

THE POTENTIAL RICHNESS OF PATH DEPENDENCY ANALYSIS
Explaining Radical Welfare Reform in the Netherlands

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1 Introduction

This year it was half a century ago that the English philosopher Karl Popper published his famous book on the *Poverty of Historicism* (1957), in which he argued persuasively against the possibility of laws, trends and patterns in the evolution of history. According to Popper, teleological and deterministic theories of history, either associated with Hegelian notions of destiny or positivist ideas on universal laws, are logically inconsistent and ideologically dangerous. Although his rigid conclusion has been challenged by many social scientists, historians, philosophers and evolutionary biologists, Poppers' essay is still of great value for the modern debate on the role of history in understanding social development.

In the introduction of his book Popper tries to reduce the complexity of his argument to one simple logical statement. He argues that (scientific) knowledge is a major factor in the development of social systems and since it is logically impossible to predict the content of future results of scientific inquiry, it is impossible to predict the course of history. Thus, nobody in Popper's time could have foreseen the emergence of our current dependency on information technologies and their immense impact on modern social life. It is a subtle argument, especially appealing to those scholars who believe in the shaping powers of scientific knowledge. Yet, Popper does not believe that societies can (or must) be designed according to absolute knowledge about their (presumed) developmental logic or aim. In his view, social institutions are largely the unintended outcome of human interaction. Therefore, policy makers must be modest in using social science as a basis for institutional design. Only small improvements are possible, based on provisional hypotheses that should be tested in a process of 'piecemeal engineering'.

Interestingly, these ideas seem to support modern arguments on the path-dependency of policy development. Path-dependency refers to mechanisms of institutional reinforcement, which explain why policy interventions are often incremental, limited and/or suffering from inertia (Mahoney 2000). Yet, one may wonder how Popperian the path dependency approach actually is, given its emphasis on historical arguments. Of course, path dependency scholars claim that this has nothing to do with historicism and that they firmly reject its deterministic propositions. Compared to Popper's theoretical openness to the possibility of radical social change, however, path dependency studies frequently reveal an analytical strictness in which history is primarily considered a constraining or even determining force.

Indeed, this paper departs from the belief that path dependency analysis tends to produce historicist arguments. This tendency manifests itself in a particular theoretical puzzle concerning the explanation of radical policy change. If radical change occurs in a particular policy field, path dependency students have insufficient explanatory tools in hands and must resort to all sorts of occasional arguments (cf Kay 2005). It will be shown that this is caused by the historicist bias in path dependency analysis.

The paper draws on theoretical and empirical arguments. Theoretically, it explores to what extent path dependency analysis can be released from its 'stability bias'. Therefore, the question will be raised to what extent an institutional logic can be identified in the process of policy change (section 2). From this discussion an analytical framework arises that will be used to study a particular case of fundamental reform, namely the turn in Dutch welfare

policy from social protection to social activation, as it emerged during the period 1994-2004. After identifying the nature of this reform (section 3), an effort will be made to explain the shift from a path dependency perspective (section 4). In the conclusion the potential richness of the path dependency approach is evaluated, especially regarding cases of radical (welfare) reform.

2 Overcoming historicism in path dependency analysis

2.1 The historicist bias in PDA

From Popper's objections against historicism two arguments can be derived that especially apply to path dependency analysis. First, Popper (1957) argues that historicists tend to neglect social factors that are conditional to the emergence of a particular social pattern or trend. Take, for instance, the Marxian thesis on *Verelendung*, i.e. the increasing poverty among wage labourers due to the logic of capitalism. As Popper argues, this social effect will only develop into a historical trend if the initial power relations between capital and labour remain unchanged. Often, however, initial conditions tend to change, which is neglected in path dependency analysis. PDA-scholars usually claim that these conditions are only relevant in as far they provoke the opening up of 'critical junctures' and the start-up of reinforcing sequences, after which they will gradually lose meaning and relevance as an object of study (cf Mahoney 2000; Pierson 2000). Initial conditions are considered to be external, in the sense that they fall outside the explanatory scheme. Yet, following Popper, this is a historicist proposition.

Second, Popper argues that historicists often focus on 'preferred tendencies' while neglecting historical facts that contradict these tendencies or point at other directions. Again, the Marxian thesis on *Verelendung* provides a nice example of this. It focuses exclusively on the exploitative aspects of the labour relation while neglecting the fact that there are other elements involved, such as 'social bonding' and/or the emergence of trust. Path dependency analysis suffers from a similar bias, especially in its treatment of the mechanisms that produce institutional reinforcement. Often, the selection of institutional feed back effects is biased in two directions. Firstly, scholars tend to focus on only part of the institutional effects, for instance on social effects rather than on instrumental or normative effects (e.g Skocpol 1992). Secondly, path dependency analysis tends to overemphasize those effects that stabilise the institutional pattern, while forgetting about the possibility of negative feed back (e.g. Pierson 1994). Again, these propositions must be considered historicist in the Popperian sense.

