

Change without Challenge?

Welfare States, Social Construction of Challenge and Dynamics of Path Dependency.

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1. Introduction

Current explanations of welfare state change and stability may be summarized into three very broad categories (which are not mutually exclusive): **(1) Interest explanations** which has in particular stressed class mobilization (Esping-Andersen & Korpi 1984,1986) and class alliances (Esping-Andersen 1990), **(2) Economic explanations** which stress the economic crisis or challenges to the welfare state (e.g. Lindbeck 1994; Pierson 1998), and **(3) Institutional explanations** which stress path dependency and the legacy of past decisions.¹ Very roughly, one could say that interest explanations have mainly been brought forward to explain the historical **expansion** of the welfare state; economic explanations mainly serve to explain **retrenchment and restructuring**; and institutional theory is used to explain the **inertia** of the welfare state.

Around the Millennium, welfare state theory has tended to give particular emphasis to economic challenges. This is not very surprising: The welfare states of Europe faced much economic hardship during the 1990s, and according to many economic analyses, future challenges will be even larger, due to ageing populations and problems of competitiveness of European welfare states in a globalized economy. Whereas a key question about the future of the welfare state a couple of decades ago was how it could improve equality, the key question now rather is whether it is robust enough to meet the economic challenges of the future.

Along with economic challenges, current research has focussed much on resistance to change (institutional as well as attitudinal), and on how such resistance can be overcome by a number of techniques of retrenchment (Pierson 1994). Although current research increasingly acknowledge welfare states' "declining resistance to change" (vanKersbergen 2000), institutional perspectives and in particular the notion of path dependency have mainly been employed to account for the relative inertia of welfare states.²

1) This distinction is close to the well-known distinction between political, functional and institutional explanations (vanKersbergen 1995: 6-30; Goul Andersen 1998); however, functional theories not only include economic theories but also theories about integrative or cohesive functions of the welfare state; and economic explanations are not by definition functionalist.

2) Some applications of path dependency are becoming more dynamic; thus Palier (2000) link the concept of path dependency to Hall's (1993) distinction between changes of the first, second and third order, i.e. change of levels, change of instruments and overall change of perceptions, logics and goals (in short: Paradigms), and suggests to reserve the label "path dependency" for changes at the second order which

(continued...)

The point of departure for this paper is that something must be missing. The current mix of approaches, in particular the emphasis on economic challenges, seems to have difficulties in explaining why some of the welfare states that has undergone the most far-reaching changes are welfare states where the economic challenges appear rather modest. One may also ask whether “challenges” are really that new. Further, it seems that, if we look backwards, “challenges” in any objective sense does not help us much in “predicting” the welfare state as it is now; institutional inertia may help us more but does not account sufficiently for change; and (class) interests may help us understand some of the changes, but far from all of them. Briefly, current research often seems to over-emphasize economic challenges and under-emphasize the importance of *agency*, that is, the interests, and in particular the *formation* of ideas, perceptions, and preferences among decision-makers. Next, current research often seems to equate institutionalism and path dependency with a notion of inertia that is not necessarily implied by this approach. Below, I shall argue for a more “*constructivist*” approach to the “challenges” facing contemporary welfare states, for more emphasis on agency, and for a more dynamic approach to path dependencies.

Our empirical illustrations below are mainly drawn from Denmark.³ Although in some respects atypical (few “veto points”), this case gives some very good illustrations of the problems involved in an approach based on the two components of “challenges” and “institutional inertia”: In the 1980s when the Danish welfare state faced severe “challenges” or even a structural crisis, nothing really happened to the welfare state, at least in qualitative terms; during the 1990s when economic prosperity has allowed high growth rates in public expenditures, one may almost speak of a “silent revolution”. It is still uncertain whether these changes should be considered a matter of degree or a change in kind; certainly many observers, and politicians, would emphasize stability rather than change. But even though changes may be small from an outcome point of view, quite a few changes in principles have taken place that *may* have potentially far-reaching implications. Such ambiguities seem rather widespread across welfare states at present. As the economic situation in Europe is improving, the Danish situation of relatively weak links between challenges and change may also be prototypical, even though obstacles for change undoubtedly remain stronger in Bismarckian welfare states than in the Danish case with strong government control over the welfare state (Bonoli & Palier 2000) and weak minority (coalition) governments.

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may at times be quite far-reaching

3) Other illustrations following the same line of thinking can be found in Goul Andersen (1993).

2. Economic Challenges or Economic Philosophies?

Before the first oil crisis, theories about the relationship between the welfare state and the economy were typically functionalist, emphasizing the positive, indeed “necessary” functions for society performed by the welfare state.⁴ The model of a welfare state adapting to external change applies to economic welfare theory in the 1950s and 1960s as well as to economically oriented Marxist theories in the early 1970s, notably “capital logic” which “translated” concepts such as collective goods and externalities into a Marxist language (for an overview, see Jessop 1982). In the mid-1970s, the picture changed. “The crisis of the welfare state” - be it “fiscal crisis”, “demand overload”, “ungovernability”, “legitimacy crisis” or even “bankruptcy” (which in a sense summarized all the above) - became a fixed reference point for most scholarly discussion about the welfare state (for an overview, see Birch 1984). From the 1980s such notions about the (*endogenous*) politically and economically self-destructive forces of the welfare state gradually disappeared. They were replaced, on the one hand, by economists’ increasing concern for the negative impact of welfare arrangements on market flexibility and efficiency (Sandmo 1991), and on the other hand by the interest of other social scientists in the institutional histories and the institutional variations of welfare states, not least the discussion about welfare state regimes (Flora, ed., 1986; Esping-Andersen 1990).

