

The Rebuilding of the Dutch Welfare State

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[R U U D K O O L E]

The Dutch welfare state is going through a series of radical reforms. The most prominent is currently the transfer of the delivery of a number of social provisions from central to local level. This 'localisation' of the welfare state marks the last step for the moment in a longer process of reconstruction and retrenchment of Dutch social security arrangements, which began in around 1980. This brought an end to the welfare state as a societal model that was built after the Second World War. The quest for a different welfare state is still in full swing.

The building and expansion of the welfare state (1945-1980)

The development of social security arrangements is not a post-Second World War phenomenon; the origins of the welfare state have a long history (De Swaan, 1988; De Beer, 2015). However, it was the misery caused by the crisis in the 1930s, followed by the Second World War, which prompted post-war politicians to start building a system of social security arrangements that was unprecedented for its time. The Netherlands changed from lagger to leader in the social domain.

The changing political situation played an important role here. The Netherlands has always been a country of political minorities; no single party has ever held a parliamentary majority. From the end of the nineteenth century, four political 'families' dominated the political playing field: liberals, socialists, Catholics and Protestants. From the start of the twentieth century, these four political families each built up their own network of civil-society organisations, described as 'pillars' (*zuilen*). This process of 'pillarisation' meant that the electoral landscape was also more or less frozen in stasis for a long period. Immediately after the Second World War, an attempt was made from the left of the political spectrum to break through this pillarised system, but without success. One change that did take place, however, was the start of the long-lasting participation in government by the social democrats (PvdA). The party joined the national administration for the first time in 1939, and after the Second World



Willem Drees, Socialist Prime Minister (1948-1958),
'Father' of the Dutch Welfare State.

War joined forces with the Catholic People's Party (KVP) to form the heart of a series of 'Roman-Red' coalitions, which from 1948 onwards were led by the social democrat Willem Drees. The party also battled in the elections to win the votes of the large group of Catholic labourers. The result was a situation of 'upward rivalry' (Van den Berg, 1992: 39) which went a long way to fostering the building of the welfare state, as Catholics and social democrats sought to outbid each other with their proposals to expand the system of social provisions. One of the first and best-known measures was the introduction of a state old-age pension, first as a contingency measure (1947) and later formalised in legislation (General Old Age Pensions Act (AOW) – 1956). When the Roman-Red collaboration came to an end in 1958, the welfare state was expanded further, leading in the 1970s to an extensive system of insurance-based arrangements and provisions, all aimed at income protection. This system broadly consisted of three categories:

1. Employee insurance

Insurance for employees to provide benefits to cover events such as illness (Health Insurance Act / *Ziektewet* – 1930), unemployment (Unemployment Act / *Werkloosheidswet* – 1949) and incapacity for work (Invalidity Insurance Act / *Wet Arbeidsongeschiktheidswet* – 1967). These provisions were funded from contributions paid by employees.

2. Social insurance

A universal arrangement to help citizens to meet basic needs when they were unable to do so themselves (Social Assistance Act / *Algemene Bijstandwet* – 1965). Funded by central government.

3. National insurance

Insurance for everyone, funded from the public purse, which was filled by contributions paid by employees (with the exception of child benefit, which is paid from tax revenues). Examples are the state old-age pension (1956) and child benefit (1962).

The system was based on a set of ideas that was developed in the middle of the twentieth century. The misery of the 1930s and the Second World War greatly increased the need for social arrangements. There was a broad consensus that market failures created a need for government intervention. Keynes dominated the economic thinking of the time. Income protection was important as a means of sustaining domestic consumption. In Dutch government circles, too, the ideas propounded by the British economist Beveridge, who had published his *Social Insurance and Allied Services* in 1942, proved influential. The country had to be rebuilt, and in a way that was socially responsible. The broad coalitions led by Drees achieved this in a period of relatively limited government resources. The social arrangements in this first period of building the welfare state reflected this, being limited to mitigating pressing need and shortages.

This changed during the period of expansion starting in the mid-1960s, with the focus increasingly shifting from simply mitigating pressing need to meeting other goals as well (Schuyt, 2013). The burgeoning economy in the 1960s made the Netherlands a very prosperous country, which also found itself sitting on large reserves of natural gas, the proceeds from which largely went to the government. The number of social arrangements expanded further, but the scope of existing arrangements was also greatly broadened. For example, as early as 1967 the Invalidity Insurance Act abandoned the distinction between incapacity for work caused at work or elsewhere for employees in the private



Ruud Lubbers, 1986.

'Let Lubbers finish his job'.

Christian-Democrat Prime Minister
(1982-1994)

sector. In 1976, the Act was expanded further to include the self-employed, civil servants and those who had been disabled since birth. The generous social benefits suited an atmosphere in which the government also provided generous tax breaks for things such as home purchase and awarded substantial grants to civil-society organisations of all kinds. This prompted the sociologist Van Doorn to refer to the 'unlimited expansion of our free provisions' (Van Doorn, 1978: 159).