From this explanation, two intriguing questions arise. The first one concerns the 'internalisation' of initial conditions. To what extent can these be included in the explanatory framework of path dependency analysis, in order to enforce a shift from historicist to historical argumentation? Of course, the risk to be avoided in such a procedure is that institutional analysis becomes stretched to the point where it becomes meaningless. The second question concerns the selection of institutional effects. How can we reach a more comprehensive and thus less deterministic approach, without running the risk of drowning away in an abundance of historical facts? Below, the latter question will be discussed first, for this will enable us to clarify the centrality of institutionalism in path dependency analysis.

2.2 On institutionalisation and institutional effects

In classical institutional studies, the process of institutionalisation is usually seen as a highly stabilising force, that gives structure and predictability to human behaviour. However, there have always been different conceptions of the mechanisms that are supposed to produce this stability. Selznick (1957) emphasized the importance of shared values ('to institutionalise is to

infuse with value'), while Berger and Luckmann (1967) focussed on the infusion of 'shared meaning'. In the stream of new institutionalism that has emerged since the early nineties, it became a key insight that institutionalisation refers to a *combination* of mechanisms (cf DiMaggio & Powell 1991). Following Scott (2001) on this point, it can be argued that institutions rest on normative, cognitive, social and instrumental pillars. The normative pillar refers to the emergence of shared values and norms, the cognitive pillar to the emergence of a shared, knowledge-based world-view, the social pillar is made of a particular division of social power, interests and preferences, and, finally, the instrumental pillar consists of technological and organisational devices that facilitate institutional behaviour.

Given this multi-dimensional character of institutional life, one must be aware of potential conflicts between the various aspects. In the course of institutional development, frictions may appear between, for instance, normative and cognitive aspects. Thus, the institutionalisation of public education systems may flourish on the normative belief in social equality, but at the same time rest on a meritocratic world-view that promotes stringent competition between individuals. To a certain extent, these elements may very well go together, but contradiction and conflict are neither excluded.

This implication is even more valid in a world that perceives an increasing share of our institutions as 'designed'. It is a key characteristic of modernity to assume that institutional life can be arranged through deliberate (political) action. Policy and organisational fields are then considered 'institutionalised' because we proclaim them to be so (Trommel and Arentsen 2006). However, it is an open, empirical question if these arranged constructions do rest on a balanced mix of social, normative, cognitive and instrumental foundations. In some cases, one may truly wonder if these things that we call our modern institutions are indeed institutionalised, in the sociological sense. They may, for instance, predominantly rest on instrumental solidity, at the neglect of normative underpinnings.

Closely related to this, is the issue of institutional *effects*. Like institutional pillars, institutional effects are multi-faceted and have social, normative, cognitive and instrumental dimensions. In much of the older literature, institutional effects refer to those positive feedback mechanisms that reinforce the prevailing institutional logic. Thus, if pension plans become the institutionalised solution to old age poverty, a social institutional effect will be that an increasing number of people will trust on pension savings and develop rising expectations in this area. However, it does not take much sociological imagination to see that such an effect may also generate negative feedback, e.g. from the moment that rising expectations cannot be fulfilled any longer. Furthermore, a driver behind the emergence of negative feedback is also the fact that institutionalisation necessarily draws on exclusion (cf Bannink and Hoogenboom 2007; Thelen 2007). That is, institutional effects also occur in the shape of excluded interests, values, world-views and instrumental approaches. It is perfectly thinkable that these exclusions become re-activated under certain conditions.

The emergence of institutional conflicts and negative feedback mechanisms, as potential drivers of institutional change, is partly a consequence of the fact that institutional life must be lived indeed, rendering daily changes in the various institutional pillars and their effects. Next to that, however, this institutional dynamics is also enforced by the fact that the initial conditions for institutional development change over time.

2.3 The change of initial conditions

Referring to changing external conditions in path dependency analysis, is often considered an admission of weakness, for it usually comes in the shape of a *deus ex machina* argument. However, like in evolution theory, some breaks and transitions are simply not understandable from the standard explanatory framework. Sometimes a comet does strike the earth, leaving its inhabitants with a totally changed ecology. It would be foolish to ignore that those things

can also happen in social life. Of course, one might try to give a path dependency explanation for the current emergence of nanotechnology, but in some respect it would be better to consider this spectacular innovation a (self-made) comet that will ruin at least part of our social values and world-views, without knowing where this will bring us.