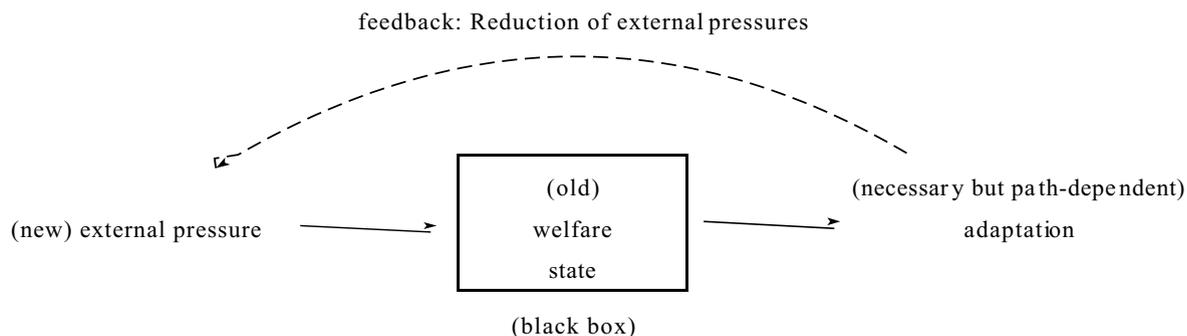
During the 1990s, the notion of crisis reappeared in another language. Today, much if not most, discussions about the future of the welfare state take their point of departure in the common “challenges” facing contemporary welfare states. This also includes non-economic factors such as what might be labelled the challenge of “post-modernity” (individualization, changing family structures, etc.). But the most important challenges referred to include economic problems of ageing, and of globalization and competitiveness in a “new knowledge-driven economy” (Lisbon Economic Council 2000).⁵ This picture of challenges is one of an “old system in a new world” (Ploug & Kvist 1994: 11), i.e. the welfare state is faced with new *exogenous* forces from changing demographic and economic surroundings (Figure 1). To this perspective which owes much to functionalism, is usually added an institutional perspective: All welfare states face such

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- 4) Another branch of functionalist theories (including Marxism) stressed the socially integrative or cohesive functions of the welfare state.
- 5) Sometimes is also referred to anti-inflationary goals of the Economic and Monetary Union which we shall leave aside here.

challenges, but depending on their institutional set up, they are affected somewhat differently, have different capacities to overcome the challenges, and choose different paths to react.

The question is how appropriate this approach is if it stands alone. It is of course important to draw attention to the relationship between the welfare state and the economy. But depending on how it is practised, there are a number of dangers: (1) It may too easily import the implicit functionalism that characterize much economic thinking about the welfare state, and it may sometimes involve taking contested or uncertain economic diagnoses too much for granted, such as the consequences of ageing and of globalization.

Figure 1. A “functionalist” model of challenges to the Welfare State and Policy Change.



(2) Most importantly, the approach tends to draw attention away from the changing *definitions* or the “social construction” of economic problems, and from the *actors* that are bringing about change⁶. The welfare state becomes a “*black box*”; what we need is to open this black box by means of some of the tools from policy analysis that looks at the social construction of “problems”, and at the interplay between actors’ interests and ideas, “problems”, and institutions (Clasen 2000; Scharpf 2000).

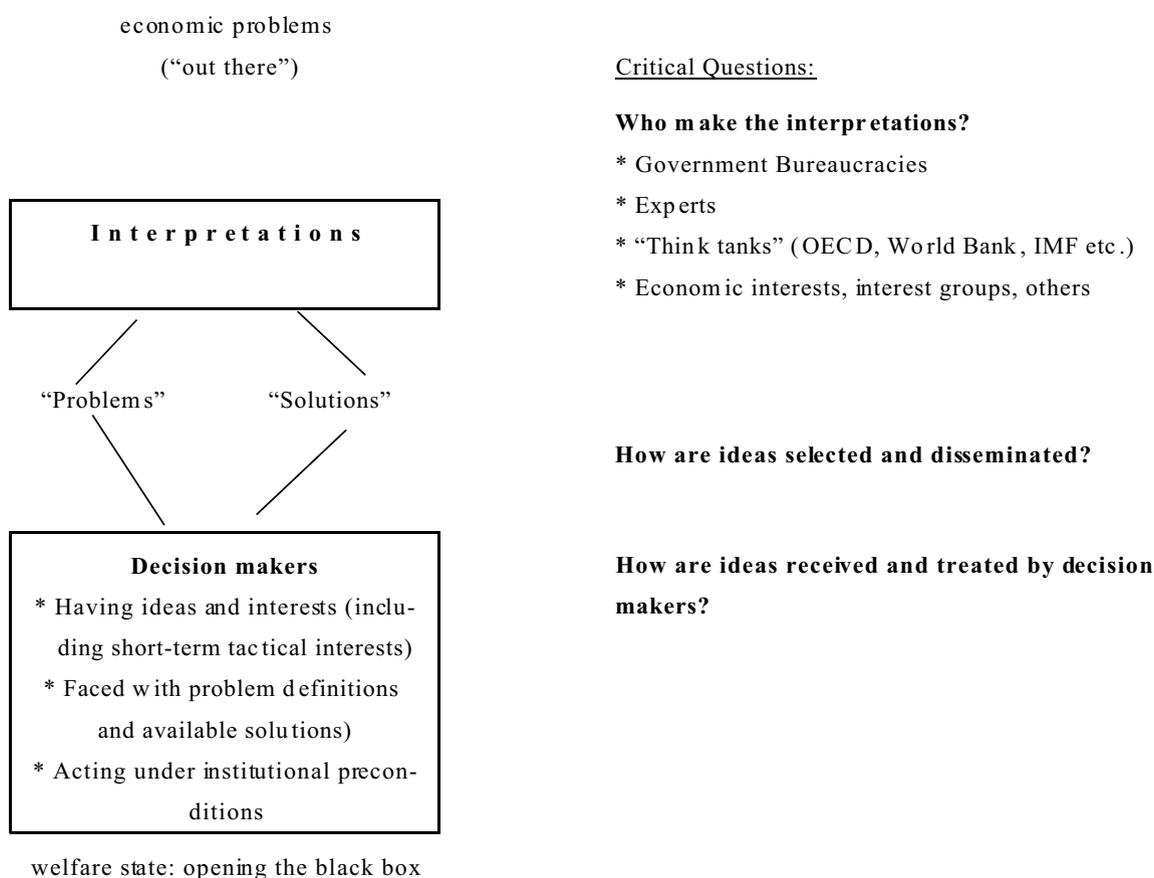
We can illustrate this argument by means of two figures. Figure 1 shows what could be called “modern functionalism” which couples functionalism with institutional diversity: The welfare

