

The Politics of Indexation

Dismantling strategies in a comparative perspective

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Introduction

One of the few literatures that have explicitly addressed the question of the direction of policy change is the literature on welfare-state dismantling or retrenchment. This literature developed very much as a result of Paul Pierson's work on welfare state dismantling (1994; 1996). The starting point for Pierson was the claim that one could not just study dismantling in the same way as an extensive literature had investigated welfare-state expansion. The expansion of the welfare state itself had changed the political landscape surrounding it. The public had come to like the welfare state as its benefits had become part of people's lives. The welfare state had also generated new interest groups like pensioners' organization and trade unions of public employees which fight strongly against welfare state dismantling. Thus according to Pierson once welfare-state dismantling - motivated by economic pressure or ideological motives - had come to dominate welfare-state politics, it became a "new politics of the welfare state" characterized by blame avoidance (1996). The key question for governments with regard to welfare-state dismantling thus became how to avoid the potential blame for dismantling, which could be expected to have negative electoral consequences. One major impact of Pierson's work was that welfare-state dismantling was recognized as needing a theoretical approach distinct from simply studying welfare-state change.

Following this, a quite substantial literature (see Green-Pedersen & Haverland 2002; Starke 2006 for reviews) has also emerged which - based on Pierson's idea of blame avoidance - studies when and how politicians do in fact engage in welfare-state dismantling. However, this literature has developed in a quite different direction from what Pierson originally suggested. A key variable singled out by Pierson for understanding when dismantling could actually be expected was thus "*programmatic design*" (1994; 47-50). The programmatic design of welfare benefits differ markedly in the extent to which they allow for various blame-avoidance strategies. Thus, one expectation on the impact of Pierson's work was that programmatic design would become a central variable for how welfare-state dismantling would be studied. However, what instead quickly came to dominate the literature following Pierson were studies of how institutional, party political factors and political-economic factors shape when and how politicians engage in welfare state dismantling reforms (cf. Pierson 2001). Programmatic design more or less disappeared from the literature.

The aim of this paper - and the case studies on which the paper is based - is to return to Pierson's original interest in the role of "programmatic design" for when and how politicians engage in welfare-state dismantling. In terms of programmatic design, we focus on one aspect, namely indexation rules, i.e. how welfare or social benefits are adjusted to the development of

prices and wages. There are two reasons for focusing on indexation rules: The first is directly related to the quantitative part of the Consensus project. Case studies of indexation rules cover aspects of social policy dismantling that have only partly been covered by the extensive legislative coding on which the quantitative data are based. It offers a more direct assessment of the impact of legislative changes, where the approach in the quantitative dataset has been to count the number of changes. It also offers a way to assess the role of non-decisions. Indexation rules – or the lack of them – may imply dismantling without any actual legislative changes. The second reason for studying indexation rules is that they are a key aspect of any programmatic design of welfare benefits. Thus if one wants to understand how programmatic design affects when and how politicians engage in welfare dismantling indexation rules are central to study.

Empirically, we study the development of indexation rules and their dismantling effects. With regard to dismantling effects we focus on the dimension of “regulatory stringency” in the framework of the Consensus project and further on the sub-dimension of “substantial stringency”. We focus on four countries Denmark, Sweden, UK and Germany.¹ However, with a more in depth focus on Denmark where we cover all the three programs covered in the quantitative part of the Consensus project – which are the same time central social policy programs -, namely unemployment benefits, basic pension, and the universal child allowance. Further, for the Danish case we also look at the political processes around changes in indexation rules. For three other countries, we focus on unemployment benefits only and on indexation rules and their effects on substantial stringency. The idea of this design is that the Danish case study provides us with insights about change in indexation rules and their effects on substantial stringency. The three other cases then allows us to see whether similar trends can be identified in countries that differ in terms of welfare-state regimes (Esping-Andersen 1990), but also the number of veto players (see introduction).

