



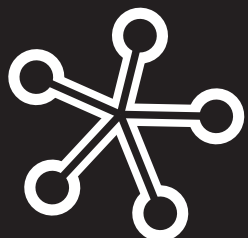
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# Welfare reform in the UK, the Netherlands, and Finland

## Change within the limits of path dependence

*Minna van Gerven*



Working Paper 09-75

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# **Welfare reform in the UK, the Netherlands, and Finland**

**Change within the limits of  
path dependence**

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**WP 09/75**



# Abstract

In this article, we ask whether the principles of welfare redistribution have been altered in the era of ‘permanent austerity’; when pressures to dismantle (or at least cut down the costs) of social welfare institutions due to unfavourable economic and demographic developments have been strong. The primary finding from a systematic analysis of disability benefit reform in the UK, the Netherlands and Finland between 1980 and 2006 is that, regardless of the ‘irresistible forces’ (Pierson 1998) urging for reforms, the core principles of European social security provision have been preserved. Our findings speak for path dependence of institutions, but also call into question the deterministic views on path dependence. It is argued in the article that path dependence does not predict that policy-makers are unable to alter the systems, rather we claim that it delimits the number of options available for the policy makers.

Key words: comparative research, institutions, path dependence, policy change, welfare state

# Samenvatting

*Dit artikel bestudeert of de herverdelingsprincipes van de verzorgingsstaat tussen 1980 en 2006 veranderd zijn in Nederland, Groot-Brittannië en Finland. De primaire bevinding is dat ondanks onweerstaanbare krachten (Pierson 1998) die roepen tot hervormingen, de kernprincipes van Europese sociale zekerheid intact zijn gebleven. Onze bevindingen duiden op afhankelijkheid van de sociale instituties, maar werpen ook vragen op over de deterministische opvattingen over afhankelijkheid die te vinden zijn in de literatuur. In dit artikel wordt beredeneerd dat afhankelijkheid niet voorspelt dat de politici weerloos zijn, maar dat het de opties van de politici beperkt.*

*Sleutelwoorden: vergelijkend onderzoek, instituties, afhankelijkheid, beleidshervorming, verzorgingsstaat*



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# 1. Introduction

The welfare states emerged as a response to the risks of the industrial economy within the framework of the nation state. In the post-war years, each nation opted for a system of redistribution compatible with national value sets and normative views on how fair redistribution should be organised in a specific country. These historical and institutional legacies are claimed to be locked into specific patterns of developments (or regimes as suggested by Esping-Andersen 1990). The self reinforcing nature of these institutions is claimed to obstruct changes in policy tracks (Pierson 1994). This leaves political decision makers with a double stride: on the one hand, they must preserve the welfare institutions promoting social wellbeing and social cohesion, but on the other hand, they must fight against rising expenditure and budget orthodoxies in a new world of intensified global competition and demographic changes. The objective of this article is to explore whether the traditional principles of welfare redistribution (namely, need, reciprocity and universalism) have been altered in the era of ‘permanent austerity’, when pressures to dismantle (or at least cut down the costs) of social welfare institutions due to unfavourable economic and demographic developments have been strong.

From an analysis of legislated disability benefit reforms over 25 years in the UK, the Netherlands and Finland, the article suggests that, despite the ‘irresistible forces’ (Pierson, 1998) urging for reforms, the core principles of European social security provision have been maintained. In the light of academic literature, such observation speaks for path dependence of institutions. However, to say that traditional principles have remained unaltered is not to say that nothing has happened. On the contrary, the reforms of disability programmes in these three countries have led to a more stringent and less accessible programmes, where activation and (higher) degree of disability play an ever increasing role in establishing the eligibility. This observation calls for revisiting the deterministic views on path dependence suggesting that path dependence would be somehow in contrast with change. If social scientists keep on viewing path dependence as a means of understanding institutional stickiness, they fail to understand the dynamics of change taking place in Europe today. By doing this, they thus rule out any adaptation through (partial) renewal of institutional arrangements and modification of guiding principles, norms, and ideas (for similar criticism, see also Crouch and Farrell, 2003, Thelen, 2003). We plan to remedy this by providing a simple account of how systematic in-depth

analysis of legislated benefit reforms indicates a story of change within the limits of path dependence. It becomes evident from the cases that path dependence does not predict that policy-makers are unable to alter the systems, rather that it delimits the repertoire of feasible policy options for the policy makers.

The article is structured as follows. In the first section, we examine the theoretical discussion of principles in the path dependent world of welfare state institutions. Secondly, the empirical assessment consisting of the analysis of legislated benefit reforms between 1980 and 2006 is presented. Thirdly, the findings are discussed and conclusions are drawn about welfare state change within the limits of path dependence.