6) Besides, and from a practical political view very importantly, it may identify the “wrong” economic problems: It detracts attention from the endogenous economic challenge of controlling public budgets: A very large public sector, in particular a large public service sector, does not mean “ungovernability” or “demand overload” as claimed a couple of decades ago. But it does involve great pressures, and it is a common observation that the association between input in terms of budgets and outcomes/effects is not always very obvious; health care expenditures is a well-known case in point.

state faces external pressures and has to adapt, often reluctantly, and in accordance with its institutional history; at some point, this adaptation is sufficient to stabilize the situation as it reduces the external pressure. Welfare state theory can classify adaptations into major paths; and of course, this is rarely done without recognizing also that political factors play a role. This approach has much to it and should by no means be abandoned; however, it may have bias towards accepting too un-critically prevailing problem definitions, towards seeing politics as rational problem-solving, towards seeing the nature of the problems as the only source of uniformity across countries, towards seeing the changes as inevitable; and towards under-estimating the potentials for change or diversity.

This becomes clear when we contrast this model with what could be labelled a “constructivist” model that focusses more on the political processes involved (Figure 2). This

Figure 2. A “constructivist ” model of Changes in Welfare Policies.



involves basically three processes: Interpretations/problem definition, dissemination of ideas, and reception of ideas by decision makers (a fuller account should include also a fourth process: The process of implementation, which may sometimes reveal that changes are not really changes at all, or that quite fundamental change has taken place without any formal change of rules).

To begin with interpretations, problems do not really become problems before somebody defines them as problems. But who defines such problems, e.g. the problems of “ageing populations”, or the problems of “inflexible labour markets” in face of “globalization”? Of course, such “problems” are rarely invented out of nothing; there are “real” problems lying behind “out there”. But the relationship, and in particular the relative emphasis on problems, is not always that evident, and there is not free and equal access to defining society’s problems. A core research interest is who does it, and how it is done. What is the role played, e.g. by government bureaucracies, by various “think tanks” such as the OECD (which - without any formal competence - skilfully combines economic expertise, networking and backing by political power), etc.? Such problems should be addressed more critically than is usually done.

The next stage is the selection and dissemination of ideas. Again, we know relatively little about the “who” and “how”, e.g. how is the flow of ideas within government; from experts, international think tanks to national governments, etc.? Why are ideas often so heavily loaded with symbolics, not only when they are adopted by politicians but also when they are recommended by experts: “passive vs. active” support for unemployed; “burden of support” for the elderly, “pension bomb”, “ageing crisis”, etc.? And as to the relationship between “problems” and “solutions”: In politics, it is in a sense perfectly natural that “solutions” (i.e., ideologies) often seek “problems” to combine with (see also Kingdon 1995); but to what extent is this also the case when it comes to welfare state change?

Finally, there is the question about the reception of such ideas (problems and solutions) among political decision makers who already have interests and ideas of their own. It may be suggested that political decision makers, apart from being straightforwardly persuaded, are likely to select among the problem definitions that are compatible with their interests, and between the solutions that serve their (often tactical) interests.

Briefly, there is a case for “bringing politics back in” into analyses of welfare state change. At the same time, it must be recognized that politics today is just as much about problem definition

and agenda setting, as it is about decision-making. Also it must be recognized that the relationship between political representatives and social groups is far less obvious than it used to be; this means that one more frequently has to distinguish between politicians' interests as representatives of particular social groups and politicians' interests simply as politicians.

It may be argued that this line of reasoning only serve to complicate things; to reproduce a chaotic situation rather than trying to identify systematically the broad lines of change; to replace theory for "storytelling". This argument has something to it, and the one type of analysis cannot replace the other. But nor can an analysis of processes be neglected. As will be argued below, it is not just a matter of adding detail and confusion; indeed crucial sources of change and crucial elements of interpretation can only be grasped this way.

