries were applied. The use of these figures raises several questions that must be addressed. A significant objection is that figures from the government have often proved wrong and unreliable. This may be the case for two separate reasons. First, the figures may prove wrong simply because there is great uncertainty involved in estimating the effects of certain changes, that is reliability problems. Second, the figures may prove wrong because they were never intended to be right in the first place. They may simply be part of the government's strategy in relation to retrenchment. This second point is the most important one since its implication is that the government figures are systematically misleading, or that their validity is questionable.

To some extent, there is a problem with validity. However, it should not be overestimated. It is not obvious whether governments should be interested in over- or underestimating the budgetary consequences of retrenchments. On the one hand, an underestimation may be part of a strategy to ease the political outcry in connection with retrenchment. For example, the government may want to underestimate the number of people affected by a certain retrenchment. On the other hand, retrenchment is often part of a budgetary process where the government wants to show a balancing budget or a limited deficit. Along this line, the government could be interested in overestimating the effects of a retrenchment. Furthermore, budget estimations are part of the parliamentary reading of a bill, and this puts certain limits on the possible manipulation of the figures. Thus, it is unlikely that the government will intentionally submit outright false figures. If this were to become public, it would cause severe trouble for the minister and perhaps cost him or her their job. Hence, in situations where the calculations are fairly straightforward, it seems unproblematic to use government estimations. Complications arise when the estimations require 'prudent judgments'. In such situations, there is room for government manipulation, even though the direction of such manipulation is not quite clear.

Summing up, there may be problems in both reliability and validity when applying government budget estimations. This is why they have been used

only as a second solution where calculations are impossible. Furthermore, whenever possible, the figures have been checked against actual expenditure figures (see below). Finally, during the parliamentary readings and debates in parliamentary committees, the figures are to some extent scrutinised. This may happen through questions from MP's or approaches from interest groups, and may force the government to re-evaluate its figures, or to make public the assumptions on which the figures are based. Whenever parliamentary documents show that such processes have taken place, the results have been taken into account.

Estimations of the *actual* spending consequences have been calculated in two ways. Whenever there is data making it possible to analyse very precisely the consequences of a certain change, these figures have been applied. Whenever this strategy is not possible, aggregate expenditure figures have been used. In the first year in which the changes have been fully implemented, spending has been compared to the spending in the year in which the changes were passed in parliament. The former figures have been corrected for the development of factors such as the number of unemployed, the level of inflation, demographic changes, etc. Using the aggregate expenditure figures raises problems identical to the ones implied by a macro-approach. Thus, there are a number of situations where it was impossible to estimate the actual spending consequences. First, when the changes have not yet been fully or even partly implemented. Second, when the changes aim at reducing the number of claimants. The reason is that it is impossible to separate the effects of, for instance, changes in unemployment from changes in eligibility rules for unemployment benefits. Third, small changes in the schemes can be very difficult to trace in aggregate spending figures, especially if they are implemented gradually over a number of years. Therefore, unless specific statistics exist, there has been no attempt at measuring the actual budgetary consequences of changes with an estimated impact of 2% or less.

In the following, two examples of the calculations of the two spending measures will be given.

The first example is from the Danish old-age pension: L 119 (1986-1987) eased the income testing of a number of schemes that provided benefits for the elderly (home help, personal care, etc.). In relation to the old-age pension, the law eased the income testing of the pension supplement.[3] This change was to be implemented gradually from 1991 to 1995. Estimations from the parliamentary readings of the proposal show increased expenditure in 1995, in 1986 prices, of DKK 810 million (Folketinget, *Folketingstidende* B 1986-1987: 2430). However, this figure covers both increased expenditure in relation to the old-age pension and to the disability pension.

Based on figures for the payment of the pension supplement in January 1987 (Danmarks Statistik, *Statistiske efterretninger, Social Sikring og Retsvæsen* 1988: 8, 11), it can be estimated that 72% of the people who received the pension supplement were old-age pensioners. Thus, an estimation of the extra expenditure on the old-age pension is DKK 607 million in 1987 prices.[4] This equals 2.1% of the total costs in 1987.

The actual rise in expenditure can be estimated in the following way. First of all, it must be taken into account that L 168 (1987-1988 1. Session) hastened the implementation and further eased the income testing. Thus, changes were already fully implemented in 1993. It is possible to calculate the number of pensioners who received the full and those who received a reduced pension supplement in 1987 and 1993 (Danmarks Statistik, *Statistiske efterretninger. Social Sikring og Retsvæsen* 1988: 8, 11; 1993: 14, 18). The number of pensioners who received the full supplement rose from 48% in 1987 to 69% in 1993, whereas the number who received the reduced supplement decreased from 18% to 12%. It has then been calculated what the extra expenditure on the pension supplement would have been in 1987, if the changes had already been fully implemented in that year. When applying the average between, on the one hand, the supplement for single pensioners and pensioners married to non-pensioners, and, on the other hand, the supplement for pensioners married to other pensioners (DKK 7.032), and assuming that pensioners who have their supplement reduced have it reduced by 50%, the extra costs in 1987 are estimated at DKK 858 million, which equals 3.0% of the total expenditure in 1987. The expected extra expenditure was only DKK 607 million. However, L 168 not only hastened the easing of the income testing, it also eased the income testing further. The expected extra expenditure from this was DKK 213 million. When subtracting the DKK 213 million from the DKK 858 million, the actual rise in expenditure is DKK 645 million, which equals 2.3% of the total expenditure in 1987. This figure comes close to the expected 2.1%.

The second example is taken from the Dutch disability-pension scheme. In 1994, it was decided to freeze benefits in the scheme for 1995. The expected budgetary consequences equal the rate of inflation (see Green-Pedersen 2000: 213-214), which was 2.8% in 1994. The actual spending in 1995 was NLG 7.372 billion. The number of claimants dropped from 909,000 in 1994 to 873,000 in 1995. Corrected for this drop, the expenditure in 1995 equals NLG 18.088 billion, deflated with the rate of inflation in 1994 of 2.8%, this equals NLG 17.595 billion. As total expenditure in 1994 was NLG 18.199 billion, this implies a decrease in expenditure of 3.3%. This is fairly close to the expected savings of 2.8%, which, consequently, seems a reliable estimation.