## 2. Back to basics: Changing principles of social security

The normative foundations of welfare states are embodied in the three classical redistributive principles of need, reciprocity and universalism: they institutionalise the national value set and posit how distribution of welfare should be organised in a country. The principle of need embeds the idea of people being given resources according to their needs, and true need is often (but not always) measured with a means-test; the reciprocity principles necessitates (re)-distribution to be provided according to individual status, and therefore contributions in some form (insurance contributions, work history record etc.) are a prerequisite for eligibility of insurance benefits. Finally, the principle of universalism sets out an (often moderate) redistribution of welfare at a flat-rate in order to provide basic security for all people (citizens).<sup>1</sup> These core principles also provide a foundation for the welfare state typologies. For instance, Esping-Andersen (1990: 3) distinguished between the liberal (needs-based), conservative (insurance-based), and social democratic (universal) welfare states which owe their origins to different historical forces and follow qualitatively different developmental trajectories. Esping-Andersen suggests that rather than having social spending at the core of political conflicts, historical actors (most decisively political coalitions) had united and struggled for safeguarding certain principles: conservative regimes are loyal to status-distinct social insurances, liberal regimes are institutionally wedded to the market, and social democratic regimes strive to build a system that benefits both the traditional working class clientele and the new white-collar strata (Esping-Andersen 1990: 32). In his view ‘politics not only matters, but it is decisive’ (1990: 4) and the power constellations during the formative phase of the welfare state were crucial in shaping the ‘type’ of ‘ideology’ of social policy, also affecting their future prospects. Although Esping-Andersen’s typology is often subjected to academic debate and criticism (see e.g., Arts and Gelissen 2002), hardly anybody questions the existence of the three guiding principles of welfare provision embedded in such models or typologies.

Another ‘conventional wisdom’ in the social sciences literature posits that changes, and certainly cuts to existing institutions and rights, are difficult to be justified by the political decision-makers. Fol-

lowing the increased returns principles, changes are seen difficult because of the vested interests of people involved: the more individuals participate in (paying contributions or benefiting from) these social institutions, the more deeply ingrained its existence becomes. In the light of Esping-Andersen's work, one can assume that policy-makers are bound by past and current institutions, and therefore, repertoires of feasible policy options are limited. In his re-examinations of regimes, Esping-Andersen (1999: 165) suggests that 'the inherent logic of the three welfare regimes seems to reproduce itself'. Following this argument, students of social sciences often point towards path dependence as an explanation of why welfare states are 'surprisingly resilient' (Taylor-Gooby, 2002: 597) or why reforms often take the form of small adjustments. The recent literature has, however, shown that path dependence does not per se mean inertia or frozenness: rather as Streeck and Thelen (2005a) have shown a fundamental reform can also occur through an incremental process over a long time period. Although path dependence theory undoubtedly needs adaptation to cope with situations where actors are able to search alternative paths, we choose to retain the central insights of path dependence, the idea of continuity of policy ideas (traditional principles underlying the institutions and policy-making). Truly, (social policy) actors rarely are in a situation in which they can ignore the past, and their decisions are bound by the past and the present. However, one must go beyond the deterministic views on path dependence, since in the real world of welfare institutions, institutions must interact with exogenous environments in order to survive. Even though initial institutional steps may have a strong conditioning effects on later ones (Pierson, 2000), we claim that institutions generate also new learning effects. In some cases this may lead to alternative paths of development than the one taken, but it may also lead to 'rediscovering' of old paths. What follows is an analysis of empirical cases of legislated changes implemented between the beginning of the 'permanent austerity' (1980) and 2006. It is shown how reforms to disability benefit schemes have lead to considerably different (less generous, less comprehensive in coverage, more conditional) schemes in the course of 26 years, but how the core principles of social security provision have remained unaltered. Before going into the empirical analysis, a brief glimpse at the case selection is necessary. The cases (the UK, the Netherlands, and Finland) are selected so that they each represent one of the traditional re-distributive principles (respectively; need, insurance, and universalism) in the structure of their disability provision (see van Gerven, 2008 for an extensive discussion of cases and reforms). By doing this, we also knowledge the problems rising when placing any country (or even a single scheme) under an ideal-type regime

or model: within one country many different kinds of institutions can co-exists. For instance, unlike in the UK and the Netherlands , where disability benefit provision is organised through (workers’) insurance programmes, the contingency of long-term work incapacity in Finland is covered through the state basic pensions scheme and its’ occupational substitution.<sup>2</sup>



## 3. Empirical assessment

### 3.1. The UK

In order to comprehend the developments of the British National Insurance benefit in the last decades, one must go as far back as the introduction of the first National Insurance Act (NIA) of 1911. The Act was a cornerstone for the British insurance protection by institutionalising insurance benefits against sickness and unemployment paid from wage-earnings. These benefits aimed merely at minimum protection since they were paid only at a survival level, and to discourage idleness, they were paid only for a maximum period of 15 weeks a year. In the seminal Beveridge Report, introduced three decades later, the essence of NI insurances were kept unaltered, but the programmes were made more comprehensive in coverage and more generous (though benefits remained payable at a flat rate minimum level). In 1966, a step towards a more Bismarckian system (providing benefits related to past earnings) was taken when the Labour government introduced earnings-related supplements for the NI benefits.

The first oil price shock in the mid-1970s, followed by a more severe crisis in the early 1980s, strained most economies, the UK included. The UK was commonly regarded as the ‘sick man of Europe’ due to its low economic growth rates and sharply increasing numbers of unemployed (Clasen, 2003: 574). Economic growth rates slackened and GDP fell in both 1974 and 1975 causing a rise in unemployment, which continued to rise even in the 1980s. For the first time since the Second World War, the number of unemployed rose to above one million and finally peaked in 1976 at 1.5 million (Lowe, 1993: 301). The election of 1979 led to a fundamental, although gradual shift in social policy. The Conservative government (1979-1990), led by Margaret Thatcher, was explicit about their ambition to ‘roll back the frontiers of the state’ and to ‘end the culture of dependency’. The main dilemma was perceived to be the level of public expenditure as announced by Geoffrey Howe, the then Chancellor of the Exchequer in his first Budget of May 1979 when he stated that ‘Public expenditure is at the heart of the UK’s present economic difficulties’ (HM Treasury, 1979: 1). Reforms to come (most important of which are sketched out in Table 1 below) indeed have turned the clock back in

time. The logic of Bismarckian insurances has been abandoned, and the current (2006) programmes resemble to a large extent the original (Beveridgean) instruments: social insurance programmes pay low level flat-rate benefits for the insured.