We find that studying indexation rules is central for understanding the development of substantial stringency of welfare benefits. Very often when politicians want to change the level of substantial stringency, changing indexation rules is the part of the programmatic design, they choose to change. Often indexation rules are set up, so they incrementally decrease levels of substantial stringency or the same happens through non-decisions. The study of indexation rules thus offers several conclusions about when and how politicians dismantle policy very much in line with Pierson’s original focus (1994, 1996): On the how question, changing indexation rules seems

¹ The UK and German cases will be added later.

attractive because it offers some element of “disguise”, i.e. obfuscation. On they when question, politicians facing “permanent austerity” (Pierson 2001) are always looking for “low hanging fruits”, i.e. ways to save money through dismantling. Changing indexation rules often offer such low hanging fruits in the form of dismantling which due its incremental nature is often difficult to recognize or simply through non-decisions.

The Study of Welfare State dismantling

Paul Pierson’s work (1994, 1996) had tremendous impact and the post-Pierson literature on dismantling has thus been extensive (see Green-Pedersen & Haverland 2002; Starke 2006 for reviews). However, the literature reacted to Pierson’s work in a very paradoxical way. On the one hand, the idea of blame-avoidance has become widely accepted. Probably because there are many empirical examples of governments suffering severe electoral defeats after dismantling efforts, the literature has taken the electoral dangers of welfare-state dismantling as its starting point. On the other hand, programmatic design never came to play a central role in the post-Pierson literature. An obvious implication of the new politics logic was that governments would often give up dismantling efforts or stay away from them altogether. Pierson (1994) suggested a number of strategies by the use of which governments would nevertheless be able to dismantle the welfare state in a more incremental way. For instance, Pierson (1994; 19-22) suggested that governments would use obfuscation strategies which would make it hard for the public to notice that dismantling had taken place. Tampering with the indexation of benefits is one obvious example of such a strategy. However, studying how programmatic design allows for such hidden or indirect retrenchment, which a straightforward implication of Pierson’s work, has only been done in a few studies (Lindbom 2001a; 2007, Hacker 2004)

What instead quickly came to dominate the literature following Pierson were studies of major welfare state reforms (cf. Pierson 2001), i.e. reforms that when implemented implied major substantial changes in substantial stringency often both with regards to both levels and scope and implemented as one united joint package. Despite the electoral dangers of such reforms, they happened all across the OCED countries. Pension reforms in many countries (Immergut et al. 2007), German labor market reforms (Fleckenstein 2008), Dutch disability benefit reform (Visser & Hemerijck 1999), the examples are many and an extensive literature has developed focused on the politics of such major reforms. The literature has for instance investigated how institutional structures impact reforms (Bonoli 2001; Swank 2001), and how party logics affect them (Kitschelt

2001; Green-Pedersen 2002, Allan Scruggs 2004, Korpi & Palme 2003). Recent studies have also – drawing on prospect theory - focused on explaining why politician engage in welfare-state reforms at all (Vis 2009; van Kersbergen & Vis 2007).

This extensive literature has provided a substantial understanding of the politics of welfare state dismantling. However, the question is what the consequences are of the strong focus on major welfare-state reforms and the limited focus on hidden and more incremental dismantling. The electoral dangers of dismantling welfare state benefits lead on to expect that such strategies would be an attractive alternative to major welfare state reforms. The few studies, which have been conducted of such strategies, also find that they can explain substantial welfare-state dismantling (Lindbom 2001a; 2007). Thus, the strong focus on the politics of major welfare state reforms comes at a price. Governments may have had plenty of opportunities to dismantle welfare benefits without the literature really noticing it! Indexation rules seem a very obvious part of programmatic-design where to look for “hidden retrenchment”, but the only study of them so far is Weaver (1988), which is a study of indexation in American government.