Summary

This book is an investigation of retrenchment in Denmark and in the Netherlands during the period 1982 to 1998, focussing on retrenchment of old-age pensions, unemployment benefits and disability pensions/early- retirement benefits. The general aim of the book is to contribute to the scholarly debate about welfare-state retrenchment in a number of ways. The main aim is to add to the knowledge of the factors causing variation in retrenchment between countries and across social-security schemes. Here, the argument of the book is that politics is the main factor causing variation. In this way, the book differs from most other writings on retrenchment that follow the new institutional wave within political science in general, highlighting the role of institutional factors. An additional aim of the book is to add to the empirical knowledge about retrenchment. As argued by Alber (1996: 3), '… systematic studies of retrenchment processes in a comparative perspective are still thoroughly missing.' This book aims at filling a small part of that vacuum.

However, this book should not only interest scholars engaged in the debate about welfare-state retrenchment. Welfare-state retrenchment is part of the broader effort of Western governments to adjust their models of welfare capitalism to a new economic environment. Welfare-state retrenchments are probably the most controversial part of this effort, and this book therefore contributes to the understanding of different country's capacity to adjust their models of welfare capitalism. Further, Denmark and the Netherlands have come to be seen as two of the success stories with regard to this adjustment process. Scholars are thus debating both a Dutch and a Danish miracle (cf. Visser & Hemerijck 1997; Schwartz 2001; Green-Pedersen 2001). The book draws attention to the role that party politics has played in the adjustment processes within the two countries. This includes both the development of the party systems in the two countries and the situation of the Social Democratic Parties. The discussion of the latter factor also contributes to the wider debate about the dilemmas of European Social Democracy.

Before presenting a brief overview of the book, it is worth spelling out the main arguments.

The arguments in brief

In its briefest form, the theoretical argument of this book is that politics matter for welfare-state retrenchment. But what does that mean, politics matter? This claim consists of two parts. First, the argument is that governments' possibilities of implementing retrenchment measures are crucially dependent on their capabilities of justifying the measures in the eyes of the electorate. If voters consider retrenchment measures unfair or driven by hidden ideological motives, they are likely to punish governments at the polls. In this way, as Pierson (1994) argues, the politics of retrenchment are the politics of blame avoidance. Instead, governments must convince the electorate that they are retrenching the welfare state to improve its financial viability or to remedy some of the policy failures that may follow from it. The question then is which factors determine governments' capabilities of justifying retrenchment measures?

Two linked factors relating to party politics produce variation between countries because they shape governments' capabilities of justifying retrenchments. First, the electorate has certain standard views of political parties. Parties of the left are expected to focus on social justice and to support the welfare state, whereas parties of the right are expected to concentrate on keeping down taxation and other issues such as economic management. Christian-Democratic Center Parties fall in between. In addition, they have a reputation for political compromise and social accommodation that may facilitate the justification of retrenchment measures. These standard views of political parties influence the electorate's judgment of the political parties' arguments concerning retrenchment. They are much more likely to accept the left-wing parties' attempt at justifying retrenchment than they are to accept arguments from right-wing parties. In the latter case, they tend to believe that there are hidden ideological motives. Second, the way political parties compete affects governments' possibilities of justifying retrenchment measures. What governments need in order to be successful with their justification strategy is a party consensus in the sense that no other major party attacks their strategies of justification. Whether or not such a consensus emerges depends on the system of party competition and the party-color of the government. In bloc systems of party competition, a consensus emerges only if the left-wing bloc holds office. Bloc systems are

systems where a left wing and a right-wing bloc compete over government power by seeking as many votes as possible. The reason for this dynamic in bloc systems is that due to voters' standard expectations of political parties explained above, the right-wing bloc has no votes to gain by attacking a left-wing government for retrenchment. Pivot systems of party competition are systems in which a center party, often a Christian Democratic one, is pivotal as it can determine whether it wants to govern with the major left or right-wing party. Such a system produces a party consensus on retrenchment when the center party opts for retrenchment because the left-wing party then has to accommodate the center party if it wants to gain office. The factor argued to cause variation across social-security schemes is the degree of connection to the labour market of different social-security schemes. This factor first affects governments' options for justifying retrenchments. For instance, retrenching unemployment benefits can be justified by arguing that generous unemployment benefits encourage passivity. Further, the economic incentives to retrench schemes with close connection to the labour market are greater.

Generally, the developments in Denmark and in the Netherlands during the period 1982 to 1998 support the arguments. The book thus offers an explanation why, despite a number of similarities between the two countries, more retrenchment has been implemented in the Netherlands than in Denmark. They both have very extensive and popular welfare states with fairly similar institutional characteristics; they have faced basically the same macro-economic challenges in this period, and have quite similar macro-political institutions. The difference in systems of party competition, bloc system in Denmark vs. pivot system in the Netherlands, explains the variation between the two countries. The argument also offers an explanation why more retrenchment has been implemented in Denmark after 1993 than during the period 1982 to 1993: Denmark has been governed by social democratic-led governments since 1993. Finally, the theoretical argument also provides an explanation as to why old-age pension schemes have experienced the least retrenchment in both countries; when governments in both countries started focussing on fighting inactivity, old-age pension schemes were out of focus because of their more limited connection to the labour market.

The structure of the book

Chapter 2 is devoted to giving a review of the literature on welfare-state development. The main focus is on the literature concerning welfare-state retrenchment. However, to make sense of this latter debate, a short introduction to the debate about the growth of the welfare state is also provided. Concerning the literature on welfare-state retrenchment, the focus will be on arguments about variation across social-security schemes and between countries.

Chapter 3 sets up a theoretical framework for governments' choices about retrenchment. The main argument within this framework is the one presented above. That is, several factors cause variation in retrenchment because they affect governments' possibilities of justifying retrenchment in the eyes of the electorate. In addition, the chapter also argues that office- and vote-seeking governments are prompted towards welfare-state retrenchment by economic factors.