*SSA 1980 (c. 2) Abolition of ERS from sickness benefit (SSA 1994 from disability benefit)*

*SSA 1986 (c. 50) Statutory indexation no longer compulsory*

*SSA 1994 (c.18) Abolishing (or more stringent conditions for) child/spouse/age supplements*

*WRPA 1999 (c.30) Means-test introduced (for certain pension income)*

*Table 1. A synthesis of principle-changing reforms in the UK, 1980-2006*

This demotion of Bismarckian insurance logic was started by reforms that abolished the earnings-related supplements from National Insurance benefits (to sickness and unemployment benefits in 1980 and to disability benefits in 1994). This consequently changed the insurance programmes from insurance programmes related to past earnings (Bismarckian) to the flat-rated (Beveridgean) insurance programmes. At the same time, the privatisation of the (occupational) sickness benefit (under the SSP, Statutory Sick Pay system) started in the 1980s and finished a decade later, generated a dual system where the public sickness benefit generated (basic) security for low paid earners and the more generous SSP provided an efficient income replacement for workers with higher income (i.e., for workers with annual earnings above certain amount). Other elements of insurance system paying benefits above minimum level were gradually abandoned in the 1980s and 1990s by abolishing most of the supplements for dependants, children or spouses. In the same vein, the system of indexation of social security benefit rates was altered in the 1980s so that indexation of benefit rates was no longer obligatory for the Secretary of the State. This meant that short-term benefit (sickness, unemployment) rates no longer followed the welfare developments of the rest of the population. Such measures diluted the insurance principle in these programmes and (indirectly) strengthened the purpose of these programmes to provide merely minimum protection.

In the period 1990-1997, the UK witnessed another stream of considerable revisions in the disability programmes. The restructuring was preceded by an extensive growth in both the number

of claimants and the costs of the benefit. In 1978/1979 there were 612,000 recipients claiming disability benefit, but by 1992/1993 this had risen to 1.5 million (Wikeley, 1995: 525). Also the costs of this benefit had doubled since 1982/1983 (Wikeley et al., 2002: 524). These and other factors led to the replacement of (short-term) Sickness Benefit and (long-term) Invalidity Benefit by a new single Incapacity Benefit (IB) in 1994 (see e.g. DSS, 1990). In addition to a series of smaller adjustments that led to less generous benefit entitlements (namely, cuts to supplements paid for IB claimants and extension of less generous short-term benefit payment duration from 6 months to 1 year), the introduction of IB symbolised a landmark for increasing medical inspection in the UK. Already in 1984, some functional tests of disablement had been introduced for claimants, but medical inspection did not start to play a more significant role in assessing benefit rights until the introduction of IB in 1994. Two new tests were introduced: an Own Occupation Test and an All Work Test. The Own Occupation Test, carried out by claimants' own GP, applied for the first 28 weeks of incapacity for claimants (similar to both IB as well as SSP applicants) and it assessed if workers were too ill to work at their usual occupation. The second and harder All Work Test tested (in)capabilities at the 28th week of sickness. Previously under IVB, the periodical assessment could take into account the claimants' age and qualifications, but the All Work Test under IB defined whether the recipients were capable of doing any job at all (regardless of the likelihood of them getting such a job or its suitability). It was estimated that over the first two years after the introduction of the All Work Test some 222,000 existing recipients would be denied the IB under it, while some 55,000 new claimants, who would have qualified had the old IVB test applied, would be ruled out by it (Bonner, 2005: 30).

The expenditure on benefits for the sick and disabled increased from just over €7.2 billion in 1979 to €34 billion in 1996/1997, making it one of the fastest growing areas of British social security (Powell, 1999: 158). After the fundamental reform of IB in 1994, questions around disability benefits revolved around how to provide work for those recipients that can work, and livelihood for those who cannot (DSS, 1998). Consequently, from 1997 onwards, a shift towards encouraging claimants 'back to work' took place. Furthermore, the requirements for entitlement were tightened and more closely linked to past labour market activity and medical testing. In 1999, the medical test for incapacity for work was made stricter again (WRPA 30/1999). The All Work Test was renamed as Personal Capability Assessment. At one level, this was only a semantic change, since the criteria for assessing

incapacity under the new test were identical to those under the former All Work Test. At another level, however, the change reflected the Labour government's concern that the former test only focused on what people cannot, rather than can, do (DSS, 1998). Rather than assessing claimants' physical and mental limitations for benefit purposes, the Personal Capability Assessment was virtually designed to capture claimants' capabilities and to assist them in getting back to work. Furthermore, as of April 2001, IB recipients were required to attend the Work Focused Interview (WFI) as an integral part of their claim for benefit. That the interviews were work-focused meant that disabled claimants must co-operate with the Benefit Agency by attending the meeting at the specified time and place, and they had to provide any information requested (including the claimants' educational qualifications, skills, training, work experience, and any barriers to work such as child care or ill health). Failure to provide such information meant that the claim was not completed, and benefits could be refused. Participation in reintegration measures (training, work experience and so forth) under the ND programmes remained voluntary for the disabled. In October 2008, the Incapacity Benefit was replaced by an Employment and Support Allowance (ESA), which similar to the Dutch disability benefit (WIA) discussed below, distinguishes between disabled people able and unable to work. The group of fully disabled met rather few changes and they remained to be covered by a more modest basic insurance provision. The group of partially disabled, however, faces now much stringent activation requirements under the new 'in-work' benefit scheme (e.g., more work-related Personal Capability Assessment and the new work-focused health related assessment).