Indexation rules– political costs and benefits

Indexation is a double question of both nominal and real development of benefits. The question of nominal value is of course central in times of high inflation. This question was thus central in the 1970s and 1980s when many countries had levels of inflation of 10% or more (cf. Weaver 1988). However, in a long time perspective, development in relation to real wages is equally important. If benefits are not indexed in relation to real wages, their relative value will deteriorate comparatively quickly, especially during periods of significant real-wage growth.

Though it is clear that indexation rules or changes to them may potentially have significant dismantling consequences, they have received surprisingly limited attention, just as the broader question of programmatic design. However, this lack of attention may also be due to the fact that indexation rules are complex and their consequences not always easy to measure, which of course is part of their political attractiveness. Indexation rules of a given social policy program can be described by answering a number of questions. The first is whether indexation is automatic or not, i.e. are politicians willing to give up discretion. As outlined by Weaver (1988, 18-37), this is a consideration of credit-claiming vs. blame-avoidance. If no automatic indexation system is in place, politicians may claim credit for indexing benefits. However, they also run the risk of raising a political debate about indexation, which could lead to blame for indexation not being sufficient for

instance. An automatic scheme is thus more attractive from a blame-avoidance perspective, but does then of course not offer possibilities of credit claiming.

Even a scheme that has not no automatic indexation may still contain some rules, for instance rules that parliament has to decide on indexation or not every year, and perhaps also some stipulation about the basis of such a decision. Otherwise, a system of no-automatic indexation implies that the default effect is dismantling through non-decisions. If politicians opt for some version of an automatic system, several more specific design questions become relevant.

The most central question is what indexation should be based on, i.e. the question of whether indexation should be tied to inflation or real wages. In most cases, the latter will be highest and in the long run benefits of course lose their relative value if they are only indexed with inflation. However, even if benefits are in principle related to wage development, which wages and how wage increases are calculated are questions that in some sense are technical but also of central importance for the long term development of benefits. Built into this is an incentive for politicians to formally tie benefits to real-wage development and thus claim credit, but at the same time save money and thus avoid blame through the way indexation is in fact calculated.

Depending on the type of benefits, indexation decisions will also be relevant in relation to different parts of the schemes. Child care benefits for instance have specific benefits levels which need indexation. The same is the case with many basic pension systems. Other benefits, typically unemployment benefits and second-tier pension systems, offer levels of wage-replacement, for instance 70% of former wage. In these systems, indexation mostly applies to for instance minimum and maximum amounts in the scheme. Finally, one general indexation scheme may regulate the indexation of a number of cash benefits or there will be specific schemes for each benefit.

Answering these questions will allow us describe the indexation design for each scheme at any given time. It also allows us to track changes in indexation design. Is there for instance a change over time towards more or less automatic indexation? Weaver (1988) thus pointed out that automatic indexation was criticized for fuelling inflation during the 1970s and 1980s which could have led to a move away from automatic indexation towards more discretionary designs. Finally, the effects of indexation rules on levels of substantial stringency will be studied by looking at how benefit level have developed as percentage of the average wage similar to the idea of replacement rates. By this measure, we are able to track the effects also of non-decisions, i.e. no indexation.

Indexation rules and dismantling in Denmark

The change of government in Denmark in 1982 constitutes a marked shift in the boundary conditions for social policy in Denmark. The centre right-wing government that took office in 1982 had a “restoration” of the Danish economy as its “raison d’être”. From the first oil crisis in 1973 and until 1982, macro-economic policy in Denmark had been fumbling with for instance several attempts at fighting the economic crisis through devaluations of the Danish currency krone (Nannestad & Green-Pedersen 2009). The government that took office in 1982 pegged the Danish krone to the German Mark and announced its willingness to make cutbacks in order to get the public deficit under control. This 1982 was the year when social policy retrenchment entered the political agenda in Denmark (op. cit.) and is therefore a natural starting point for investigating indexation policies under “permanent austerity”.