Chapter 4 has two main aims. The first aim is to justify the choice of cases, that is the choice of countries, social-security schemes and time period. Second, the chapter outlines the theoretical and operational definition of retrenchment used in this book. Here it is worth emphasising that the book builds on a fairly narrow theoretical definition of retrenchment as another word for cutting-back or scaling-down social-security benefits.[1] The chapter ends by deriving 6 hypotheses about the scale of retrenchment to be expected in the two countries.

Chapter 5 uses the definition and operationalisation of retrenchment presented in chapter 5 to evaluate changes in old-age pensions, unemployment benefits, and disability pensions/early retirement benefits in Denmark and in the Netherlands from 1982 to 1998.[2] The chapter then summarises the variation in retrenchment identified and discusses to what extent it matches the hypotheses derived in chapter 4.

Chapters 6 and 7 provide in-depth case studies of the politics of welfare-state retrenchment in the Netherlands and in Denmark, focussing mainly on the period 1982 to 1998. The aim of these case studies is to explore to what extent the causal mechanisms surrounding retrenchment actually are the ones suggested in chapter 3. What is provided in chapter 5 is basically correlation evidence for the theoretical argument; that is the correlation between the predicted and the actual welfare-state retrenchment. Yet, the question remains whether the variation has actually come about for the reasons suggested in chapter 3.

Chapter 8 first summarises the results of the two different types of empiri-

cal evidence for the theoretical argument; that is both the correlation evidence and the in-depth case studies. The chapter then continues with a discussion of a number of alternative explanations for the variation in retrenchment identified in chapter 5. The point is whether the theoretical argument of this book can explain more of the variation in retrenchment than other theoretical arguments.

Finally, chapter 9 summarises the entire book and tries to draw some lessons from it at two levels. First, the lessons for the retrenchment debate will be discussed. Then the chapter moves on to discussing the broader issue of the two country's apparent success in adjusting their models of welfare capitalism to a changed economic environment.

Notes

Notes Chapter 1

1 More information about the operational definition and examples of its use can be found in appendix 1.
2 These evaluations of the different schemes are based on figures measuring expected and actual budgetary consequences. The calculations behind the figures are reported in Green-Pedersen 2000 and are available at www.ps.au.dk/greenp or via email at cgp@ps.au.dk.

Notes Chapter 2

1 For a comprehensive review, see van Kersbergen (1995: chap. 2).
2 That Christian Democratic Parties have played an important role in the expansion of welfare states within Continental Europe is not unrecognised by the power-resources theory (e.g. Esping-Andersen 1990: 38-41). However, Social Democratic Parties are still considered 'the true proponents' of the welfare state (cf. van Kersbergen 1995: 23-26).
3 The two debates have generally not been connected. Thus, studies focussing on variation across social-security schemes have generally neglected variation among countries and vice versa.
4 An additional type of economic argument would be arguments about globalisation. Such arguments have mainly been put forward by economists (for an overview, see Swank 2002). Generally, political scientists have not found much effect from globalisation on the welfare state (Rhodes 1996; Garrett 1998; Pierson 2001b; Castles 2001).
5 As discussed above, this argument can also be applied to variation across social- security schemes.

Notes Chapter 3

1 The 'popular entrenchment' of the welfare state is well documented by survey research. Ferrera (1993), Papadakis & Bean (1993), Svallfors (1998), and Taylor-Gooby (2001) provide comparative evidence. For research on Denmark and the Netherlands, see chapter 4.
2 This should not be misunderstood as an argument that retrenchment is a direct effect of 'globalisation'. The changed economic environment of mature welfare states has to do with both international and domestic forces and the exact role of the different factors is a debated issue (cf. Garrett 1998; Pierson 1998, 2001b; Scharpf 2000c; Schwartz 2001b). Furthermore, changes in the economic environment should not be exaggerated. There is little evidence that a generous welfare state is generally incompatible with economic growth, high employment, etc. (Scharpf 2000c). Yet, the changed economic environment does seem to imply that governments have had to consider the welfare state's implications for the economy much more carefully.
3 The notion of a centre party is often unclear. In this study, a 'centre party' refers to a party located in the centre position on the left-right scale. In theory, a centre party can thus be the party furthest to the left or right in a party system (cf. Hazan 1997: chap. 2).
4 Both Kitschelt (2001) and Laver & Hunt (1992) discuss four systems of party competition, although not the same four systems. In this context, focussing only on bloc vs. pivot systems has been chosen because they can be seen as the two basic models. Other models of party competition will be discussed in chapter 9.
5 A bloc may consist of just one party. This is of minor importance for the following analysis.
6 As shown by Keman (*op. cit.*), pivot parties are often Christian Democratic Parties.

Notes Chapter 4

1 This description refers to the Social Liberals and after 1973 to the Centre Democrats, and the Christian People's Party.
2 The CDA is the result of a merger completed in 1980 between three Christian Democratic Parties; KVP, ARP, and CHU.
3 In both countries, parties further to the left and to the right of the abovementioned parties have been represented in parliament.

4 The purple government (PvdA, VVD, and D66) governing from 1994 to 2002 was a major innovation in Dutch politics and was a break from the pivotal position of the CDA in Dutch politics. Therefore, these governments and their policies will be discussed in detail in chapter 6.