To illustrate the importance of problem definitions and to underline why "challenges" are not always that obvious, we may take two Danish illustrations, the challenge of ageing and the challenge of globalization. As to ageing, it is of course true that this constitutes a challenge: however, focussing so much on "needs" associated with demographic change may direct attention away from the fact that controlling large-scale public budgets may be an even more important challenge. In Denmark, the costs of ageing populations, including elderly care, is typically estimated to some 4-6 per cent of GDP over 30-35 years (e.g. Welfare Commission 1995; Ministry of Finance 1996, 1999: 104-121, for an outlier, see Economic Council 1998:145). This is roughly equal to one-half of the interest payments on the Danish state debt in mid-1980s - or to the growth in the public economy from 1980 to 1982 (+ 4.6 per cent of GDP) when steering of public budgets were weak. To use another comparison, during the most "tough" retrenchment period from 1982 to 1990, the government brought public consumption down from 28 per cent to 25 per cent of GDP; still, this allowed for a real growth of 5 per cent in fixed prices (Goul Andersen 2000a:71). By contrast, the number of old-age pensioners increased by 33 per cent from 1972 to 2000, but the proportion of GDP spent for old-age pensions (adjusted for tax reform in 1993/94) declined from 5.1 per cent to 4.6 per cent (Goul Andersen 1998: 130). By the same token, the proportion of Gross Factor Income spent for health care increased from 6.3 per cent in 1972 to 7.0 per cent in 1981 but then declined to 6.2 per cent in 1992 (Goul Andersen 1993: 228). In short, in the real world, there is sometimes surprisingly little association between needs and public expenditures - or between expenditures and outcome (Kristensen 1987; Lolle 1999). This is not to neglect the relevance of ageing populations but to bring it into proportions. Besides, population prognoses are surprisingly unstable: In 1983 it was estimated that there

would be some 4.2 million people in Denmark around 2025; in 1996, due to higher birth rates and immigration, the estimate was around 5.6 million.⁷ Strictly speaking, our knowledge about the economic effects of ageing populations is quite uncertain.⁸

Little is known also about the effects of globalization (Bonoli, George, Taylor-Gooby 2000). Leaving aside the important question of what “globalization” means, and the disputes about whether there *is* a globalization (Krugman 1996), it remains contested what it implies. The point of view that globalization and technological change means a decline in aggregate employment (which, inter alia, lended legitimacy to citizens’ wage strategies, see e.g. Offe 1996) is more or less abandoned among public policy elites. The dominant philosophy around the Millennium, much propagated by the OECD (1994,1997) and to quite some extent supported by e.g. Esping-Andersen (1999,2000), is that Western European countries face a choice, or a trade-off between employment and equality. A well-known argument, rich of symbols and with a high capacity for identity-shaping, is a comparison between employment and unemployment rates in the USA and in the European Union (OECD 1994): Until the mid-1970s, USA used to have twice the European unemployment rates but since the early 1980s, it has been the opposite way around: American unemployment rates are only about half the European, and labour market participation in the USA increases whereas it has (until recently) been declining in Western Europe which seems caught by some “Eurosclerosis” due to its “inflexible” labour markets and due to other distortions caused by disincentives of welfare arrangements.

However, by 2000, the question “Will Europe Work?” already seems to find a much more positive answer than it did in the mid-1990s, and evidence from European countries indicate that there are several different routes to high employment rates and low unemployment. The Netherlands is a well-known case in point (Visser & Hemerijk 1997; vanOorschot 2000) but there are other interesting examples, including Denmark (and Sweden which is recovering rapidly from the severe recession in the 1990s). In Denmark, unemployment has declined to a low point of 5 per cent in 2000 (national definition), corresponding to 4 per cent by the ILO definition (Goul Andersen 2000b). This is close to the level in the USA and around one-half of the

7) Statistics Denmark: Befolkningsprognose. *Statistiske efterretninger: befolkning og valg*, 1983:15 and 1996:14..

8) Another problem is hardly debated at all: What will happen when pensioners really start using their pensions savings (in Denmark well above 100 per cent of the GDP and estimated to grow at a very high rate)? This could well be a larger “challenge”.

European average. The Danish figures are interesting as there is little to indicate that this is an effect of policy change. In the first place, the improvement was achieved without accepting increasing inequality. On the contrary, equality, at least in *disposable* incomes, seems to have increased (Ministry of Finance, 2000: 67-108). Secondly, although there has been a path-breaking change in Danish labour market policies (Goul Andersen 2000b), there does not appear to be any strong causal relationship to improved employment. There *are* measurable effects of activation, but as in other countries, they are weak and uncertain (Larsen, forthcoming; Martin 2000). And contrary to previous problem definitions, the improvement of unemployment did not run into any limits defined by the “structural level of unemployment” which was a few years ago estimated to 11 per cent (Stamhus & Larsen 2000).⁹

Again, this indicates that “challenges” should be considered very critically, and that the social construction of problems is an important subject in its own. Of course, the economic ideas are not simply wrong but it remains to be explained why one particular set of interpretations arise to such a dominant or even hegemonic position. Rather than (only) considering challenges, we should also consider how decision makers are influenced by ideas, from where and how such ideas disseminate, and how they interact with the interests of actors, who may or may not express their interests within the frames of certain ideas, or who may sometimes even change their perceptions of own interests. Again to take Denmark as an illustration, the idea of structural unemployment and the whole micro perspective on labour markets came on the political agenda almost over night in 1988/89, at a time when the government was seriously pressured in opinion polls and was desperately in need for some kind of “new project” that could mobilize its core adherents and give a sense of direction. This gave influence to “political entrepreneurs” within the government who could supply such philosophies, and as these ideas were long ago available (in international organizations like the OECD, or among domestic economists), it was just to pick it.¹⁰ Shortly after, the underlying philosophies were also to a large degree accepted by the trade unions and the Social Democrats as they were compatible with their interests in more active labour market policies: Improving qualifications of people with low skills became a “functional

9) Some economists have even begun questioning whether there *is* such a thing as structural unemployment, and in the Danish case, there are strong arguments against the interpretations that have guided policies (Ibsen 1992). Still, efforts to avoid bottlenecks on the labour market may have had some effect.

10) Ironically, the government coalition 1988-1990 which were intended to be more centrist than previous bourgeois governments came to pursue (but not to implement!) the most radically bourgeois/neoliberal policies in this period.

alternative” to lowering minimum wages and unemployment benefits. This was confirmed in the report of one of the major government-appointed commissions on the subject in 1992 (Udredningsudvalget 1992): The social partners and others who participated did not reach agreements on policies but they reached agreement on problem definitions.