The following analyses indexation rules of three social policy programmes in Denmark, namely the unemployment benefits scheme (Arbejdsløshedsdagpenge), the national, basic pension (Folkepension), and the child family allowance (Børnefamileydelsen). The latter was, however, not introduced before the tax-reform in 1986, which will be the natural starting for investigating dismantling of that scheme. The unemployment benefit scheme and the national basic pension have since 1990 both been covered by the same indexation system. Therefore, they will each be covered separately until 1990 and from then on the common system will be analysed. Besides describing the development of the indexation of these three programmes, the following will also look at the consequences of this development for the level of substantial stringency, i.e. whether the indexation rules and the changes to them have led to dismantling of the schemes. Further, the politics behind the changes will also be analysed in order to link the discussion to the broader question of how and when politicians engage in policy dismantling.

Indexation of unemployment benefits in Denmark 1982-1990

The Danish unemployment benefit scheme is a voluntary insurance scheme administered by union controlled unemployment funds. However, all rules in the scheme are also decided by parliament like any public social security scheme. Thus, no negotiations on the content of the scheme take place between the government and organized interest (Trade Unions and Employers Organisations). In principle the scheme provides a 90% coverage of former income. However, the scheme has a relative low maximum rate. In 1982, 35% of all recipients received the maximum amount and most

recipients an amount just below this (Green-Pedersen 2001) and this grew steadily to 69% in 1995 (Direktoratet for Arbejdsløshedsforsikring 1995). Thus the maximum amount is central in the scheme and so is its indexation.

In 1982, the scheme was indexed both in relation to prices (Dyrtidsregulering) and in relation to wages (Taktregulering, L169, 1982). The indexation of the maximum amount in relation to wages was part of a system set up to ensure that the development of social benefits and also wages in the public sector would follow real-wages in the private sector. It was set up as an addition to the price indexation and thus provided additional indexation on top of the price indexation in case of real wage growth in the private sector.

One of the first initiatives of the centre-right wing government was to abolish the regulation in relation to real wages and suspend the price indexation for 2½ years starting in the spring of 1983. As inflation in Denmark was around 10% at that time, a 2½ years freeze implied a substantial dismantling of the maximum benefit. The freeze was further extended with one year, but in the spring of 1986, parliament did decide on a limited indexation for 1986, so the maximum amount was effectively frozen for three years (Green-Pedersen 2001, 94-98, 217-218). In 1986, parliament decided to abolish the existing price indexation system, which had been suspended, but instead a new system for the entire public sector was introduced. According to this system (L 106, 1986-1987), parliament should each summer decide on the expected price level for the next years and benefits for all schemes should be indexed according to his decision. The system offered possibilities for adjustments later if expectations proved wrong.

The effect of the government freeze of the maximum benefit was a lower level of substantial stringency, i.e. dismantling. Figure 1 thus shows the development of the maximum amount in the scheme as share of the average wage. This figure declined markedly from 1983 to 1987 from 66.5% to 55.6%. Another effect of the non-indexation was that the percentage of people receiving the maximum amount from the scheme rose from 35% in 1982 to 46% in 1986 (Direktoratet for Arbejdsløshedsforsikring 1986). Dismantling unemployment benefits by abolishing the indexation of the maximum amount was a central element in the dismantling efforts of centre-right wing government.

Politically, the changes in the indexation mechanism as almost all other dismantling efforts made by the centre-right wing government caused huge political debate. The left-wing opposition with the Social Democrats in front protested heavily against the changes in the indexation rules and the government acquired a profile of implementing unfair social cutbacks

(Green-Pedersen 2002, 113-123). In other words, the fact that the government had not directly changed the maximum amount but had just not indexed benefits did not prevent fierce political protest from arising. One result of this was the government as part of the budget negotiations for 1988 agreed on extraordinary raise of around 6% of benefits on top of price indexation (Green-Pedersen 2001, 220-221). The effect of this is visible in figure 1, as the maximum amount as share of the average wage caught somewhat up from 1987 to 1989.