Yet, the change of conditions that once supported a certain line of institutional development, is in many cases not a comet-like event. Instead, such a change might follow from the institutional path that was taken in the past. Consider the initial conditions that were crucial to the emergence of welfare policies. A growing sense of solidarity was among the major generative factors in this area, but as we now know from many studies, welfare policies have step-by-step promoted a sense of independency among citizens and thus undermined part of its formative conditions (e.g. De Swaan 1988). Again, this is similar to developments in evolution theory. As Dennett (1995) has argued, the fact that modern man is capable of intervening in the genetic logic of human development – and thus is actually changing the variety and selection algorithm- can perfectly be understood as an unplanned outcome of that very algorithm.

Studying the change of initial conditions from an institutional angle is important, because it sheds light on the reflexive nature of modern institutions. Drawing a strong demarcation line between institutional development and external pressures may wrongly suggest that the latter has nothing to do with the former. As Beck (1992) has shown, however, one of the major characteristics of complex modernity, as opposed to simple modernity, is that the production of new risks and problems has clear institutional roots. One implication, to be researched in path dependency studies, is that initial conditions change or even disappear over time. It is an open, empirical question if this will affect institutional logic in due course, but especially in cases of deliberate institutional reform, it is likely that reformers have to reconsider external conditions. New environmental conditions may be put forward as the very reason for reform, in which case the intriguing question is which conditions are considered relevant. In this paper it will be argued that previous institutional logic is highly relevant to the selection of these conditions and thus to the construction of the drivers behind institutional reform.

2.4 Towards an analytical framework

From the previous discussion, some guidelines can be derived for a path dependency analysis of (fundamental) reform. Note that the object of analysis is reform of policies and governance, while (changing) institutional logic is theorised as an independent variable. If and how policy and governance reforms again acquire an institutionalised status is an open empirical question.

1. Map the relevant social, cognitive, normative and instrumental pillars within the institutional domain under study at t_0 ;
2. Analyse the emergence of tensions, conflicts and contradictions between the different dimensions of institutional life;
3. Analyse (positive and negative) institutional effects that have developed over time;
4. Establish the (modified) identity of institutional logic at t_1 , and analyse how this has produced reform pressures and practises in the area of public policy and governance;
5. Consider if and how external conditions are relevant to these reform practises, that is:
6. Identify the initial conditions for institutional development at t_0 ;
7. Identify relevant changes in the area of initial conditions at t_1 ;
8. Determine to what extent institutional logic has been relevant to these changes and what this means for possible reform trajectories;

9. Evaluate how institutional logic has framed the selection of new initial conditions, and in the wake of that, a viable trajectory of reform;
10. Evaluate to what extent a new policy path has emerged at t_1+n , to what extent this is supported by institutionalisation, and to what extent the observed changes can be explained from the previous analytical steps.

With these guidelines in mind, we will now proceed with an analysis of the Dutch case of institutional welfare reform.

3 Welfare Reform in the Netherlands: a short introduction

3.1 Radical reform at two levels

Suppose that a Dutchman had decided to migrate to Australia in 1994 and consequently keep away from all the news about his homeland. In case of a recent return to the Netherlands, he might wonder what they have done to 'his' welfare state and it would probably take some time to explain this to him. Nonetheless, let's try to give a short version of the story, focussing on both policies and governance (i.e. administration and organisation). Today, our poor compatriot would feel a complete stranger in both worlds. How come?ⁱ

In many respects, the Dutch welfare state is originally rooted in what Esping-Andersen (1990) has labelled the conservative-corporatist approach. From the start, its core value has been the protection of the industrial worker and his family. This normative pillar manifests itself in policy instruments that give ample wage protection to the worker in case of sickness, disability, unemployment, and old age (workers insurances). Thus, during the formative stages of the welfare state, preservation of status during the entire life-course is what the Dutch worker learned to grasp as his main social interest. Accordingly, Dutch culture and life style have for a very long time been soaking in family values, a male breadwinner ethos, and life-course decisions that were supported by the certainty of collective protection.