Although rather radical reforms have been implemented to the British disability schemes, the case shows an example for change within the limits of path dependence: through changes in social protection rights, the British social protection programmes for fully disabled have rediscovered 'the Beveridgean' idea of minimum provision. In addition to this, however, new elements have been included in to the Beveridgean institution, such as a more active layer (cf. Streeck and Thelen, 2005b discussed below) of activation policies and more stringent medical examination. Most clearly, this has become evident for the partially disabled in the UK.<sup>3</sup>

## 3.2. The Netherlands

The roots of the Dutch system also lie in the famous British Beveridge Report (1942). While in exile in London during the WW II, the Dutch government formed a committee in 1943 to make a plan for social insurance after the war. The report of the Van Rhijn committee (Sociale Zekerheid, 1945) was considered as a blueprint for the Dutch social security system (Pennings, 1990). It sketched a system of comprehensive workers' insurances, but unlike the Beveridgean system, it paid benefits at the level of previous wages (80 % of the past wages). Furthermore, the Van Rhijn Committee emphasised that workers insurance programmes should be compensated with a number of national (people's) insurances providing benefits at a uniform subsistence level for all residents. By the late 1970s, the provision of disability benefits indeed was generated through workers earnings-related disability insurances (Act WAO of 1967) and state basic disability insurance schemes (Act AAW of 1975) covering all disabled residents including self-employed and persons outside of the labour market. However, when the first effects of the oil crises and stagnating economic growth became visible, expansion of the Dutch came to a rapid end. Reforms to come (summarised in Table 2 below) manifest the preservation of the insurance principle, yet there is a clear shift from provision of (Beveridgean) national insurances to worker's (Bismarckian) insurances.<sup>4</sup>

<i>Act</i> , Stb. 1986, 561 Abolition of the provision describing compensation for the reduced labour
<i>TBA</i> Stb. 1993, 412 WAO divided into an age-related benefit and a follow up benefit
Abolition of <i>AAW</i> , introduction of <i>WAIJONG</i> (Stb. 1997, 177) and <i>WAZ</i> (Stb. 1997, 176)
<i>WLA</i> , Stb. 2005, 572 disability benefits IVA and WGA introduced

*Table 2. A synthesis of principle-changing reforms in the Netherlands, 1980-2006*

The number of people depending on income transfers from all programmes had doubled between 1970 and 1985 from 1.6 million to 3.2 million (Visser and Hemerijck, 1997: 128). The first reaction to the crises in the 1980s was to cut rising social expenditure. To cure this 'Dutch disease' (Aarts et al., 1996) of high unemployment and moderate economic performance all welfare 'non-sense' had to stop, as the Prime Minister Lubbers (of the Christian-Liberal coalition 1982-1986) put

it (see more, e.g., Becker, 1999). The initial reforms of the 1980s aimed at lowering benefit levels, i.e. by freezing the indexation between 1982 and 1985, cutting the benefits twice by almost three per cent in 1984, and lowering the benefit percentages from 80 to 70 per cent of previous wage (in 1984). Additionally, an old anomaly within the disability benefit provision was removed. Since 1972, it had been paradoxically possible to receive full benefits even if claimant was only partially incapacitated.<sup>5</sup> Due to these generous rules, it was not surprising that the WAO programme was frequently used in the 1970s and 1980s for easing the effects of mass redundancies and restructuring of the economy (Klosse, 1989). This was, however, an expensive way to restructure the labour market and had led to a considerable growth in numbers of people claiming disability benefits. To remove this anomaly, the level of WAO benefit was strictly linked to the extent of disability and partially disabled workers with reduced labour market prospects could only be granted partial disability benefits in 1987 (Stb. 1986, 561). At the same time, most claimants on benefit faced a medical re-assessment round.

Regardless of the ‘price policies’ of the 1980s, the number of unemployed skyrocketed from 65,000 in 1980 to more than 410,000 claimants in 1994, and the number of people receiving disability benefit approached almost one million in the early 1990s (UWV, 2005: 12, Table 2.1). To meet these problems, political measures in the 1990s culminated in the ‘volume policy’, which first and foremost declared the need to reduce the number of (disabled) people on benefits (TK, 1990/1991). Notwithstanding major political and societal discontent, the cabinet’s reform with respect to disability programmes (known as the T-Laws as elaborated below) entered into force in the first half of 1990s.<sup>6</sup> The reforms tightened the conditions (with regards to access, duration, rate, and activation) around the receipt of WAO. The first law, the Act on Reducing the Disability Volume (TVA), imposed more obligations on employers to generate suitable work for their sick employees, if such was available in the company (Stb. 1992, 82). The second T-reform, the Act on Reducing Disability Claims, the TBA, structurally revised the WAO programme in 1993 (Stb. 1993, 412). It re-modified the benefit structure by distinguishing a basic (wage-related) benefit and a follow up benefit (paid at a minimum rate). The change put an end to a disability provision of Bismarckian earnings-related insurance benefits until retirement age (this was, however, abolished in 2004, as discussed below). The basic WAO remained a wage-related benefit (70 % of the previous daily wage) as earlier, but its duration was related to the claimants’ age at the time of establishing the right. The TBA also tightened the disability

criteria considerably: the insured were assessed on the basis of the new definition irrespective of their previous education or work experience. The TBA introduced a new re-assessment for WAO benefit recipients, only six years after the previous re-assessment. The re-assessment led to 47 per cent of beneficiaries having their benefits either reduced or withdrawn (Pennings, 2002: 13).