The crisis and the rebuilding of the welfare state (1980-2015)

The Netherlands was faced with an economic downturn in the 1970s. Two oil crises hit this very open economy hard. Unemployment rose sharply and the public finances came under pressure: gas revenues and increased borrowing were not enough to prevent the government's budget deficit rising to 10.7% in 1982. This also cast doubt on the affordability of the Dutch welfare state. Social security spending had grown steeply, from 4% of GDP in 1950 to 17% in 1983 (De Beer, 2015). Although the new Constitution in 1983 gave a prominent place to basic social rights, there was talk of 'crisis', 'unaffordability' or 'stagnation' of the welfare state. The changes that had taken place in the political landscape since the middle of the 1960s meant it was impossible to find a consensus on how to put the public finances in order. Self-reinforcing technological, economic and social developments in the 1960s had changed Dutch society within a short space of time from a pillarised, fairly conservative society to a depillarised, open society (Koole and Daalder, 2002). Processes of individualisation and secularisation also had an impact on the political landscape. The growing number of floating voters led to the 'de-freezing' of the party system. The confessional parties saw their support shrinking and new political parties were launched, aided by the highly proportional electoral system that has existed in the Netherlands since 1917. The consensus-based style of doing politics also temporarily disappeared. In this atmosphere of polarisation, it was not easy to find common ground in a joint approach to tackling the economic crisis.

In the early 1980s, the centre-right administration led by Prime Minister Ruud Lubbers, which proclaimed itself a 'no-nonsense' government, stepped in. Civil service salaries and social security benefits were cut and, under heavy pressure from the government, trade unions and employers' organisations forged an agreement in Wassenaar in 1982, in which pay moderation was linked to employment-sustaining measures such as a reduction in working hours. The common aim was to create more jobs. This agreement marked the beginning of a return to consensus politics, including between employers and trade unions (the 'social partners'). Traditionally, the social partners had had an important voice in the Netherlands in the formulation of terms of employment. This 'neo-corporatism' had come under pressure during the period of polarisation in the 1970s; antagonism led to inertia, which was only overcome in the early 1980s. Later, the Wassenaar Agreement was often seen as the basis for the economic recovery in the 1990s, especially by the social partners themselves. Their method of consensus-based negotiation also gained international renown, under the name 'polder model'.

The reality is perhaps slightly more complicated. The confrontational style was indeed replaced in the early 1980s by negotiation (Visser and Hemerijck, 1997), but the power relations shifted to the disadvantage of the trade unions. First, the large budget deficits forced the government to intervene, and spending on employment conditions and social provisions could not escape the axe. As a result, the position of the trade union movement changed from offensive (aimed at the expansion of provisions) to defensive (focused on preserving what had been achieved). This ultimately made it harder for the unions to connect with the younger generation, who saw this defensive strategy as a defence of the interests of an older generation. Second, the changing political relations undermined the position of the trade unions. Secularisation had weakened the position of the Christian political parties, who lost voters mainly to the growing liberal party (VVD). This in turn weakened support for Christian trade unions from the Christian democrats, not only because of their reduced size, but also because the confessional parties (which in 1980 merged to create the Christian Democratic Appeal (CDA)) found themselves competing electorally with the liberals. It seemed as if the 'upward rivalry' with the social democrats in the 1950s had made way for a 'downward rivalry' with the liberals, with parties competing to curtail social provisions. The 'social wing' of the CDA came off worst. Third, the international political discourse was increasingly coming under the influence of what came to be known as 'neoliberalism', which had as its central tenet 'less government, more market'. Keynes was replaced by Hayek. This ideology provided a fillip for proponents of a slimmed-down government apparatus in the Netherlands. They also argued that globalisation made this a necessity.

The combination of the need to reduce the budget deficit, the changed political landscape and the new ideological discourse impacted on the welfare state arrangements. As elsewhere, the central feature of the revamping of the welfare state in the Netherlands was the perceived need to make the system less generous (Pierson, 2001). But just as important were the changes taking place in society itself. The post-war welfare state was in tune with the society of the time, which was built around the traditional household model with a male breadwinner. The social security arrangements were designed to provide income protection in times of illness, unemployment or incapacity for work. But society began to change in the 1960s. Family life changed; women began working en masse, albeit mostly part-time. Lifestyles and labour market patterns also changed radically. The upshot was that the traditional arrangements of the welfare state were increasingly out of kilter with the changed society. Questions were raised as to whether the existing arrangements were not focused too heavily on risks that no longer existed to the same degree, whereas new risks received too little attention (Engelen and Hemerijck, 2007). Government policy, influenced by growing Europeanisation, increasingly moved away from the idea of 'protection' towards a focus on 'empowerment' and participation. In his Speech from the Throne in 2013, the King of the Netherlands observed on behalf of the liberal/social-democrat (VVD/ PvdA) coalition that 'the traditional welfare state is slowly but surely evolving into a participation society'. The Speech placed great emphasis on the need for people to take their own responsibility (Troonrede, 2013). However, this policy direction provided only a partial answer to the new division that had arisen in society: that between the 'insiders' of the traditional welfare state (with permanent full-time jobs) and



Mark Rutte, Liberal Prime Minister (2010-)

the 'outsiders' in the growing group of flexible workers, the self-employed and people without work.