These characteristics are also reflected in the governance of Dutch welfare policies. In the early years, political conflicts on welfare development were not primarily on the content of policies, but on their governance. Based on Christian ideas on self-regulation and civil sovereignty, unions and employers' associations claimed a decisive say in this area, which they finally received after years of conflict. Both at the central level of administrative politics and at the level of daily implementation, social partnership became highly influential. At branch level, bi-partite organisations were erected to take care of daily implementation, while tripartite institutions were founded that were responsible for finances, surveillance, and political coordination. The core values of this corporatist approach – The Dutch like to speak of their unique 'polder model' – are pacification of conflict and realisation of consensus. In social respect, representation of interests through membership is crucial to this model, while its cognitive foundations primarily rest on the conviction that the knowledge needed for good governance can only be provided by the stakeholders involved (workers, employers).

Observed from a certain distance, the current welfare landscape looks as if a social comet has been at work, indeed. Social protection of families is no longer embraced as a core value. Instead, social activation of individuals (males and females) has become the main objective of the policy system, based on the belief that participation in work is the best guarantee for social security. At the level of policy instruments, a remarkable shift from insurance schemes to activation policies has been realised, including such innovations as re-employment programs, health-care obligations for employers, life-course arrangements, and a legal right to part-time work. Socially, a strong individualisation of interests has taken place,

while personal 'life course design' has become the key-word in characterising the cognitive turn that has emerged.

Notably, the emergence of this activating policy paradigm was not the outcome of a smooth process of political decision-making (cf Van der Veen and Trommel 1999). First and foremost, it were fiscal problems and severe issues of institutional uncontrollability, rather than policy considerations, that had induced radical reforms, mainly in the governance system. As the unions and employers' associations were held responsible for the fiscal welfare crisis, they were gradually removed from all relevant governance institutions. Furthermore, new governance instruments were introduced, such as the use of financial incentives, performance contracts and managed competition in the field of re-employment policies. At least in this particular field of social security policy, a break from corporatism became manifest, putting doubt on all it stood for: the value of consensus, the benefit of membership and the need for stakeholder knowledge.

3.2 Path dependency?

To illustrate somewhat more the far-reaching character of the reforms, we sketch some of their implications in more detail. Regarding policies, two showpieces of the Dutch welfare state were strongly reformed. First, the disability insurance scheme. Through a large battery of measures this scheme was transformed from a highly accessible and generous quasi-form of pre-retirement, to a last resort that could only be entered if workers had tried everything to find a new job (even if this would be below their own skill-level), and if employers had done their utmost best in the area of prevention and adaptation of jobs. Second, the social assistance scheme. Today, a Dutch citizen who applies for social assistance is no longer certain that he or she will actually receive a (full) benefit. Municipalities have adapted a so-called work-first approach, which means that applicants must accept (subsidised) work or are obliged to participate in a re-employment trajectory. Regarding institutional responsibilities, these policy changes imply that individual employers and employees have much more duties to fulfil. Among other things, this has encouraged the emergence of a market for health services at work, as well as a booming business in the area of re-employment services, covering a broad area of activities, from psychological counselling to re-training programs.

Our fellow Dutchman, quite a bright guy, is puzzled. How was this possible in the first place? The time he had left the Netherlands, the debate on the welfare state was still concentrating on issues like institutional immobility and frozen welfare landscapes. By whom or what had a breakthrough been forced? Thus far, only sketchy and/or partial answers to this question are available. We know that financial and organisational crises provided a window of opportunity for political action during the nineties (Kuipers 2004). We also know that the political climate was quite unique and beneficial to institutional innovations. For the first time in Dutch history a coalition of socio-democrats and liberals was in power. This coalition (1994-2002) promoted a 'managed liberalisation' of the welfare system, more or less in line with Giddens' ideas on Third Way politics and also with ideas taken from the 'new public management' movement (Giddens 1998; Osborne and Gaebler 1993). Furthermore, this coalition was able to break the power of interest groups in the labour market, now that the major proponent of societal self-regulation, i.e. the Christian-Democratic party, was out of government. Finally, from a more sociological point of view, the emergence of new social problems and risks must be stressed as a reason for reform. Globalisation and post-industrialisation had reached the Netherlands, and strongly affected the functioning of the labour market.

Yet, all these answers bypass the heart of the matter: if institutions were the primary source of stability for so long, why could they be so easily reformed? Might things be

different at closer inspection? Could it be true that a continuation of institutional logic has been realised? Or rather, could it be true that continued institutional logic has propelled the radical reforms in the welfare paradigm? Finding answers to these questions is our next task.

4 Path dependent reform

4.1 Modified institutional logic: eroding justice, contested consensus

As the Dutch welfare state matured, during the seventies and eighties, several instabilities appeared, both at the level of policy and governance institutions. Let us review the policy dimension first.