Crucially also, the state disability benefit programme was abolished in 1997. The AAW had been a particularly vital benefit for those long-term incapacitated who did not qualify for the workers' WAO, such as the self-employed, students and people who had become disabled at a very early age or were so from birth. Yet, the consequences of the withdrawal of the AAW were alleviated by incorporating some of its redistributive tasks into two new disability benefit programmes: the Incapacity Insurance for Self-employed Persons Act (WAZ, Stb. 1997, 176) and the Incapacity Provision for Young Disabled Persons Act (WAJONG, Stb. 1997, 177) of 1997. Although universal disability insurance was no longer available, the majority of the old AAW recipients (232,000 in 1997) belonged to the group of self-employed (48,000), or young disabled (107,000) (SZW, 1999: 152, Table 11A). For them very little changed since they were covered by the new targeted programmes (although the WAZ was abolished in 2004).<sup>7</sup> However, the change caused a notable shift from (a more comprehensive) Beveridgean provision to purely workers' provision (nota bene Bismarckian scheme) for the Dutch disabled.

After a slight decrease in the numbers of WAO recipients in the early 1990s, the number of WAO beneficiaries rose again from 697,000 in 1996 to 803,000 in 2002 (UWV 2005: 14, Table 2.1). As a response, the employers' responsibility for sick pay was extended to 104 weeks as of 2003 (Stb. 2001, 567). The change not only increased the responsibilities of employers with respect to their employees, but it fundamentally altered the maximum duration of the short-term sickness payment of 52 weeks existing since 1930. The benefit levels remained the same (70 per cent) for the first year, which were commonly topped up to 100 per cent according to collective agreements. The government put pressure on the social partners not to supplement the 70 per cent in the second year. The extension of the sickness benefit for another year had favourable consequences, as the level of sick pay was often higher than the equivalent WAO benefit. This alteration was, however, supported by the Law on improving the Gatekeeper (the WVP, Stb. 2001, 628) requiring employers to produce a reintegration report and to co-operate with the employee. Moreover, fundamental reform was enacted in

2005 when the WAO was closed for new claimants as of January 1st 2006 and a new Act on Work and Income according to work capacity (WIA) took over the insurance of long-term disability (Stb. 2005, 619). The WIA distinguishes clearly between permanent disability benefit (IVA for people with at least 80 % loss of income) and compensation for the partially disabled (WGA for people with a disability between 35 and 80 %loss of income). The IVA is, however, a more generous benefit than the former (full) WAO: it gives an incapacitated worker with little or no chance of recovery a benefit amounting to 75 per cent of the last earned salary, which remains payable at that level providing the recipient satisfies the re-assessments, until pensionable age (unlike WAO that paid 70% for a certain age-related period). WGA integrates disability benefit and unemployment benefit for the disabled and this is reflected in the benefit rules. For instance, to be eligible for the WGA the partially disabled are obliged to seek and accept suitable work, just as under the unemployment insurance (WW). The level of earnings-related WGA equals to 70 per cent of the difference between the daily wage (a maximum €43,770 per year applies) and the wage that the partially disabled person earns from employment and is paid for between three and 38 months, after which the WGA makes a division between partially disabled who work and those who do not work. Persons having no income or an income for work amounting to less than 50 percent of their remaining earnings-capacity, have a right to a follow-up benefit of 70 per cent of the minimum wage multiplied by their disability percentage. Persons working (and using more than 50 per cent of their earnings-capacity), get a supplement up to 70 per cent of the difference between last earned salary and the wage earned now. This benefit can also not be supplemented with any other benefit.

To sum up, although being less comprehensive, the insurance principle has been preserved in Dutch social security programmes, at least for the social security programmes for the unemployed and people with a full disability. The Beveridgean insurance programmes have been eroded and it has had to give way to Bismarckian insurance elements combined with targeted disability benefits for the young.

### 3.3. Finland

Unlike the UK and the Netherlands, the creation of the Finnish welfare state was less strongly influenced by the Beveridge Report (Niemelä and Salminen, 2002: 58). Whereas the Beveridge report proposed social security for all, the Finnish government saw it as more important to provide a piece of land to everybody. Due to scarce financial resources and political difficulties, the development of social security remained mainly at the level of rhetoric and it was not until the liberation of foreign trade in 1955 that a rapid modernization process started.<sup>8</sup> During this time of economic growth and prosperity many of the plans were embedded into concrete social policy innovations: the National Pension Act (347/1956) guaranteeing an universal pension was implemented, followed by welfare programmes for sickness, unemployment and a comprehensive basis of the national social security systems was gradually created.<sup>9</sup> By the beginning of 1980 the Finnish welfare state had reached the other Nordic countries in its comprehensiveness (Stephens, 1996, Alestalo, 2000, Anttonen and Sipilä, 2000). At this stage, the Finnish programmes generated rather low benefits both for workers but also for residents (through universal benefits), but during the expansion of provision in the 1980s, this was improved.