5 Due to a lack of figures for both countries, several indicators are reported only for the period 1982-1998.

6 This measure is included because there is a significant element of 'hidden unemployment' in many social-security schemes. The measure is based on the OECD definition of broad unemployment as people of working age receiving social-security benefits or having subsidised employment (OECD 1998: 33). The figures for the Netherlands have kindly been provided by Paul de Beer, Sociaal en Cultureel Planbureau, cf. also Sociaal en Cultureel Planbureau, *Sociaal en Cultureel Rapport* (1998). The Dutch figures include people receiving unemployment benefits, social assistance, disability pension, early-retirement benefits (VUT), or having subsidised employment as a percentage of the broad labour force, that is employed people plus broad unemployment. The Dutch figures cover the age group 15-64. The figures for Denmark show people receiving unemployment benefits, social assistance and rehabilitation, disability pension, early-retirement benefits and transitional allowance, leave allowances and people taking part in active labour-market measures as a percentage of the broad labour force. Unfortunately, applicable figures for active labour-market measures are not available before the labour market reform in 1993. Thus, the figures for Denmark before 1994 underestimate broad unemployment slightly. The figures for the years 1987-1998 are from Danmarks Statistik, *Statistisk tiårsoversigt* (1999; 2000). The figures for the years 1984-1986 have been provided by Danmarks Statistik. Unfortunately comparable figures for the years 1982-1983 are not available, mainly due to the way statistics on social assistance were organised. The figures for Denmark cover the age group 18-66.

7 In indices constructed by Schmidt (1993) and Colomer (1996), Denmark and the Netherlands thus have identical scores. In the index constructed by Huber, Ragin & Stephens (1993; 1997), Denmark scores 0 while the Netherlands scores 1. This difference is due to Dutch bicameralism.

8 In a re-examination of his analysis, (1999: 73-94), Esping-Andersen finds that both Denmark and the Netherlands cluster as universalist (social democratic) welfare states.

9 The difference in social expenditure has to do with the service side of the welfare state, see below.

10 As will be discussed in chapter 6, the organisation and to some extent the financing of social security in the Netherlands were drastically changed during the second half of the 1990's. The description below covers the situation before these changes.
11 Only public social-security schemes will be dealt with. Private or occupational social-security schemes are beyond the scope of this study. As argued by Pierson (2001a), the reason is that including private or occupational welfare turns the concept of 'the welfare state' into a multi-dimensional phenomenon making comparative investigations extraordinarily difficult.
12 The Netherlands has no public superannuation or second-tier earnings-related pension scheme. In Denmark, one, *ATP*, was introduced in 1964. Yet, contributions and benefits are so modest that the scheme can be ignored (Myles & Pierson 2001).
13 Green-Pedersen (2002a) contains a review of the 'dependent variable' debate and pursues the argument about the theoretical nature of the problem further.
14 Chapter 5 contains a discussion of the meaning of 'sweeping'.

Notes Chapter 5

1 The following necessarily excludes many details about the schemes and the changes in them. Anyone interested in these details should consult Green-Pedersen 2000 and the specialised literature cited.
2 Due to a lack of space, changes with expected budgetary consequences of less than 1% are not reported in the tables.
3 The calculations behind the figures are reported in Green-Pedersen 2000, which can be obtained at www.ps.au.dk/greenp or by writing an email to cgp@ps.au.dk.
4 The following descriptions of the social-security schemes are written in the past tense to indicate that this was the structure of the schemes in 1982. The use of the past tense does not necessarily imply that the rules have changed.
5 Apart from the law (*lov om folkepension*), the following description is based on Vesterø-Jensen (1985) and Jørgensen (various years [b]).
6 Where nothing else is indicated, all figures are from: Danmarks Statistik, *Statistiske efterretninger, Social sikring og Retsvæsen* (various years).
7 Two additional minor retrenchments have taken place. Income testing for the basic amount for pensioners aged 67-69 was passed in 1982.

Since the income testing only related to considerable earnings from work, the budgetary implications were, however, very small; equal to 0.6% of the total expenditure in 1982. In 1993, the income-test was extended to all pensioners. Once more, the budgetary effects were very limited; equal to 0.4% of the total expenditure.

8 These changes will be discussed in connection with the disability-pension scheme and the early-retirement scheme.

9 This will happen for two reasons. The number of people with private pensions is rising, and, starting in 1991, the prevalence of occupational pensions has increased dramatically (Arbejdsministeriet/Finansministeriet 1995: 57-69; Nielsen, F. 1996).

10 The following draws on Landelijk Instituut Sociale Verzekeringen (1998), and Voorlichtingscentrum Sociale Verzekering (various years).

11 Benefits were actually frozen from 1982 to 1989. In the years not reported in Table 11, the effects were negligible due to the very low level of inflation. The positive budgetary effects for two years are partly the result of finding a consistent way of measuring the effects (see Green-Pedersen 2000: 213-216).

12 This change was necessary to fulfil the third EU directive on equal treatment of men and women.

13 Apart from the law (*lov om arbejdsløshedsforsikring*), the following draws on Ploug *et al.* (1992), Brüniche-Olsen (various years), and Hansen & Jørgensen (various years).

14 Early-retirement benefits, which were also administered by the funds, and unemployment benefits were financed together, so member and employer contributions were contributions to both schemes (see below).

15 The following draws on Landelijk Instituut Sociale Verzekeringen (1998) and Voorlichtingscentrum Sociale Verzekering (various years).

16 Benefits were actually frozen through 1989, but due to the level of inflation, the budgetary consequences were limited.

17 Apart from the law, the following draws on Winter (1980) and Jørgensen (various years [a]).

18 In the spring of 2001, a new Disability-pension Act was passed. This law changed the criteria for awarding benefits by introducing a new work-capacity criterion. The idea is that a significant number of disability pensioners have unexploited work capacity, and that they should rather be in partly subsidised jobs than receiving passive benefits. The law thus expects fewer claimants. At the same time, only one type of benefits will exist, which for many claimants will be a considerable improvement. Thus, the government's long run budgetary expectation is an expansion of 7%. However, the estimations are highly uncertain.

19 Apart from the law, the following draws on Hansen & Jørgensen (various years).
20 After the freeze ended, benefits were indexed following parliamentary decisions each year.
21 The following draws on Aarts & de Jong (1990; 1996a; 1996b) and Voorlichtingscentrum Sociale Verzekering (various years).
22 This was a motion put forward in parliament by Frits Bolkestein, the leader of the VVD.
23 As part of this change, the AAW was abolished, and instead, special schemes were set up for the groups not covered by the WAO scheme.
24 The future effects of enhancing the importance of means testing within the scheme will modify this result somewhat.
25 Here, and in the following, substantive conclusions will not be based on differences in extent of retrenchment smaller than 5%.
26 The restructuring reforms were initiated under the right-wing governments, yet intensified by the social democratic-led governments after 1993.