Since the 1960s, the emergence of the welfare state, in combination with fantastic economic growth, had propelled an unruly process of rising social expectations. Time and again these expectations were addressed by expansions and refinements at the instrumental level, of which the introduction of a generous safety net for all citizens, i.e. the General Social Assistance Act (1965), was crucial. It is important to note that this new policy deviated from the original attachment to family values and the protection of workers. Gradually, the system covered the social needs of all citizens. This turn to universalism also attached the characteristics of the workers' insurances, such as the disability scheme (WAO). In 1967 it was decided that this scheme would cover all social risks (i.e. not only the professional ones), and that a relatively high benefit (80% of last earnings) would be guaranteed until the age of retirement. It was this mutual reinforcement of social effects (rising expectations) and instrumental effects (easy access, generous benefits) that turned the Dutch welfare system into the social paradise that is was said to be in the 1970s.

At the cognitive level, this welfare optimism had strong individualising effects. These effects were twofold. First, the ample availability of welfare contributed to the crumbling of social ties, both at the level of communities and the family. The implicit message was that every citizen (man and woman, young and old) had a fundamental right to (financial) independence, strongly guaranteed by the state. Second, the welfare system started to undermine traditional work ethics and gradually gave rise to a more calculating attitude among the population, aiming at optimising individual profit from the policy environment. During the 1980s, growing awareness of this effect induced a politics of blaming, stressing the immorality of this behaviour. At that time, however, such messages were hardly recognised as legitimate.

In other words, the original normative basis of the welfare system had started to erode. That is, as the protection of the family could no longer justify the emerging explosion of welfare, the system was deprived of its moral compass and its justifying capacities. This became a serious problem during the 1980s, as a severe economic recession implied that social expectations could no longer be fulfilled. Related to this problem was the fact that the individualising life-styles among the population were increasingly conflicting to the cognitive assumptions behind the idea of collective welfare.

Whereas welfare arrangements were firmly rooted in the logic of a risk discourse –in which fate and force majeure were the key concepts- the cultural development emphasised the manageability of personal life, mobilising a discourse in which self-determination, life-planning and emancipation were highlighted as valuable aims. To put it sharply, welfare arrangements became more and more a tool for personal use, rather than a remedy against bad luck.

One may conclude that the logic of welfare policy itself had produced effects that on the one hand contributed to its expansion, but on the other to increasing instability. The most fundamental problem in this respect were the growing tensions between its original

conservative-corporatist underpinnings and the universalistic elements that had been smuggled into the system. Or, to put it differently, what once had been excluded, namely social security for all, became a practise after all, due to social, instrumental and cognitive effects. However, normative principles that might justify this development were no longer there. To some, the Dutch welfare state had morally derailed, others embraced the (unintended) spirit of individualism that it had launched.

By the late 1980s, also the governance system had reached stormy weather, and again institutional logic was a powerful driver. Since the administration had followed the social logic of membership as its guiding principle, representation of stakeholder interests was a common practise within the implementation of policies. However, increasingly these interests had moved away from realising re-employment to managing an attractive benefit position. Unions and employers' associations had discovered that their interests in this area overlapped. In case of business reorganisation, for instance, welfare policies provided the worker a financially sound pathway out of employment (and often into quasi-retirement), while the costs for the employer remained limited. In brief, during the eighties it became popular belief that the social partners misused the system, which was finally confirmed in a parliamentary enquiry that was carried out in 1993.

In due course, these social and instrumental effects had major repercussions for the cognitive foundations of the governance system. Whereas the original idea was that stakeholders had specialised knowledge of employment risks, branch developments and re-employment opportunities, increasingly another type of knowledge became influential, namely of strategic business interests and legal (welfare) opportunities. Similar to the changes at policy level, a type of risk management emerged that was based on calculation and planning (of mass dismissals but also of individual trajectories out of employment) rather than on dealing with the unforeseen. And again, growing pressures upon the normative foundations of the governance system could not stay away. The consensus-based model of socio-economic governance was in danger of collapsing as the state started to blame the social partners for the crisis in welfare politics.

In sum, both at the level of policy and governance the original institutional logic was subject to a process of modification. Small changes in formal policies made the system more universalistic, which triggered a process of rising expectations and instrumental refinements, supported by a lenient and interest-steered implementation practise. At the cognitive level this caused negative feedback effects in the shape of rising opportunism, risk manipulation and a calculating attitude towards the welfare environment. This modified logic became a serious threat to the survival of the welfare system, not only due to financial exhaustion, but also because its normative foundations were no longer valid. The social protection of families against bad luck had lost its meaning as a moral guideline, while the system of interest-based governance became increasingly suspect.