The oil crisis in the 1970s did not affect Finland as severely as it did many other European countries: on the contrary, unemployment was under four per cent by the end of the 1970s, which was historically very low. The favourable economic circumstances enabled the expansion of social security arrangements throughout the 1980s: the rates were increased and early-retirement schemes (for disabled) were introduced. For instance, Individual Early Retirement Pension programme (*yksilöllinen varhaiseläke*) was enacted in 1985 that provided benefits for wage workers or the self-employed aged 55-64 whose work capability had diminished, due to illness or disability. Under the term of Prime Minister Koivisto (Social Democratic party 1979-1982), the coverage of state (disability) pension was expanded by abolishing the means-test from (supplementary part of) the pension, which made the national old age pension system finally universal, guaranteeing basis security for all (elderly) citizens.

<i>Act 103/1982</i> Means-test abolished from supplementary part of the disability pension
<i>Act 619/1991</i> Rehabilitative possibilities must be defined prior to receipt of disability pension (new benefits provided for this period)
<i>Act 1491/1995</i> National pensions (gradually) tested for other pension income 1995-2000

*Table 3. A synthesis of principle-changing reforms in Finland, 1980-2006*

In the 1990s, the expansion of the Finnish social security provision came to abrupt end. Unemployment increased rapidly: in only one year the number of Basic Unemployment Benefit beneficiaries more than doubled from 50,827 in 1990 to 126,642 by the end of 1991 (KELA, 1992: 191, Table 110). This led to a series of reforms: benefit rates were cut (particularly through suspending the annual indexation) and the access (of the young unemployed in particular) to benefit schemes was hampered. Importantly, only 12 years after the previous revision of the Finnish national pension, the reform that Kangas (1994) claimed brought Finland into the group of Nordic welfare states, the national pension programme was fundamentally reformed. In the 1995 Pension Act (1491/1995), the base amount and the supplementary part were united into one pension benefit and the new national pension was tested against any pension income from legislated (public) pension programmes. The national pension was now granted only if the claimant had little or no other pension income. This was expected to reduce the number of national pension claimants, not only in the case of old age pensions, but also for disability pensions, given the increasing coverage and entitlements of employment pensions. In principle this was a radical reform. Even though the universal benefits were replaced with ‘means tested’ ones, national pensions still guarantee a minimum livelihood for Finnish residents.<sup>10</sup> Accordingly, however, the universalist element of the Finnish programmes was eroded by reforms making rules for citizenship-based rights (in national pensions and national insurance benefits for the ill and unemployed) give way to employment-based workers programmes.

Eligibility was also changed by replacing the former temporary Disability Pension (paid in the case of temporary and partial work incapacity) with a Rehabilitation Subsidy (Kuntoutustuki based on 1487/1995 Laki Kansaneläkelain Muuttamisesta). The Rehabilitation Subsidy aimed at supporting the temporarily disabled to continue working. Eligibility was made conditional on producing a care

and rehabilitation plan and after the expiration of the period of rehabilitation the recipients were either guided to the Disability Pension programme or had to return to work. The young, in particular, faced stricter reintegration measures. Those aged between 16 and 18 (extended to 20 in 2002) were required in all cases to claim a new Rehabilitation Allowance. Yet, encouragement to work was not only directed at the temporarily disabled; the permanently disabled also faced their share of work-related obligations in 1995. Prior to granting disability pension, the rehabilitative potential of all claimants (on sickness benefit at the time) had to be defined. To receive a Disability Pension, claimants were required, in conjunction with the benefit administration, to submit a care and rehabilitation plan to the social insurance institute. From 1995, more emphasis was placed on remaining work capability rather than incapability (Nikkarinen et al., 1998, Hytti et al., 2006). This made it harder to be assessed as incapacitated for work and, subsequently, to receive the disability pension. Notably the number of claimants on Disability Pension decreased quite steeply (from 212,359 in 1996 to 136,522 in 2004) (KELA, 2004: 98, Table 26). Recently figures have shown that half of the new claims (50.8 per cent in 2006) are channelled to Rehabilitation subsidy programmes (Hytti et al., 2006: 18, Table 4). Finally, since the 1990s, reforms have been aimed at prevention of early retirement, through, for example the tightening of the rules for Individual Early Retirement pension programmes

To sum up, reforms have diluted the universalism principle and increased the importance of Bismarckian insurance programmes in Finnish social security provision. However, one must consider that the basic security programmes still exists (in unemployment, sickness and disability benefit provision), which makes the Finnish system still somewhat more comprehensive (universal) in comparison with the Dutch and British insurance programmes, where such programmes have been abolished during the last 26 years. However, the fact that universalism has not been abandoned, indicates that reform in Finland is path dependent and the preference for basic provision is still at the core of social policy making. This is also clear in the suggestions made by the recent SATA committee founded in 2008 to determine the future of the Finnish social security. We can see from the Finnish example that, even though attempts have been made to change the status and the structure of the benefit programmes, the logic of universalism has not withered away. Rather the logic of universalism (or at least a wider coverage of programmes) continues to exist, but now it is complemented with other (new or latent) elements.