Notes Chapter 6

1 Apart from the source quoted in the text, the investigation draws on: 1) a survey of two major newspapers at a number of central moments. The centre-left 'de Volkskrant' and the liberal 'NRC Handelsblad'; 2) Keesings Historisch Archief (various years and issues); 3) five semi-structured, anonymous interviews with leading politicians; 4) parliamentary debates and other parliamentary documents; 5) various party documents, such as election programmes, Green Papers, etc.; 6) miscellaneous documents, that is coalition agreements, published speeches, etc. In addition, whatever relevant secondary literature was found has been included, especially Metze (1995), Rigter *et al.* (1995), Visser & Hemerijck (1997), and Hemerijck, Visser & Unger (2000).
2 'Parliament' refers to the second chamber (*Tweede Kamer*).
3 This party had democratic reforms of Dutch politics as its main issue. In relation to socio-economic issues, the party is a centre party, yet generally to the left of the CDA (Andeweg & Irwin 1993: 50-78).
4 The PPR was a splinter party from the KVP. The KVP and ARP only supported the government half-heartedly. Members of their parliamentary groups publicly declared that they did not support the government (Gladdish 1991: 52-54).

5 The decline of the denominational parties was also less important as they had most often opted for oversized coalitions (cf. Andeweg & Irwin 1993: 119).
6 These cutbacks were, however, removed when the level of benefits was reduced to 70%.
7 The government spent around nlg 200-400 million per year (cf. for instance Tweede Kamer der Staten-Generaal 1982-1983: 17976; 1983-1984: 18506; 1984-1985; 19026).
8 The PvdA demanded a re-negotiation of the agreement with the U.S. concerning the deployment of 48 cruise missiles in the Netherlands.
9 However, as shown in chapter 4, broad unemployment is not much different in the two countries.

Notes Chapter 7

1 Apart from the sources quoted in the text, the investigation into the following draws on: 1) A survey of two major newspapers at a number of central moments; the social-democratic oriented 'Politiken' and the right-wing 'Jyllands-Posten'; 2) five semi-structured, anonymous interviews with leading politicians and political advisers; 4) parliamentary debates and other parliamentary documents; 5) various party documents and governmental publications such as election programmes, Green Papers, etc.; 6) 'Avisårbogen', an annual of political events based on newspaper articles. In addition, whatever relevant secondary literature was found, especially Bille (1998), has been used.
2 The shift of strategy is also detectable in socio-economic policy more generally (cf. Green-Pedersen 2001a).
3 Thus, the party supported a budget for the first time (Christiansen 1994).
4 An element in the tax reform was the conversion of all benefits in social assistance and the old-age pension into taxable income, the latter including the increased importance of means testing within the scheme.
5 The Liberal Conservative government that took office after the election in November 2002 has shown no intention of welfare-state retrenchment and has actually expanded the welfare state.

Notes Chapter 8

1 Also compared to other Continental European countries, the large number of 'disabled' in the Netherlands does not imply that inactivity, as a result of people receiving social-security benefits, is generally higher (cf. Hemerijck 1999: table 1).
2 It is possible to argue that the Netherlands needed to retrench more because the country needed fiscal room for following the Scandinavian way of solving the employment problem, namely by creating jobs in public welfare services. However, the Netherlands has not expanded public welfare services (Visser & Hemerijck 1997).
3 In chapter 4, differences between Denmark and the Netherlands were also identified with regards to the programmatic structure of their welfare states. However, the theoretical arguments presented in chapter 2 would predict these differences, e.g. financing through social contributions and involvement of social partners in the administration of benefits, to lead to less retrenchment in the Netherlands than in Denmark, not to more as has been found in this study.
4 The recent, partial privatisation of the scheme has of course reintroduced employer financing, albeit in a different form.
5 This reaction of the trade unions further substantiates why it is politically easier for Social Democratic Parties to carry through retrenchment measures.

Notes Chapter 9

1 In his most recent publication (Pierson 2001a), Pierson has paid more attention to politics.
2 The language cleavage in Belgium may be so strong that basing an analysis solely on the socio-economic divide may make little sense. Hemerijck & Visser (2000) argue that this cleavage has overshadowed other problems.

Notes Appendix

1 Parts of the Danish disability pension are not taxable. In principle, the Dutch old-age pension is taxable income; yet, special rules imply that

old-age pensioners pay limited income tax and social contributions. The Danish old-age pension is taxable income. However, special tax-rules implied that single pensioners with no other income paid no taxes. This rule was changed in 1993.

2 A problem that can only be taken into account in a few cases is that the effects of certain retrenchments may change once the context changes, for instance, the demographic structure.

3 The Danish old-age pension is described in chapter 5.

4 DKK 583 million in 1986 prices.

Notes Summary

1 More information about the operational definition and examples of the use of it can be found in appendix 1.

2 These evaluations of the different schemes are based on figures measuring expected and actual budgetary consequences. The calculations behind the figures are reported in Green-Pedersen 2000 available at www.ps.au.dk/greenp or via email cgp@ps.au.dk.