Indexation of the national pension in Denmark 1982-1990

The Danish national pension (Folkepensionen) is a basic national pension system in the sense that it provides an universal, flat rate allowance to all Danish pensioners and a means-tested supplementary allowance for people with no other or limited additional pensions. Most Danes have an occupational pension as their main pension scheme. In 1982, both allowances in the scheme were indexed according to prices through the same price indexation system as the unemployment benefit scheme, “dyrtidsregulering”. Besides that, parliament on ad-hoc basis raised benefits so they would keep up with real-wages. This happened for instance in 1986 (L 218, 1986-1987) and 1987 (L168, 1987-1988). When the government set up a general system of indexation based on prices in 1986, the national pension was included in this. However, in reality it meant little change as the national pension was already tied to prices.

In terms of dismantling, figure 2 shows the development of the basic amount of the scheme as percentage of the average wage. The basic amount did not suffer from lower level of substantial stringency i.e. dismantling until 1990, despite being basically only indexed to prices. Besides the occasional improvements made by parliament, the explanation is probably that real-wage growth in the period was limited due to the economic crisis.

Compared to unemployment benefits, the national pension was in 1982 worse off in the sense that benefits were only tied to prices, not to wages as was the case with the maximum amount in the unemployment benefit scheme. However, whereas the maximum amount in the unemployment benefit scheme was frozen for 3 years, the national pension followed prices and actually saw further indexation. The reason is for the reluctance of the government to retrench the national pension by cancelling indexation is probably the popularity of the scheme. The scheme is considered a cornerstone of the Danish welfare-state and Prime Minister right from the outset declared that pensioners would be spared in the cutbacks (Green-Pedersen 2002, 113-123).

Indexation of unemployment benefits and the national pensions after 1990

The price indexation system set up in 1986 required a parliamentary decision on price indexation for the following years, and this was debated in the spring of 1989 when the government suggested not to index benefits due to the economic situation. However, the opposition united against the minority government and demanded that the government put forward a new indexation system which tied benefits to real wage developments. The scheme that was then passed by a broad majority in parliament is known as “satsreguleringsloven” and basically still remains still in place.

The core principle of the scheme is that the indexation of almost all cash benefits follows real wage development in the year preceding the indexation. Thus the regulation of benefits for 2010 was decided in 2009 based on wage development in 2008. However, the scheme contains a system where any regulation between 2% and 2.3% is transferred to a special pool known as “the indexation fund” or “satsreguleringspuljen” in Danish. In other words, recipients are automatically given the first 2% in indexation, the next 0.3% are transferred to the fund, and any indexation above 2.3% is given to the recipients. The law stipulates that the money in this fund is to be spent on improving cash benefits and recipients of the basic pension should receive a share equal to their budget share. Thus the underlying idea was that the special pool should still be spend on cash benefits, but should finance selected improvements of the schemes.

Politically the scheme was passed by a broad political majority covering all parties from the left-wing Socialist People Party, over the Social Democrats and the centre parties to the major right-wing parties, the Conservatives and the Liberals. This group of parties thus annually decided the allocation of the money in the indexation fund. However, for the years 1991 and 1992 the, regulation did not reach 2% and no money was thus transferred to the indexation fund. The scheme remained basically unchanged in the period from 1993 to 2001 under Social Democratic led governments.