## 4. Findings

The picture that arises from our findings is that of path dependent change. Countries follow the trajectories of underlying redistribution principles and legacies. The UK programmes have been returned, after two decades of attempting to increased elements of a Bismarckian system, to providing a minimum provision for those in need, Dutch programmes continue to protect workers against loss of income, although a much smaller group of workers can enter the programme than before, and the Finnish system, although less universal than in the 1980s, still provides a wider basic security for Finnish residents, but at the same time it today emphasises more protection of workers (earnings-related) programmes. These (targeted minimum provision, workers insurance, and basic provision) are the three dominant path-dependent structures emerging from our data and they follow the three social security principles. However, it becomes evident from the data that path-dependence does not mean frozenness or resilience to change. The findings show how within path dependent change new elements can evolve; old structures can have new meanings; and additional, complementary elements can be created next to the traditional institutions. For instance, the British case illustrated a case of what Streeck and Thelen (2005: 21-22) call as institutional displacement: the rediscovery or activation of previously suppressed or suspended possibilities took place in the UK, when the clock was turned back in time of ‘Beveridgean’ minimum provision. Also the structural changes under the WIA for the partially disabled are perhaps something that illustrates the institutional conversion (Streeck and Thelen 2005: 26-29), where old institutions are re-employed to new purposes. Rather than aiming at earnings-replacement for the partially disabled as under the former WAO benefit, the new disability benefit for partially disabled (WGA under WIA) aims more at encouraging people to work and could therefore be seen more as an ‘in-work-benefit’ rather than an insurance benefit in the traditional sense. In addition to (path dependent) reforms, evidence for implementing a new layer of increased activation and conditionality to supplement the traditional institutions was found. This conditional activation element is also something we can find back in Streeck and Thelen’s (2005: 18-20) conceptualisation for layering, where new elements are attached to existing institutions that may gradually change their status and structure. Indeed, to improve the supply of labour and bring people out-of-work back to the labour market, the reform of social policy in Europe has increasingly centred on preference of work above benefit. This shift from passive to active social policy can be found in the

most welfare states in Europe, yet these reforms have commonly been implemented with the national policy instruments and take place in the national framework of policies (see also van Gerven, 2009). This is a simple account of how path dependent development trajectories interact with exogenously changing environments.

What becomes evident from this all, is the importance of a long time period in the analyses of benefit reform and welfare state change. In order to capture path dependence empirically, a long time frame is needed to deal with a long phasing-in periods of the policy decisions (from decisions to actual implementation of the policies) and staged reforms in an (often) incremental process over time (see also Bonoli and Palier, 2007). In the British case, it becomes clear how a period of several decades of continuous reform was needed to understand the reform outcomes. Simply viewing changes for one or two decades can lead to an inaccurate interpretation of changes.

## 5. Conclusion

To consolidate the claims of path dependent, yet not pre-determined change of welfare institutions, this article presents evidence from an in-depth analysis of changes in the rights and conditions of disability insurance benefit programmes in three countries (the UK, the Netherlands, and Finland) over an extensive period of more than 26 years. It is claimed here that path dependence in social policy should be interpreted as an indication of certain solutions being more likely to be taken in the reform of policies, not that social policy institutions are unmovable or resilient against reform. Path dependence should not be regarded as a prediction of policy-makers being unable to alter the system, rather it merely delimits the number of options available for the policy makers. For any reasons (for example those related to the blame-avoiding nature of politicians or the bureaucratic nature of social policy-making) social policy makers are rarely in a situation where they can ignore the past. Rather, their decisions are bound by the past and the present. Path dependence, in our view, serves explicitly as an explanation why certain solutions are more likely to be taken.

In this article, the developments in social security provision were analysed with respect to a single contingency (disability). Similar findings were, however, found in an analysis including a wider range of social security programmes (i.e. sickness, disability, unemployment insurances and social assistance schemes in these three European countries (van Gerven 2008). Inevitably, future research must include a larger number of countries and view the developments from a wider perspective (i.e. include developments in pensions, service provision ) in order to test the hypothesis made in this article and to have a more comprehensive view on changes. This article has, however, tried to contribute empirically to the modest pool of literature tracing the trajectories of change over a extensive period of time and across different European welfare states. Furthermore, an attempt has been made to improve the theoretical understanding of one of the main (but often vaguely defined) concepts of welfare state change research.



# Endnotes

- 1 For the insurance principle, authors commonly make a distinction between Bismarckian and Beveridgean insurance, where the former refers to insurances with a tight link between contributions and benefit, and the latter to insurances with flat rate benefits and contributions which are proportioned to earnings.
- 2 Below, only the reforms to the state scheme are discussed.
- 3 Unlike often claimed in the literature (examples), I found very little direct evidence for increased means-testing in the UK. As only reform of its kind, an introduction of a means-test (of occupational pension income) to disability insurance programmes in 1999. However, as the means-test applied only to a limited number of claimants (those with occupational pension income above a certain amount). Also this reform, can be interpreted as a step towards a preference towards less stronger public minimum provision. We did, however, find evidence for the enhanced means-testing through creeping cumulative legislative changes (through cuts in duration and rates of insurance benefit) and other changes (such as increasing role of in-work (tax) benefits in the welfare provision) that have increased the importance of means-testing and the role of means-testing assistance in the provision of social security benefit in the UK.
- 4 This result is however valid only for the programme investigated here, and we must note that there are still strong elements of national insurances available in the Netherlands (such as national old age pension, widowers' pensions etc.).
- 5 The discrepancy was possible while, according to an administrative decision, in determining the remaining earnings capacity it was considered whether claimants who, in theory, possessed a certain earnings capacity, would be able to realize this in the labour market. Should they be unable to do so as a result of their disability, the theoretically determined remaining earnings capacity would be lowered and the degree of incapacity to work was assessed at a higher.
- 6 The law proposed in the early 1990s faced strong criticism. On 17 September 1991, nearly a million people demonstrated against the reform in what was probably the largest protest demonstration in Dutch history (Hemerijck; Manow and van Kersbergen 2000).
- 7 According to the statistics (SZW 1999: 152, Table 11A) 3,000 recipients in 1997 belonged to the category of 'other claimants', including students and other disabled not qualifying for the workers' WAO. They (in many cases housewives) were excluded from the disability programmes, and had to seek income compensation from time-limited unemployment benefit, means-tested social assistance, or other such programmes.