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Index

Aarts, Kees 102, 106
Aarts, Leo J.M. 84, 170
AAW (*Algemene arbeidsongeschiktheidswet*) 11, 49-50, 83-84, 86, 95, 106, 170
Active labour market policy 59, 76-77, 124-128
Activation 26, 59, 73, 126
Agenda setting 33-34, 108
Alber, Jens 14, 19, 25-26, 58, 60, 89, 138, 145, 159
Alberda, Wim 95
Amenta, Edwin 21
Andersen, Jørgen Goul 34, 48, 116, 118-119, 124, 127, 129
Anderson, Karen 25-26, 139
Andeweg, Rudy 44, 46, 93-94, 108, 170-171
Andriessen, Frans 95
Anker, Hans 95, 106
AOW (*Algemene ouderdomswet*) 11, 49-50, 68, 105, 107-109
Arbejdsløshedsdagpenge 48-50
Arbejdsministeriet 127
Arbejdsministeriet/Finansministeriet 169
Arnold, Douglas R. 25
ARP (*Anti Revolutionaire Partij*) 11, 94, 166, 170
Auken, Svend 120, 122
Austria 89, 148
Avisårbogen 113-114, 116, 119, 121, 171

Baldwin, Peter 21
Bannink, Duco 74, 86
Baumgartner, Frank R. 33
Bean, Clive 166
Becker, Uwe 150
Belgium 148, 172

Benschop, Dick 105
Bijlsma, T. 48
Bille, Lars 112, 119-124, 126-127, 171
Birchfield, Vicki 22, 28
Blame avoidance 9, 14, 23-25, 32-39, 41, 61, 91, 107-110, 129, 131, 145-146, 149, 160
Bloc system 15-16, 37-39, 41, 48, 62, 107, 128, 143, 148, 160-161
Bolkestein, Frits 170
Bonoli, Giuliano 28, 61
Boos, Cees 70
Borchert, Jens 29, 144
Borre, Ole 116, 120-122, 124
Brinkman, Elco 98, 105
Britain 13, 149
Brüniche-Olsen, Paul 169
Budge, Ian 35
Budget agreement 117, 120-121, 127-138
Budgetary 32, 60-62, 66-88, 117, 153-156, 165, 168-169, 173
Buurmeijer, Flip 104

Cameron, David 19
Castles, Francis G. 20-21, 27, 29, 89, 165
CD (*CentrumDemokraterne*) 11, 51, 111, 113, 120, 122-124, 126, 137
CDA (*Christen Democratisch Appèl)* 10-11, 44, 51, 62-63, 93-96, 98-102, 104-109, 132-133, 150, 166-167, 170
CDA (1991) 103
CDA (1998) 107
Centre Parties 15, 43, 94, 107, 111, 123-124
Centraal Bureau voor de Statistiek 68, 83-84, 86
Child Allowance 40, 106, 116, 118
Christensen, Jacob 111-112
Christian Democratic 15-16, 21-22, 29, 36-41, 44-46, 95, 98, 107, 134, 148, 150, 160-161, 165, 166
Christian People's Party 51, 111, 120, 124, 126, 166
Christiansen, Flemming 80
Christiansen, Søren L. 116, 120, 171
CHU (*Christelijk-Historische Unie*) 11, 94, 166
Clasen, Jochen 59
Clayton, Richard 58, 147
CNV (*Christelijk Nationaal Vakverbond*) 12, 103

Colomer, Josep M. 167
Communist Party 111
Compensation, strategies of 25, 33, 145-146
Conservatives 44, 51, 114-115, 118, 121, 123, 124-125, 127
Continental 21, 27-29, 47, 135-136, 165, 172
Cox, Robert H. 29, 73, 76, 95, 144
Crepaz, Markus M.L. 22, 28
CTSV (*College van Toezicht Sociale Verzekeringen*) 12, 76
Cusack, Thomas R. 13, 19

D66 (*Democraten 1966*) 11, 93-95, 105-106, 167
Damgaard, Erik 44, 111-114, 120
Danmarks Statistik 54, 65, 70-71, 82, 157, 167-168
de Beus, Jos W. 101
de Graaf, Louw 98-99
de Jong, Philip R. 84, 170
de Koning, Jan 98
de Ridder, Jan A. 105, 108-109
de Volkskrant 96-97, 99-100, 103
de Vries, Bert 104
de Vries, Miranda W.M. 107
de Vroom, Bert 58
den Uyl, Joop 94-95, 99-101
Dependent variable 43, 58, 168
DeViney, Stanley 21-22
Direktoratet for Arbejdsløshedsforsikringen 71
Disability pension 13,17, 49-50, 63, 66, 77-86, 87-91, 97, 101-105, 109-110 115-116, 122, 126, 130, 132-133, 139-141, 144-146 156-157, 159, 162, 167, 169, 172
Division, strategies of 25, 33, 146
Downs, Anthony 31, 37

Early-retirement benefits 67, 71, 81-82, 87-88, 112, 114, 122, 127-128, 133-135, 139, 141, 144, 167, 169
Earthquake election 112-113, 150
Efterløn 48, 50, 81, 112
Elklit, Jørgen 112
Esping-Andersen, Gøsta 20-21, 24, 27-29, 45-47, 113, 149, 165, 167
Etherington, David 73

Farlie, Dennis 35
Ferrera, Maurizio 48, 166
Finansministeriet (1984) 117
Finansministeriet (1998) 127
Flora, Peter 19
FNV (*Federatie Nederlandse Vakbeweging*) 12, 103
Folketinget 114-115, 118, 122, 125-126, 128, 130, 156
Framing 30, 101, 129, 147, 149
France 28, 50
Frendreis, John P. 43
Førtidspension 50

Garrett, Geoffrey 165-166
George, Vic 28
Germany 29,89,148
Geul, Arend 97
Gladdish, Ken 93-94, 100, 170
Globalisation 165-166
GMD (*Gemeenschappelijke Medische Dienst*) 12, 83-84, 86
Goodin, Robert E. 47
Gough, Ian 22
Green-Pedersen, Christoffer 14, 19, 45, 58, 66, 69, 94, 113, 118, 123-125, 136, 138, 145, 147, 150-151, 157, 165, 168-169, 171, 173

Hall, Peter A. 27, 150
Hansen, Erik et al. 44
Hansen, Per 169-170
Haverland, Markus 19, 145, 148
Hazan, Reuven Y. 166
Heclo, Hugh 21
Hemerijck, Anton 14, 45, 94, 97, 103, 136, 150-151, 159, 170, 172
Hicks, Alex 13, 20, 22, 29, 144
Hillebrand, Ron 94, 101, 104
Hoffmans, Anja 96
Hoogerwerf, Andries 107
Housing allowance 127
Huber, Evelyne 13, 20-22, 24, 27-29, 45, 147, 167
Hunt, W. Ben 166
Ikenberry, John 21-22
Immergut, Ellen 28