As to globalization, there was also a fundamental disagreement between those who believed that this was basically a gain, and that the negative effects could be offset by active labour market policies, and on the other hand those who believed that for the low-skilled there would be no alternative to lowering minimum wages, either directly (but supplemented by some “tax credit” in exchange for lower wages), or through subsidizing service labour for private households (which at that time was the main suggestion). Another big commission of the 1990s was designed to legitimise the latter policy, and to some extent, it did (Welfare Commission 1995). Interestingly, however, the most significant political conflict over the impact of and the strategies against the externalities of globalization took place between two Ministries in the Danish Government. This conflict was not settled until unemployment rates began to decline sharply: Since then, globalization was no longer considered a serious threat, and no particular measures had to be taken against it.

3. Institutionalism, Path Dependency and Path Dynamics

The increasing academic interest for economic challenges to the welfare state reflects of course the long-standing economic problems of European welfare states in the 1990s. But probably it also reflects an increasing sense of change that runs somewhat counter to the previously dominant version of institutionalism in welfare state theory, namely the equation of institutions and inertia, including the notion of path dependency. Certainly there has been brought forward impressive evidence of welfare states’ resistance to change, and of the stability of welfare state regimes even in changing surroundings. But - so the argument might be reconstructed, and this is also implicit in e.g. Esping-Andersen (1996) - when surroundings change sufficiently, they constitute a challenge to the prevailing inertia. As indicated in Figure 1 above, a functionalist perspective suggests that change is needed; an institutionalist perspective suggests that this is likely to take a path dependent course, and increasingly, this has come to include the possibility of more far-reaching changes but in accordance with the basic logics of existing institutions or “welfare regime” structures: Liberal, Conservative, Social Democratic (or whatever label is preferred).

The last mentioned application of institutionalism shows that the allegation often launched against institutionalism that it is unable to explain change is not very well-grounded. But even the notion of path dependent change as referred to above is not an in-built limitation of the approach. Or to express it in other terms: Path dependency does not exclude path breaking: This may by itself be an element of path dependency. The path metaphor only means that policies tend to follow some particular routes with an in-built logic; but that can sometimes involve dramatic change. Furthermore, such path breaking may go relatively unnoticed, sometimes even by decision makers, until the implications suddenly become clear. This rather “anarchic” interpretation of path dependency is a bit of disturbance in relation to generalising ambitions of the social sciences. It may also be abused as a catch-all explanation; but on the other hand, it seems difficult to escape and it is fully in line with the ideas of the “founding fathers” of “new institutionalism”.

Basically, the notion of institutionalism simply means that decisions taken and institutionalised at one point of time strongly affects decisions at a later stage. On the objective side, they determine policy effects and, accordingly, what problems are encountered. Also, institutions are power positions that determine strength of particular interests or interest alliances, and they serve as gate-keepers or non-decision structures that organize some issues or concerns in and others out. However, decision makers not only “power”, they also “puzzle” (Heclo 1974), and institutions may also strongly affect the *perceptions* of problems and even the perception of interests. But this should be understood properly: Actors act in surroundings of uncertainty, and they learn (Simon 1985). Minor changes in institutions may sometimes make the world appear highly different to actors. Thus, in the first place, institutions not only *limit or constrain* the range of possible choices; they also *facilitate* certain ideas, i.e. perceptions of the world, perceptions of problems and solutions, perceptions of interests etc. - and certain paths of action. Secondly, this does not necessarily mean that people reproduce the *same* patterns of action; it can also involve sudden and radical change.

Thus it is misleading only to see institutions as constraints. It is no accident that the “founding fathers” of “The new institutionalism” (since then, there has been several variants) began by writing, e.g. about “garbage can” decisions (Cohen, March & Olsen 1972) and went on, when they launched the label of “new institutionalism” (March & Olsen 1984), by not only repeating the idea of “garbage cans” but adding also “policy martingales” as an illustration of what they were thinking of. This concept of “policy martingales” refer to a situation where some small

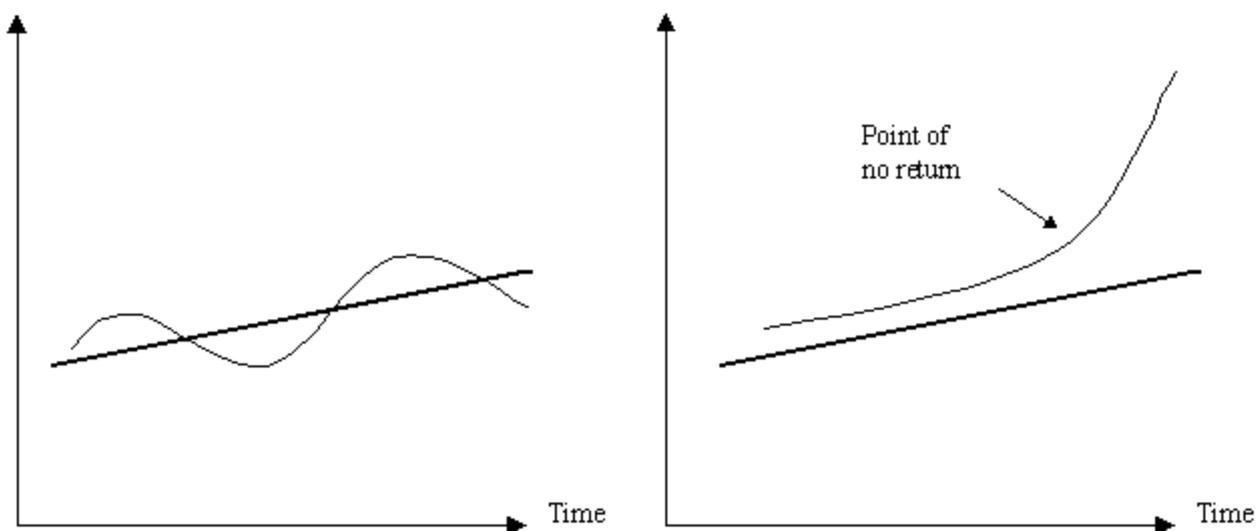
initial change turns out to have self-reinforcing effects that determine larger and larger deviations from previous policies, but still along a path that is anything but arbitrary.