- 8 The slow start of social reform had to do with a difficult past, but was also due to the fact that on the top of the post-war political agenda were the paybacks of the war indemnity to Russia, help for widows and orphans, and different housing projects for those returning from the war.
- 9 The flat-rate universal National Pension (with an universal basic amount and a means-tested additional amount) was later in the 1960s supplemented with other (means-tested components).
- 10 The majority of the working population is in practise ineligible for the (full) national pension due to their income from occupation pension. Yet, in the case of Disability pensions, claimants commonly do not have a sufficient work history to be granted employment pensions and therefore the reform has not been successful in channelling people to employment pensions, rather most claimants end up claiming national pensions. This is indicated in studies (for instance, Hytti; Ylöstalo and Ruhanen 2006) which show that the role of national pensions has become more important in the provision of disability benefits.

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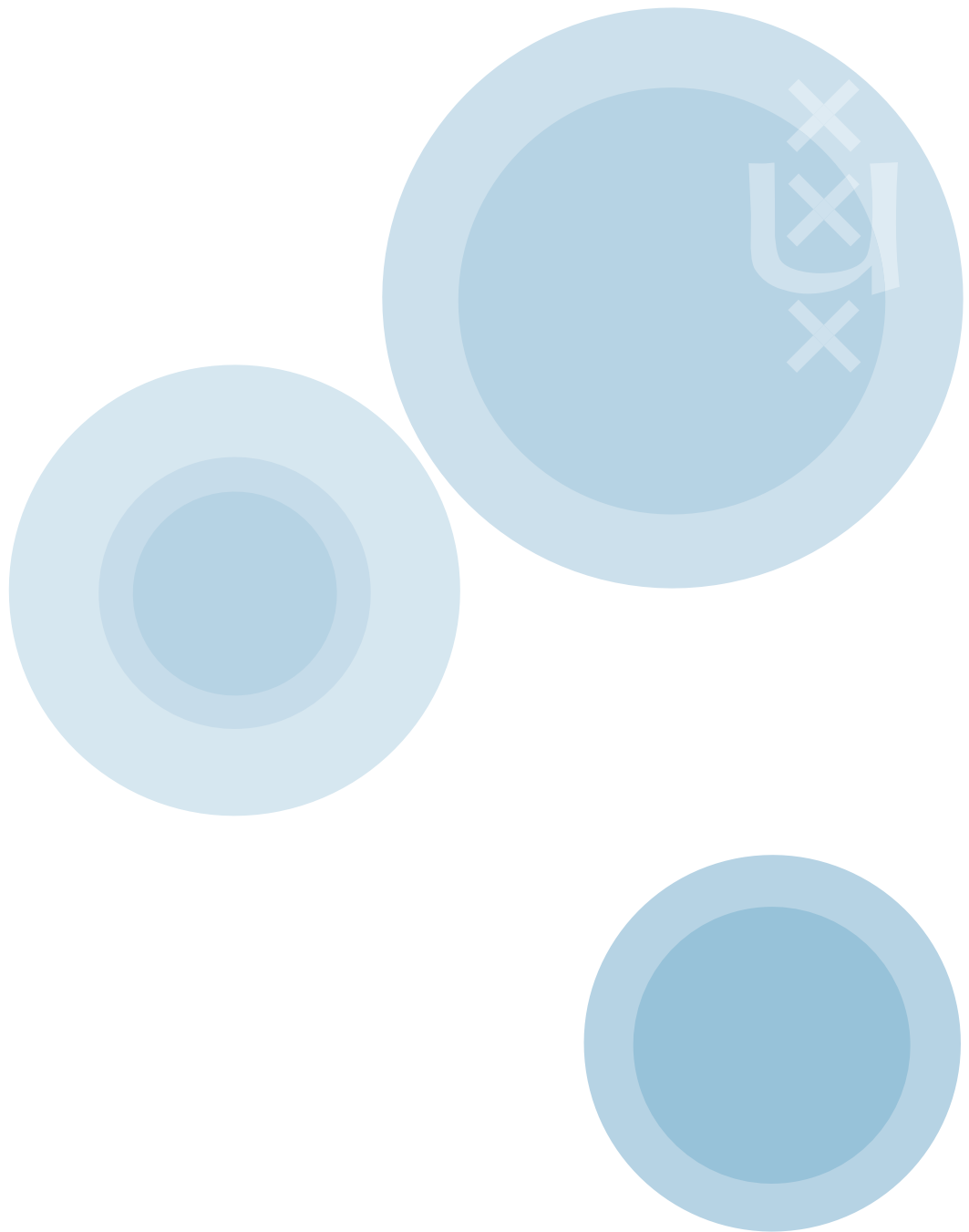
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- The cycles of policy learning and mimicking in labour market reforms in Europe
- The distribution of responsibility between the state and the market in social security
- The wage-indicator and world-wide comparison of employment conditions
- The projects of the LoWER network



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