Inactivity 16, 103, 109, 128, 134, 166, 172
Irwin, Galen A. 44, 46, 93-94, 100-101, 104-108, 170-171
Invalidepension 77
Iversen, Torben 13, 19, 27

Jackman, Richard 33, 40
Jackman, Robert 20
Jensen, Per H. 73
Jensen, Torben P. et al. 73
Jespersen, Mary P.S. 120
Jones, Bryan D. 33
Jones, Erik 94, 96
Justice Party 112
Justification 3, 9, 15, 33, 35-41, 91, 102, 108, 110, 118, 126, 128-130, 146, 160
Jyllands-Posten 114-115, 117-118, 120-122, 124-125, 127-128, 171
Jørgensen, Anker 119
Jørgensen, Leif Hedegaard 168-170

Katzenstein, Peter 19
Keeler, John T.S. 109, 117
Keesings Historisch Archief 96-99, 102-104, 106, 170
Keman, Hans 38, 44, 166
Keohane, Robert 43, 50, 58
King, Gary 43, 58
Kingdon, John W. 33
Kitschelt, Herbert 13, 24, 29, 32, 37, 58, 60, 144, 148-149, 166
Klein, Rudolf 23
Kleinnijenhuis, Jan 105, 108-109
Kok, Wim 51, 101, 104-105
Koopmans, F. 48
Korpi, Walter 13, 20, 26, 29, 47, 140, 144
Kuhnle, Stein 24
Kuipers, Mans 96
KVP (*Katholieke Volks Partij*) 11, 94, 166, 170

Labour force participation 45, 49, 128,130, 134-135
Labour market 15, 16, 19, 21, 26-27, 33, 39-42, 45, 63, 73, 76-77, 83-85, 96, 101, 103, 109-110, 112, 117, 118, 124-128, 130, 133-134. 143, 147, 161, 167

Landelijk Instituut Sociale Verzekeringen 12, 74, 86, 169
Lau, Richard R. 23
Laver, Michael 166
Layard, Richard 33, 36
Levy, Jonah 29, 34
Lewis, Jane 13
Lewis-Beck, Michael 32
Liberals 44, 51, 94, 111-114, 121, 124-125, 127
Lijphart, Arend 28, 43, 46, 93, 95, 149
Lindbom, Anders 58
LISV (*Landelijk Instituut Sociale Verzekeringen*) 12, 74, 86, 169
Loftager, Jørn 124-125
Lubbers, Ruud 10, 51, 58, 96-110, 114-115, 132

Madsen, Per K. 124-125
Manow, Philip 136
Mares, Isabela 13, 21
Martin, Cathie J. 21
Marxist 22, 26, 39
McKinlay, Robert D. 20
Merrien, Francois-Xavier 28
Metze, Marcel 102, 104-105, 170
Minority governments 46, 49, 111-114, 124, 136-138
Misra, Joya 22
Moran, Michael 22
Myles, John 168
Müller, Wolfgang C. 31

Nannestad, Peter 32, 48, 112-113, 118, 124-125
New politics 23, 108
Ng, Tang Nah 22
Nickell, Stephen 33, 40
Nielsen, Fritz von Nordenheim 169
Nielsen, Hans Jørgen 121
Nielsen, Viggo 140
Niemöller, Kees 100
Nixon (goes to China) 29, 36-39, 128-129, 145, 148
NRC Handelsblad 96-97, 99-100, 104-105
Nørgaard, Asbjørn Sonne 73

O'Connor, James 22
Obfuscation, strategies of 25, 33, 146
OECD (*Organization for Economic Cooperation and Development*) 12-13, 33, 40, 44, 47, 52-58, 89, 149, 167
Offe, Claus 22
Office-seeking 31, 37, 100, 104, 119
Old-age pension 13, 16-17, 26, 39-42, 49, 63, 65-70, 77-78, 81, 87-91, 106, 118, 130, 133, 139-141, 144-146, 156-157, 159, 161-162, 171, 173
Oil crisis 50, 93-95, 112
Oppenhuis, Erik 95
Orloff, Ann S. 13
Overbye, Einar 34

Paldam, Martin 32, 48
Palier, Bruno 28, 61
Palme, Joakim 13, 29, 47, 144
Papadakis, Elim 34, 166
Parlementaire enquÍte uitvoeringsorganen sociale verzekeringen 105
Parliament 73, 94, 96, 99-100, 104-107, 111, 113-114, 116-117, 121-122, 125-126, 128, 137, 140, 154, 156, 166, 170
Party competition 9-10, 15-16, 29, 35, 37-39, 41, 43-44, 48, 62, 90-91, 93-95, 107-110, 112-113, 131-132, 143-145, 148, 150-151, 160-161, 166
Pedersen, Mogens N. 111-112
Pellikaan, Huib 101
Pennings, Paul 105, 107-108
Peters, Guy B. 27, 58, 150
Petersen, Eggert et al. 117
Petersen, Klaus 112
Petersen, Nikolaj 120
Pierson, Christopher 19
Pierson, Paul 13-14, 19, 21, 23-28, 30, 32-33, 58, 135, 139, 145, 147, 149, 160, 165-166, 168, 172
Pivot party/system 15-16, 37-39, 41, 48, 62, 95, 143, 148, 161, 166
Ploug, Niels et al. 169
Plovsing, Jan 126
Policy learning 151
Political discourse 27, 33, 144
Politics matter 14, 20,22, 29, 144
Politiken 114-118, 120-122, 124-128, 171

Pontusson, Jonas 58, 147
Power-resources theory 20-21, 26, 165
PPR (*Politieke Partij Radicalen*) 11, 94, 170
Programmatic structure 24-25, 28, 146,172
Progress Party 111, 114, 116, 119-121, 124, 137
Purple government 63, 106-108, 132-133, 167
PvdA (*Partij van de Arbeid*) 11, 44, 62-63, 93-96, 98-108, 128, 131-133, 150, 167, 171