Thus, although “path dependency” is often associated with a notion of inertia, there is nothing in the origin of the new institutionalism that dictates such an interpretation; on the contrary, “path dependency” may be a highly dynamic concept. To avoid misinterpretations, and to distinguish, we may perhaps enter the expression of “path dynamics” to describe a path that moves away from some sort of previous “equilibrium”. Such path dynamics may be intended, but sometimes they are not: Decision makers may sometimes be faced with the fact that some decision which initially did not seem very important turned out to bring path-breaking change because of such “martingale effects” as referred to above.

This perspective is not unusual in analyses of decision-making processes; however, in theorizing over welfare state changes it seems to have played a minor role. There are also quite some reservations to this sort of theorizing which can be accused of explaining everything and therefore finds itself explaining nothing; on the other hand, it directs attention to potential dynamics, to potentials for path-breaking change. Borrowing from the language of functionalism (Stinchcombe 1968), one may say that there perhaps used to be a number of stabilizing mechanisms (“veto points” as well as others) that corrected deviance from an established institutional set-up whereas European welfare states are currently in a situation where such mechanisms are weakened and the potentials for dynamic path-breaking change are larger.

We can illustrate the two meanings of path dependency in Figure 3.a. and 3.b below. Figure 3.a. is the classical picture where some deviations from an established path occur from time to time but are corrected. In Denmark, a classical example would be the oscillations around the path of universalism, reflecting a deep ambivalence and uncertainty between two basic values of the welfare state: protection of the poor (universalism originally developed from selectivism) and citizenship. At any rate, when it is discovered that some weak groups receive insufficient

Figure 3. Stable Path Dependency and Policy Martingales. An illustration of Path Dynamics.



support, attention is often directed towards welfare for the better off, and arguments arise in favour of targeting. If such policies are successfully implemented, all the foreseeable evils of targeting sooner or later appear on the political agenda: Control problems, problems of inscrutability and unequal treatment, interaction between means-tested benefits and marginal taxes producing perverse incentives, “unjust” treatment of people who seek to act in a “responsible” way by saving but sometimes almost find themselves worse off than people who spent any penny, etc. Then interaction problems between taxes and targeting comes on the agenda which is usually solved by modifying or abolishing targeting, turning back to universalism.

The model of policy martingales is without such correction mechanisms. It refers to a situation of self-reinforcing change or deviations. Building further on a tentative and intuitive basis, one could say that such change may often develop quite slowly, being small and insignificant in the beginning, perhaps not even recognized, and definitely not recognized as any path-breaking change. But at a certain point of time, it passes a point of no return and develops very fast, with significant path-breaking consequences.

This is nothing but a metaphor or a model. But it does seem easy to find developments of welfare arrangements that fit this pattern, and does seem to provide a way of thinking that could have been useful in much welfare state research. More specifically, it helps in reading a situation, it makes one alert to path-breaking potentials of small and incremental changes, and not least, it

provides a source of change that need not always be much related to either interests or to economic necessity.

A similar notion of path dynamics is implied by Esping-Andersen's (1990)¹¹ prediction that the maintenance of flat-rate universalism in pensions will end up producing a dual pension system. This even refers to a situation where decision makers think that they maintain the status quo but in effect produce a path-breaking change. Basically, this was what happened in Denmark, whereas Sweden and Norway chose another path of adding a income-related superannuation scheme to the basic pension in the 1960s. Denmark only added a small, employment-related but otherwise flat-rate superannuation scheme. But at the same time, occupational pensions expanded so that in the mid-1980s, a dual pension system had become a reality, with one-third of the population having a significant supplementary pension whereas the remaining two-thirds had only their basic pensions (Vesterø-Jensen 1985). Thus, the wish to maintain the system in fact led to what could be considered a path-breaking change.¹²

In the 1990s, one more "silent revolution" has taken place in the same field. The dual pension system was less unjust than it could seem: In accordance with the logic of universalism, Denmark had developed a "Rolls Royce" version of flat rate universalism in the 1970s and 1980s.¹³ In addition to the basic pension and the small second-tier scheme, privileged housing allowances for pensioners, tax privileges, a large number of special arrangements (cheap public transportation, support for heating, etc. for pensioners), and individual supplements (given by municipalities on discretion) ensured very high de facto minimum pensions which provided approximately full income replacement for single pensioners from lower income groups. Nevertheless, on

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- 11) The examples of such path dynamics that are not possible to include under what is usually referred to as path dependency are innumerable. For instance, Bonoli, George & Taylor-Gooby (2000:31) endorse the idea of Glennester (1995:182) that once a flat rate universalism comes below a certain level, it becomes irrelevant and will tend to wither away altogether. By the same token, Palier (2000) identify what looks like a path-breaking change in the financing of the French social security system.
 - 12) Still, the expansion of occupational pension was smaller than could be expected from the limitations on public pensions whereas in Sweden, it was the other way around: Generous public pensions even for the new middle class did not crowd out occupational pensions as much as one could expect. Protection of class differences and adaptation of expectations are offered as possible expectations (Pedersen 1999).
 - 13) There is an interesting parallel to New Zealand which originally (1898) was next to Denmark in adopting a purely tax-financed system, partly inspired by the Danish social reform in 1891. However, New Zealand strengthened universal pensions and dropped tax subsidies to all private pensions savings (Overbye 1997).

demand from the trade unions, and without any political decisions, a funds-based labour market pension has gradually been established in the 1990s as part of collective agreements. Although these occupational pensions were intended by the unions as a *supplement* to the universal pension system, a path of gradual *substitution* is equally imaginable, although this was probably not really intended by anybody.