The result was a severe political crisis starting in 1992, followed by rising awareness of the fact that the welfare system was in urgent need for reform. Yet, as we will analyse next, it was not evident at all which reform path had to be chosen. To some extent a muddling through approach developed. It was only after linking the reform project to the question of changing external conditions, that a more substantial perspective on 'new welfare' emerged.

4.2 Seeing external conditions through institutional eyes

In the current welfare literature, it is common to analyse crisis-like phenomena, such as discussed above, from the perspective of a changing socio-economic environment. From the

1980s on, as many scholars have argued, welfare states are being challenged by the emergence of a global and networked (knowledge) economy inducing new uncertainties and risks (Castells 1996; Beck 1999; Esping-Andersen 1999; Giddens 1998). These risks come from different sources, such as new technologies (rapid devaluation of skills) and global competition (instable job structures, outsourcing of work), but also from demographic and socio-cultural changes (population ageing, work-life balance issues). In the face of this new socio-economic reality, it has been argued that traditional welfare is untenable, both from a financial and functional angle. Financially, the welfare system might collapse due to increasing labour market instabilities and, as a consequence, the rising numbers of welfare applicants. Functionally, it is assumed that traditional welfare does not fit the requirements of a more flexible labour market: citizens must learn to deal with these requirements rather than depend on welfare (Schmid 2000).

No doubt, environmental changes matter, in the sense that they may pressure upon the tenability of welfare provisions. Yet, we argue that deterministic versions of this argument are not convincing. First, as discussed above, internal institutional instabilities may appear much more crucial to the life-chances of welfare policies than external pressures. Second, it can also be argued, and this will be done next, that the shape in which external pressures appear, depend on the institutional peculiarities of the welfare system at hand. To give a simple example: the less a welfare system invests in old age pensions, the less it will experience population ageing as a burden. Thus, whereas initial conditions put their mark on the institutional features of the welfare system in its infancy, in its later stages of development these features grow important with regard to the ways in which the system reacts to new external challenges. Institutions do the thinking, as Douglas (1987) has argued. To a certain extent, institutions select and construct their own drivers of change. Accordingly, our question is how the Dutch welfare institutions 'interpreted' emerging changes at the level of initial conditions.

Which were those conditions? At the policy level two things were very important, namely a) the male breadwinner family and life time-employment structures and b) a perception of industrial risks as a matter of fate and bad luck. At the governance level two other conditions were fundamental: a) the pillarised structure of Dutch society and b) the long tradition of socio-political pacification practises. Although it is impossible to go into details here, a short explanation will help to grasp the meaning of these conditions for Dutch welfare development.

As discussed earlier, the search for life-time family security strongly influenced the formation of Dutch welfare policies. From the start, this meant that social security policies developed under the condition of stable career opportunities. This was realised by labour law (job protection, working hours), but also by branch-level arrangements between unions and employers regarding issues like career development (wage-age profiles), in-company training and pension plans. The result was that the social security system was firmly rooted in so-called internal labour markets, which were meant to guarantee the worker life-time employment until the (fixed) age of retirement was reached. Thus, only if these strong integrative systems failed, due to personal fate or unforeseen economic turbulence, workers could apply for a welfare benefit. The corporatist structure of Dutch society provided the organisations (unions, employers' associations) which took care of the necessary labour arrangements and were capable of disciplining their individual members to act accordingly.

As the need for reform began to press, it was obvious that a return to the early welfare landscape would be impossible and undesirable. Strong reductions on welfare expenses would not only conflict to vested interests but, moreover, reformers felt that the proper conditions were lacking. There was no use in restoring an institutional logic that had contributed to the decline of family values and organised capitalism. Instead, a strategy was launched that did

not seize upon the level of welfare protection, but that initiated numerous instrumental and organisational changes, aiming at a more selective and efficient provision of welfare. Restoring institutional control was the key-word in this operation. Its gradual and technical approach prevented from normative discussions and conflicts. Even the removal of organised interests from the governance system was realised in many steps and over many years, and was justified in mere instrumental terms. In short, the operation was presented as a managerial reform, that was not meant to get rid of the welfare state, but on the contrary, to secure its preservation.

Yet, saliently, the implicit implication was that the modified institutional logic, as it had emerged in the previous decades, was considered a fact of life. Apparently, individualism and opportunism, both among workers and employers, were here to stay and from this time on public management and steering were conceived as the art of directing, inspecting and controlling individual socioeconomic behaviour. Thus, financial incentives and monitoring structures were developed that forced actors to employ a more sober attitude regarding the use of welfare. In the meantime, however, the first careful attempts started to regard this approach from a more substantial policy perspective, including new ideas on the morality of welfare. This was done by reintroducing external conditions in the socio-political debate. Reformers became aware of the possibility to frame their project as an appropriate response to the emergence of a new (global, post-industrial) socio-economic condition. What began as an operation to 'secure' the welfare state by improving its efficiency, developed into an ideology-laden mission after all, triggering new (activating) policies and raising social support for restrictions on (classical) welfare.