In 2001, a Conservative, Liberal government took over supported by the radical right-wing Danish People’s Party. This party had only been founded in 1995 and was thus not part of the original group of parties passing the indexation scheme. However, the party demanded such inclusion as part of supporting the government budget. A new law, but with mainly similar content, was thus passed and all parties voting in favour became part of the group of parties deciding on the indexation fund. All the parties participating in the existing scheme voted in favour and are thus part of the administration of the indexation fund today. Substantially, the only significant change as the result of the new law was that the purpose of the money in the indexation fund was broadened to

also include various benefits and service for needy group. Thus not just cash benefits. In sum, the scheme set up in 1990 basically still regulates indexation of both unemployment benefits and the national pension in Denmark. There are three central elements worth discussing around the scheme:

First, unlike the 1980's where indexation of cash benefits was a crucial policy question for the Danish welfare-state, there is thus very broad party consensus around the present scheme. The only party which is against the scheme is the left wing Unity list. Even for opposition parties the credit claiming potential from being part of the group of parties that administer the indexation fund seem to outweigh the opportunities of blaming the government for a lack of indexation.

Second, the indexation fund has generally not been used to make improvements of cash benefits as the original law actually demanded. In 2002, the Danish Audit of the Stats Accounts (Rigsrevisionen) published a report clearly documenting that the fund was used for a broad variety of social purposes such as better support for the handicapped, programs for socially excluded families etc. Thus the indexation fund was spent on a wide variety of social purposes, but rarely direct improvements of cash benefits. This was the background for broadening the scope of the fund when the law revised in 2002.

Third, the law has clearly had dismantling effects when one looks at figure 1 and , which shows how the maximum amount of the unemployment benefit scheme and the basic amount of the national pension have developed as percentage of the average wage. Both schemes have seen a steady annual decline of this percentage from 1993 to 2002 in a period where no other significant changes have been with regard to benefit levels.² In other words, the indexation scheme set up in 1990 and still in place slowly but steadily dismantles cash benefit schemes. There are two mechanisms in the scheme driving this retrenchment. First, - and most importantly - the 0.3% taken away for the indexation fund in most years and generally not spend on the cash benefit programmes themselves is in fact an annual dismantling in benefit levels if measures relative to wages. The other mechanism is the way wage developments are actually calculated. The law has only stipulated broad guidelines for the Ministry of Finance. For instance increases in wages in the form of increasing contribution to labour market pensions paid by the employer are not included. Further,

² A tax reform in 1993 implied a new labor market contribution, which recipients of the social security schemes should not pay. This would in principle imply a 8% tax reduction for all recipients, but to avoid that, amounts like the maximum amount of the unemployment benefits scheme and the basic amount of the national pension were cut 8%. The declines in figure 1 and 2 in these years is thus due to this adjustment.

the exact calculation of a wage increase average across the entire workforce leaves a considerable amount of discretion for the Ministry of Finance.

Indexation of the family child allowance 1987-2009

A universal child allowance was re-introduced in 1987 as part of a tax-reform. Thus an allowance pr. child was paid for all children aged 0-18. Because the scheme was part of a tax-reform, indexation followed the indexation in the tax-system, which was tied to both prices and wages. The scheme was expanded several times during the 1990s, mainly by raising the amounts for certain age-groups 0-3 years old etc. In 2003, the government then with support from only the Danish People's Party to change the indexation of the child family allowance so it only follows the consumer price index (L61 2003-2004). The argument for the change was that the idea of the allowance was to cover part of the cost of having children, and to follow costs the allowance only had to follow prices not real wages. The change was opposed by the opposition. The effect can be seen from figure 3, which shows the development of the allowance for children aged 7-17 years old as percentage of the average wage. For this group, there have been no major changes in the allowance except indexation. Whereas the allowance as percentage of the annual wage actually grew until 2004, the effect of the change in 2003 is a loss of real value of the allowance since 2004.

To sum up the Danish case provide several important conclusion on the importance of studying indexation rules when one wants both to measure the actual development of substantial stringency of social policy programmes, but also try to answer the broader theoretical question about when and how policy dismantle occur.

First, changes in indexation design have been central in how dismantling occur. When the right-wing government taking office in 1982, choose to dismantle, non-indexation of several schemes, including unemployment benefits, was central. Further, the change from wage to price indexation of the child allowance in 2004 was among the very few dismantling efforts of the right-wing government after 2001.