Ragin, Charles 22, 167
Rasmussen, Poul Nyrup 51, 122-123
Ray, Leonard 13, 24, 29
Real social minimas 98, 145-46
Regini, Marino 13, 149
Retrenchment 9-10, 13-17, 19-20, 22-43, 45-46, 48-50, 58-63, 65-91, 93-104, 106-111, 113, 117-118, 120-141, 143-150, 153-155, 159-163, 166, 168, 170-173
Rhodes, Martin 165
Rietberg, Ewald M. 108
Rigter, D.P. et al. 95, 98, 170
Riker, William 34
Rockman, Bert A. 28
Roebroek, Joop 97
Rokkan, Stein 59
Ross, Fiona 24, 29, 34-37, 144, 149
Rothstein, Bo 26, 29, 34, 140, 149
Ruding, Onno 98
Ruggie, John G. 50

Scandinavian 21, 147-148, 172
Scharpf, Fritz W. 13, 27, 32, 45, 50, 58, 135-136, 149-150, 166
Schattschneider, Elmer E. 34
Schludi, Martin 150
Schlüter, Poul 51, 58, 113-115, 124, 129-130
Schmidt, Manfred G. 167
Schmidt, Vivien A. 13, 29, 45, 135, 144, 149
Schut, Frederik T. 101
Schwartz, Herman 6, 14, 45, 126, 150, 159, 166
Seils, Erik 136
Semetko, Holli A. 106

Services 21, 45, 147, 172
SF (*Socialistisk Folkeparti*) 11, 111, 119, 121, 123
Shalev, Michael 20
Sickness benefits 26, 83, 95, 104-106, 114, 118
Siegel, Nico A. 89
Skocpol, Theda 21-22
Smitsman, Anneloes 47
Social assistance 26, 33, 39, 50, 106, 112, 114, 118, 126, 167, 171
Social contributions 25, 33, 47-49, 68, 73, 135, 139, 172-173
Social Democracy 21-22, 36, 149-152
Social Democrats 44, 51, 94, 111, 113, 115-124, 126-131, 137-139, 143, 150
Social Liberals 51, 111, 113-114, 116-120, 123, 137, 166
Socialdemokratiet i Danmark 116
Socialisme en Democratie 99
Sociaal Bestek 99
Sociaal en Cultureel Planbureau 57, 101, 167
Social security schemes 13, 15-16, 24-26, 28-30, 32-35, 39-42, 46-50, 58-63, 65, 70, 74, 87, 89-90, 109-110, 115, 119-120, 130, 134, 136, 138-141, 143-147, 149, 153, 161-162, 165, 167-168
Soskice, David 27
State-centered 9, 21, 27
Statsministeriet 124
Stephens, John D. 13, 20-22, 24, 27-29, 45, 147, 167
Structural theories 19-21, 27
Strøm, Kaare 31, 136-137
Svallfors, Stefan 34, 149, 166
SVB (*Sociale Verzekeringsbank*) 12, 68
Svensson, Palle 120
SVR (*Sociale Verzekeringsraad*) 12, 74
Swank, Duane 22, 28, 165
Sweden 25-26, 147, 148
Swenson, Peter 21

Taylor, Rosemary C.R. 27, 150
Taylor-Gooby, Peter 28, 34, 61, 149, 166
Teulings, Coen 74, 86
Timonen, Virpi 147
Toirkens, Jose 95
Trade unions 12, 20-21, 26, 48, 59, 70, 74, 95, 103, 113, 115, 117, 118, 120, 125, 128, 139, 150, 172

Trommel, Willem 58, 74, 76, 86, 110
Tromp, Bart 94-95
Trouw 100
Tsebelis, George 32
Tweede Kamer der Staten-Generaal 70, 86, 170-171

Unemployment benefits 13, 15, 17, 26, 33, 40-42, 48-50, 63, 71-77, 81, 86-88, 90-91, 96, 106, 109-110, 117-118, 120-128, 130, 133, 139, 141, 144-145, 156, 159-161, 162, 167, 169
Unger, Birgitte 136, 170
United States 13, 149
Universal/Universalist/Universalism 20-21, 26, 29, 107, 118, 134, 140-141, 149, 167

Vail, Mark L. 24, 28
van der Brug, Wouter 107
van der Eijk, Cees 100
van der Veen, Romke 58, 74, 76, 86, 110
van Holsteyn, Joop J.M. 100-101, 106
van Koten, B. 97
van Kersbergen, Kees 20, 21, 23-24, 36, 94, 113, 151, 165
van Oorschot, Wim 34, 48, 70
van Praag Jr., Philip 100-101
van Wijnbergen, Christa 102
Verba, Sidney 43, 58
Verkuil, Dik 94-95
Vesterø-Jensen, Carsten 168
Visser, Jelle 14, 45, 76, 94, 97, 103, 136, 150-151, 159, 170, 172
Voorlichtingscentrum Sociale Verzekering 169-170
Vording, Hendrik 68, 74, 84
Vote-seeking 16, 31-33, 35, 37-38, 41, 99-100, 104
Voters 14-15, 23, 25, 33, 37, 100, 105, 116, 118, 125, 160-161
Vrij Nederland 103
VUT (*Vervroegde uittreding*) 11, 167
VVD (*Volkspartij voor Vrijheid en Democratie*) 11, 44, 51, 62-63, 93-96, 98-107, 132, 167, 170

WAO (*Wet op de arbeidsongeschiktheidsverzekering*) 10-11, 49-50, 83-86, 102-107, 133, 170
Weaver, R. Kent 24, 28

Weir, Margaret 21-22
Welfare-state regimes 21, 45, 149
Welfare without work 135-136
Wilensky, Harold 19
Winter, Søren 169
Wolinetz, Steven B. 95, 101-102, 105-106
Wren, Anne 27, 34
ww (*Werkloosheidswet*) 11, 50, 73-76, 101
www (*Wet werkloosheidsvoorziening*) 11, 50, 73-75, 101

Ældre Sagen 140