At any rate, the future is uncertain. A number of incremental changes would seem to fit the path of substitution: From 1990, indexation was changed to wage increases less the value of improved pensions; in connection with the 1994 tax reform, a larger share of the basic pension became means tested¹⁴; and in 1998, housing allowances for pensioners became more strongly means tested on income. Finally, even the basic amount has become means-tested against income from active employment. So far, this is only a “retirement test” with small practical effects but it could easily be expanded to a general means test. And as occupational pensions mature, the implicit notion of pensioners as a “weak” group will evaporate, and consequently, there will be more and more arguments for abolishing all sorts of special treatment of pensioners. This change of mentality already seems to have squeezed individual supplements. The consequence is a lowering of de facto minimum pensions which, in turn, might increase pressures to move contributions for labour market pensions beyond the present target of 9 per cent, for instance towards the 15 per cent which many public employees enjoy already. If this happens, occupational pensions are likely to become the backbone of the pension system, whereas the basic pension may slowly wither away except as a guaranteed minimum (Cox 1998). With lack of regulation and an extremely low degree of risk sharing, this has more far-reaching implications than in other countries where occupational pensions have a heavy weight. How far things will develop, remains to be seen. But the point of no return has long ago been passed, and quite radical change is a likely outcome of small and incremental adjustments which were not intended to go very far but contained a number of self-reinforcing elements.

Another classical example, still within the field of pensions, is the first major Danish social reform in 1891 which included an old-age relief that was second to Bismarck’s contribution-based

14) The basic pension consists of a basic amount given to everybody and a pensions supplement which is means tested but in practice given to a very large majority of pensioners. However, with increasing incomes from private pensions, more and more pensioners will be affected by means testing, and the relationship between basic amount and supplement has been changed from about 4:1 to about 3:2 for single pensioners.

reform a couple of years earlier. Denmark consciously chose an entirely different path by introducing tax-financed, needs-tested pensions that later paved the way for universal, flat rate pensions. The reasons for this choice was agrarian interests, or rather, a misperception of agrarian interest, as it was believed that such a pension reform could maintain a large agrarian workforce to be available for the middle farmers (Baldwin 1990: 65-76). The Conservative party had preferred a contribution-based system, and so did the agrarian Liberal Party a couple of decades later, whereas the Social Democrats who later became the main defender of the system actually voted against the reform in 1891. But when the Liberal Party changed its mind, it was too late. In many respects, the old-age pension system that developed became the backbone of the universal welfare state in Denmark, and in the first decades of the 20th century, it relatively soon began developing according to its own logic of universalism, partly because the middle class parties also became preoccupied to ensure a “just” share for the social groups they represented (Baldwin 1990).

4. Institutions, Attitudes and Behaviour

As mentioned, popular support for the welfare state, not least in Scandinavia, has often been seen as a major obstacle to change. Institutionalism and the notion of path dependency, however, tend to see attitudes also as a dependent variable (Svallfors 2000), and to direct at least as much attention to the actual behaviour of people as to their political attitudes. Even if people may prefer welfare arrangements building on principles of solidarity, they have to seek solutions for themselves under the existing opportunity structure.

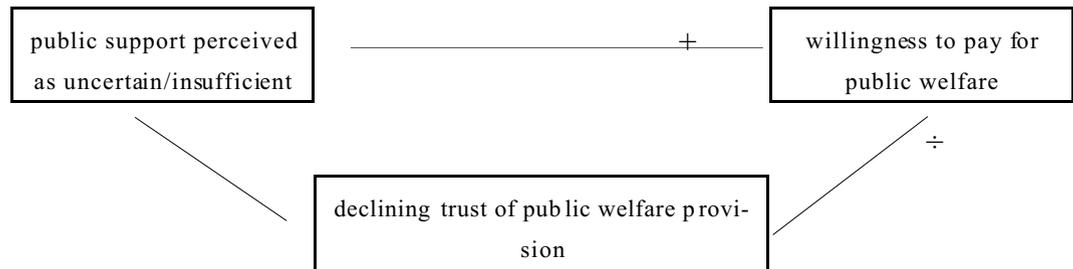
To begin with the example of Danish pensions, the new labour market pensions were initially not very popular among the unskilled but gradually, improved pensions have become an increasingly popular demand in wage negotiations as public debates about the “pension bomb” has generated widespread distrust in the maintenance of the public pension system. Private insurance companies and banks have actively sought to exploit and reinforce such distrust, e.g. in advertising campaigns. The result is that a majority of the population no longer believe that they can rely much on public pensions when they reach pension age (Goul Andersen, forthcoming). If this leads to an increase in private pension savings, the effect could be an even stronger crowding out of public pensions than presently envisaged.

A similar situation has developed when it comes to certain service provisions such as medical treatment and elderly care which is (sometimes wrongly) believed to have an unacceptable low standard. At present, and ironically with the support of trade unions, insurance against “critical disease” is mushrooming, not least as part of collective agreements. So far, this insurance typically includes only a cash amount and not medical treatment as such, and perhaps it is not very likely to develop much further in that direction. But even when it comes to medical treatment, there is some uncertainty about the future. Whereas 52 per cent do not believe that old age pension will continue (35 per cent think it will), 29 per cent do not expect that there will be medical treatment for everybody and that people will have to insure themselves (58 per cent disagree). The question is of course what can be the consequence of such change. Even though there are so far no signs of a weakening of people’s support for the welfare state (Goul Andersen, forthcoming), one possible path could be a strongly increased demand for private welfare.