In order to understand this decisive turn, its underlying dynamics must be watched more closely. First of all, reformers began to reflect on the initial conditions of welfare development, to ground their managerial efforts to secure the system. Among other things, this induced the revitalisation of an old principle: participation in work and strong work-ethics became reinvented as crucial preconditions for welfare. Second, reformers started to link the problem of modified institutional logic to the emergence of new external conditions. Precisely at the points that were earlier revealed as 'institutional derangements' – rising individualism, strategic risk behaviour and involvement of stakeholders- it was argued that the post-industrial condition could turn failures into benefits. That is, it was argued that this condition required a) individualised responsibility for career development, b) an account of the manufactured nature of modern social risks, and c) withdrawal from organised (i.e. corporatist) capitalism. In brief, by reviewing the old initial conditions and new external developments through the lens of the existing (modified) institutional logic, reformers were able to produce a modernised perspective on this logic, as follows:

- There is a strong need for restoration of work ethics and employment stability but not in a (collectively regulated) life-time employment mode; instead individual responsibility for personal employability must be coined as the new cornerstone for welfare politics;
- Risk management by individual actors must be encouraged, though not in its opportunistic mode; instead the notion of manufactured risk must be introduced, to make clear that citizens (and employers) can be called to account for irresponsible socio-economic behaviour;
- Continuation of decentralised policy implementation should be supported, though not in its interest-based form; rather, a shift towards independent (market-based and stately) agencies is needed, which can support and control individual efforts in the field of employability and welfare.

Thus, the managerial fight against opportunistic behaviour became reframed as an effort to fortify the interests and abilities of citizens to care for themselves. The activating paradigm provided the system with a new moral compass and strong potentials for further instrumental development. Today, there is growing social and political support for new ‘enabling’ and ‘empowering’ policies, at the cost of traditional welfare state protection.

4.3 The institutional logic of radical reform

Was the Dutch case, as presented in the previous sections, a true example of *radical* reform? And was it *inherent institutional logic* that explained the case? We should be able to give affirmative answers to these questions, in order to mark our argument as typical for path dependency analysis. Regarding the question of change we can be brief. In many respects the new welfare landscape looks totally different from its predecessor. First, increasing uncertainty due to economic turbulence is no longer perceived as a self-evident reason for welfare supply, as it was during the industrial age. Second, social risks are no longer exclusively perceived as repairable manifestations of fate. Third, institutionalised capital-labour relations are no longer trusted as a viable source of socio-economic stability and regulation. And, finally, the state increasingly manifests itself as a moralising and disciplining force, directing and controlling individual efforts in the area of labour participation.

Regarding the logic of reform, it was found that modifications in the process of institutional reproduction establish an important driver behind the emergence of reform pressures (the *why* of reform). More precisely, these modifications could be ascribed to small changes in policies (towards universalism), tensions between the social and instrumental dimensions of institutional life (e.g. rising expectations), negative feed back mechanisms at the cognitive level (opportunism, risk manipulation), and as a consequence, moral erosion. Modified institutional logic could be observed at the level of both policies and governance. Next, it has been demonstrated that reforming practises developed from small-step managerial interventions to a more comprehensive and substantial approach, which finally gave birth to the activating welfare paradigm (the *how* of reform). The crucial step in this process was the creation of a new institutional perspective on environmental conditions, in such a way that (informally) modified logic was transformed into (formalised) modernised logic.

We conclude that a path dependency approach to the study of radical reform is fruitful after all. Nevertheless, some final remarks must be made on two possible (and, remarkably, rather contrasting) objections. The first one concerns the functionality of the new policy paradigm. Scholars in the field of welfare reform might claim that the realised reforms were just a matter of functional rationality: activating welfare is simply the best option in the face of today’s socio-economic condition. We have argued that such a condition does not exist, other than in an institutionally framed shape. That is, one could easily imagine other ways of framing the current post-industrial condition, for instance one that sees the globalising risk-society as an incentive to firmly withdraw national welfare programs or, the other way round, to intensify collective investments in (classical) welfare. Of course, reformers strive for functional designs, but to a great extent institutional antecedents define their concept of functionality.