This statement by the King accordingly sparked off a great deal of discussion. It was argued from several quarters that this was an attempt to disguise a cold (neo) liberal policy of austerity as some kind of lofty ideal. This cannot be seen in isolation from the political landscape in the Netherlands at the time, which changed yet again after the turn of the millennium. The great electoral instability opened the way for the rise of successful nationalist/populist parties: first the LPF party headed by Pim Fortuyn, and later the PPV party led by Geert Wilders. This latter party, in particular, links a xenophobic and anti-Islamic stance with the notion of defending the traditional welfare state. On the left of the political spectrum, the Socialist Party (SP) – also a staunch defender of the traditional welfare state – has become a feared competitor of the social-democratic PvdA. These peripheral parties exert electoral pressure on the mainstream parties which, each from their own standpoint, are nonetheless convinced that the welfare state has to be modernised. Society has changed, they argue; the costs are too high and the international environment means there is no choice but to modify the social system and deregulate the labour market. At the same time, existing arrangements are resilient and any attempt at change is highly path-dependent (Hemerijck, 2007, 2012; WRR, 2006). The result of this interplay of forces is a major but gradual, and austere, rebuilding of the welfare state.

The localisation of the welfare state

Despite all the attempts to curtail social security, public spending on the care sector (both cure and care) has continued to rise, from 9% of GDP in 1972 to 16% today (De Beer, 2015). Population ageing and the development of expensive medicines and treatments are contributory factors here. 'Market forces' were seen as part of the solution, with care insurers being given a stronger negotiating position vis-à-vis care and drug providers with a view to achieving cost reductions, under the mantra 'better care at lower cost'.

That same goal drove the decision by the present VVD/PvdA coalition under Prime Minister Marc Rutte to give local authorities a bigger role in the social domain. From 2016, local authorities will be responsible for the delivery of youth welfare services, care for the long-term sick and for guiding hard-to-place people into work. It is no coincidence that the legislation framing this latter objective is called the Participation Act. These three decentralisation operations (3D) build on earlier decentralisations in the preceding decade. The shift has been so massive that it is sometimes referred to as the 'localisation of the welfare state' (Bannink et al., 2013). The hope is that placing responsibility for these policy domains at local level will improve quality by integrating what were previously separate strands of the care and support system and placing them in the hands of decision-makers who are familiar with the local situation. At the same time, this operation is driven by a strong desire to save money. For example, after 2015, local authorities will have to deliver elementary domestic help with 40% less money than in the past. The integrated approach is intended to deliver synergy, but above all individual citizens will be expected to do more for themselves.

Concerns have been expressed not just about the speed with which these changes are being implemented, but also about the ability to achieve the austerity targets without affecting quality. That is now the primary focus of the political debate. For example, is it legitimate to largely shut down access to special benefit arrangements for young disabled persons or to sheltered employment? As well as 'participation', should 'protection' not also continue to be a central goal of social policy?

However, the decentralisations also impinge on the structure of the Dutch state as a whole. In the decentralised 'unitary state' that the Netherlands has been since 1848, responsibilities are now being devolved on a large scale to local authorities. Should those same local authorities then not have additional powers to raise taxes (Rfv, 2013)? Is democratic legitimacy for these tasks adequately regulated at local level (Nehmelms, 2014)? And how much policy freedom do local authorities really have in practice? Might formal policy freedom be nullified by 'implicit centralisation' (Van Berkel and De Graaf, 2011; Van den Berg, 2013)? As an example, in 2015 the new Participation Act has already become slightly less decentralised due to the harmonisation of a number of rules in order to assuage the concerns of employers (SC, 2015). The debate about the principle of equality is also important here (Rob, 2006). How acceptable is it that local policies differ from each other on an issue as important as the application of basic social rights? In practice, therefore, harmonisation could mean that formal decentralisation turns into de facto (re) centralisation.

The debate about the rebuilding of the Dutch welfare state is in full spate, driven largely by these decentralisation operations in the social domain, and shows no signs of abating. The configuration of the new welfare state is still the subject of heated political argument. But the Dutch term *verzorgingsstaat* ('nurturing state'), the unfortunate Dutch translation of the English term 'welfare state', is less and less appropriate for describing recent developments. Alternatives have been proposed, including 'social investment state', 'activating guarantee state', 'participation society', but there is currently no consensus on a new term. Yet there is no doubt that the Dutch welfare state is evol-

ing in a more austere direction, comparable to that of other European welfare states, even though each of them is following its own, historically determined institutional path. ■

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