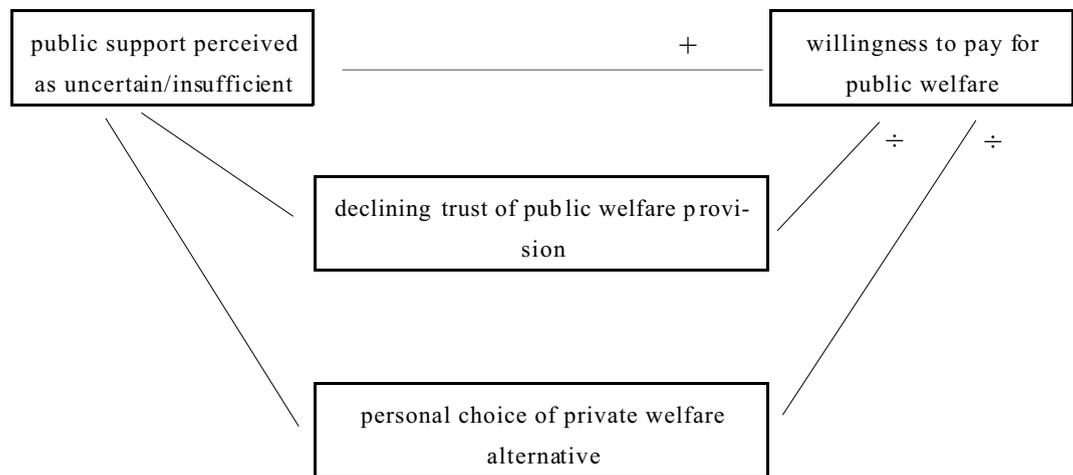
Figure 4. Possible relationships between perceived quality/sufficiency of public welfare support, trust, preference for private alternatives, and welfare support.



A. Increased support



B. Ambiguous situation



C. Private welfare path/crowding out

The argument is that if trust in public welfare deteriorates, it will increase demand for private welfare among those who can afford it, and this can trigger a lower support for public welfare as

people do not want to pay for welfare twice.¹⁵ There is, however, quite some empirical evidence which speak against this scenario. Svallfors (1996,2000), using ISSP data to examine an implication of welfare regime theory that social variations in support for the welfare state will differ between residual, universal and corporatist welfare models, found support for the regime theory only as far as aggregate support is concerned. By the same token, Burchardt & Propper (1999) found that attitudes to public financing of welfare spending was not directly linked to use of private alternatives. Danish data indicate that perception of inadequate public service remains positively linked to support for increasing budgets. But it also turned out that in a period of persistent criticism of public services, from 1998 to 2000, the strength of such associations had declined very significantly. It was also possible to examine the single hypothesized paths in 2000, and although the associations were weak, the suggested relationships were basically confirmed (Goul Andersen forthcoming).

Table 1. Willingness to spend more for respective services, by perceived quality of service provision. Percentage differences: Spend more minus spend less. 1998 and 2000.

	Percentage difference index: spend more, minus spend less.					
	1998			2000		
	public service function well	public service function less well	effect	public service function well	public service function less well	effect
Day care	+25	+72	47	37	62	25
Basic school	+31	+51	16	46	57	11
Hospitals	+64	+85	21	69	80	11
Home care for elderly	+29	+85	56	50	81	31
Average effect	.	.	35	.	.	19

Now, these data serve only as an illustration. But they do indicate that one should perhaps not put too much emphasis on public attitudes as a constraint to change, and it is imaginable that, perhaps

15) Bono li, George & Taylor-Gooby (2000:46) speak of a perceived “social protection gap” that may be filled by private provision. Increasing resources and increasing expectations might even *as such* trigger an increasing demand for private welfare provision, regardless of the supply of public services.

not even politically intended, public support may erode once private paths to welfare move beyond a certain level. Once again, path dependency may contain highly dynamic and sometimes unintended dynamics.¹⁶

5. Conclusion

The messages of this essay are very simple: First, that not too much emphasis should be given to the economic challenges to the welfare state; secondly, that more emphasis should be given to the social construction of challenges (which is quite variable), and more generally, to agency; thirdly, that welfare states do find quite different solutions to such challenges which do not unambiguously point in one direction; fourth, that if policies move in one direction across countries, this may stem not only from the nature of “challenges” encountered but also from the dissemination of ideas; fifth, that path dependency should not be employed only as a static concept; and sixth, that in the present state, many dynamic paths away from the welfare state “as we knew it” are imaginable. To avoid confusion, the concept of *path dynamics* could serve as an appropriate concept to describe such developments that are path dependent but at the same time turn out to be path breaking.

The question of (1) whether it is *possible* to maintain the welfare state in face of new challenges should not be conflated with the question of (2) whether present welfare arrangements are *likely* to survive. At least in the Danish case, it is not difficult to answer the first question in an affirmative way. But the answer to the second question is much more uncertain. Finally, there is the question of whether this is at all desirable. But that’s another story.

16) A further case in point is the Danish public child care system that has moved close to full coverage. Apart from a few progressive reformers, nobody had envisaged such a development. But people’s behaviour, including their propensity to move to a municipality where daycare was guaranteed, left municipalities with little choice if they wanted to avoid stagnation. At the same time, public provision of childcare and elderly care has contributed to a level of taxation where the choice of being a housewife (without any sort of transfer income) does not in practice exist anymore.

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