A second objection might be that the new policy paradigm is not functional at all, and has poor chances to survive. Certainly, there is some truth in the first part of this argument. Several (potential) instabilities can be observed at the level of both policy and governance. For instance, it seems rather contradictory to frame the current socio-economic condition at the same time as both ‘global and disorganised’ and ‘manufactured’. One may wonder if it is possible to draw the line and to establish, in actual implementation practises, to what extent welfare claimants can be held responsible for their situation. Furthermore the new policy path

seems mainly directed at the survival of the *national* welfare state, in contrast to the actual trend of economic globalisation. Next to this particular exclusion of (global) social interests and perspectives there is another loss to regret, which is the exit from stage of social partnerships. Also these types of 'grievance', as Thelen (2007) calls them, might hinder a healthy future for the activating welfare model.

Although these observations are to the point, they do not imply an objection against institutionalisation *per se*. The point that has been stressed throughout this paper, is that institutionalisation necessarily comes with new instabilities and exclusions. At this moment the new approach to welfare does receive strong and still growing support in the Netherlands, but of course, only time will tell if this a sufficient precondition for growing stability in all dimensions of institutional life.

5 Conclusion; from Popper to Matryoshka

Path dependency analysis, as we know it from the literature, suffers from a historicist bias, which explains why it so often fails to explain (radical) institutional reform. However, we have shown that this bias can be repaired, mainly by adopting a) a more sociological, multi-layered account of institutions and institutional effects and b) a more analytical focus on the institutional destruction of (early) initial conditions and the institutional selection of new ones. We conclude this analysis with two reflections on its wider implications, one regarding the debate on welfare state reform and one regarding the merits of path dependency analysis.

The last five years, in the academic debate on welfare reform, a remarkable shift in focus has occurred. A long lasting preoccupation with institutional maladies and immobility has been replaced by a new (optimistic) focus on the adaptive capacities of welfare states. To a certain extent, this is a refreshing and valuable shift, because it brings back the level of social problems and risks into the analysis of welfare reform (cf. Talor-Gooby 2005). Today, the central question is which policies and governance structures can be considered adequate responses to the current post-industrial condition. However, this new approach seems to produce rather deterministic versions of what this condition is made of and what it requires in terms of social policy. For instance, Schmid argues that the policy framework he developed (i.e., 'the transitional labour market approach') follows directly from the requirements of a 'globalised knowledge economy'. It is likely, though, that such efforts to grasp the essence of the new socio-economic condition suffer from a similar institutional bias as observed in the case of Dutch welfare reform. Therefore, research into welfare reform might benefit largely from adopting a more institutional approach to the study of new social problems and risks.

PDA is a perfect candidate to fulfil this role, provided that it leaves the poverty of historicism behind. Recent studies show that scholars recognise this need (Pierson 2001; Kuipers 2004; Thelen 2007), although it seems unabatedly difficult to go beyond the level of (thick) empirical description. Our suggestion is that substantial progress can be made along two different tracks: a) by identifying and researching more systemically *types* of internal instabilities and their consequences for the modification of institutional logic, and b) by detecting and researching *types* of institutional mechanisms that extinguish (and/or revalue) old and enact new external conditions.

At least, Karl Popper would have welcomed this new avenue in social research, as it moves away from preferred tendencies and deterministic arguments. On the other hand, and with the advantage of hindsight, Popper might have been too pessimistic about the potentials of social research to shed light on the logic of social evolution. In his view, the primary task of social research was to detect failures in institutional operations, not to explain (long-term) institutional development. We argue that social science can do better than that, and that there

is a potential richness in PDA regarding the explanation of ‘quantum jumps’ in the evolution of institutional landscapes. Like in evolution theory, small changes in the variety and selection algorithms may lead to the genesis of completely new species in the end.

It is tempting to borrow from Frans de Waal (a Dutch psychologist and primatologist), the metaphor he used to characterise the historical succession of acquired forms of animal empathy. Although these forms differ from each other in many ways, De Waal (2003) argues that they fit together as in a Matryoshka doll. Look, for instance, at Poetin, De Waal argues with some irony; the man may be considered a democratic leader, but we cannot understand his doings without knowing that a little Stalin and a tiny Lenin are hiding in him. Likewise, we might picture the activating welfare paradigm as a new figure, largely different from its predecessor, but inconceivable without a further look underneath its surface.

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ⁱ To a large extent, the empirical content of the case draws on Van der Veen and Trommel 1999; Van der Veen, Trommel and De Vroom, 2000; Trommel and De Vroom 2002, Bannink 2004; Van Oorschot 2004, Svensson, Trommel and Lantink 2007, and Engelen, Hemerijck and Trommel 2007.