Second, as to why politicians engage in dismantling, the indexation system set up in 1990, show that for politicians facing "permanent austerity", saving money through for instance tampering with indexation is highly attractive. The scheme offered a politically very attractive combination of credit claiming opportunities combined with blame avoidance for the dismantling, and politicians facing permanent austerity are clearly looking for such low-hanging fruits.

Thus, the Danish case clearly shows the importance of looking at indexation rules for studying the development of substantial stringency in relation to social benefits scheme like unemployment benefit schemes, basic pensions and child allowances. The question then is if this conclusion is particularly Danish. To answer this question at least partially, the following looks at an additional case, namely indexation of Swedish unemployment benefits.

Indexation of the unemployment benefits in Sweden

The Swedish system on unemployment benefits resembles the Danish one as it is a system run by independent unemployment funds, but where all rules relating to benefits etc. are set by parliament. The scheme provides compensation according to former income, since 1982 with a percentage, though with a maximum and a minimum amount. The maximum amount is relatively low compared to average wages, which – as in the Danish case - implies that this amount is what many workers actually get (Hort 2009, 435). Its indexation is thus central for the development of the scheme.

From 1973 and until 1990, there was no indexation system. The maximum amount was stated in the law and indexation was thus an occasional decision by parliament. In 1988 with effect of 1990 (Act 1988, 345), an indexation system was set up so that benefits were now indexed according to the wages of average industrial workers. However, the system was abolished again in 1993 when Sweden was in the middle of a major economic crisis (Lindbom 2001b). The maximum amount was now set by the government in an order, so not requiring a parliamentary decision. Thus, indexation of the maximum amount is a matter of government discretion. This has not changed since. The government for instance kept the maximum amount unchanged from 1993 to 1997.

Figure 4 shows how the maximum amount has developed as percentage of the average wage since 1982.³ Until the economy crisis hit Sweden in 1993, parliament did occasionally index the maximum amount so it kept up with the average wage. However, until 1993 the development was somewhat “bumpy” as parliament did not raise the maximum amount every year, and dismantling took place in the first part of the 1980s. Since 1992 substantial dismantling has taken place. Parliaments have raised benefits a few times but far from enough to keep with real wage growth. Thus, when permanent austerity hit Sweden in the early 1990, indexation rules - or the lack of them - became central in dismantling efforts. The abolishment of the indexation system in the 1993 implied that governments had attractive opportunities of dismantling through non-decisions.

³ A break in the data series on average wage implies the decline from 1999 to 2000 is mainly a technical artifact. The percentage declined from 0.68 to 0.57 in that single year. In the period from 1992 to 2009 the decline was from 0.91 to 0.50.

Occasionally, it could then claim some credit by raising the maximum amount. The most substantial indexation was in 2002, which was an election year

In sum, like in Denmark indexation rules – or the lack of them are central for understanding dismantling efforts. In Sweden, it is mainly through non-decisions that the maximum amount has been dismantled.

Conclusion and implications for policy makers

The literature on welfare-state dismantling following Pierson (1994; 1996) is extensive, but nevertheless has substantial “blind spots”. Though a variable highlighted by Pierson, programmatic design and here specifically indexation rules has not gotten much attention from the literature. However, the case studies conducted here shows the importance of looking at programmatic design and here indexation rules. Focusing on programmatic design also leads to a focus on more incremental dismantling and dismantling through non-decisions. The existing literature has mainly focused on dismantling in the form of major reforms such as pension reforms. However, the case studies conducted above clearly shows the importance of looking at the other aspects too. The indexation system set up in Denmark in 1990 did not seem like a major reform, which would lead to substantial dismantling. However, having been in place for two decades the annual dismantling through for instance the money transferred to the indexation fund has become substantial. The same is the case for the non-decisions in terms of indexation of the maximum amount of the Swedish unemployment benefit scheme.

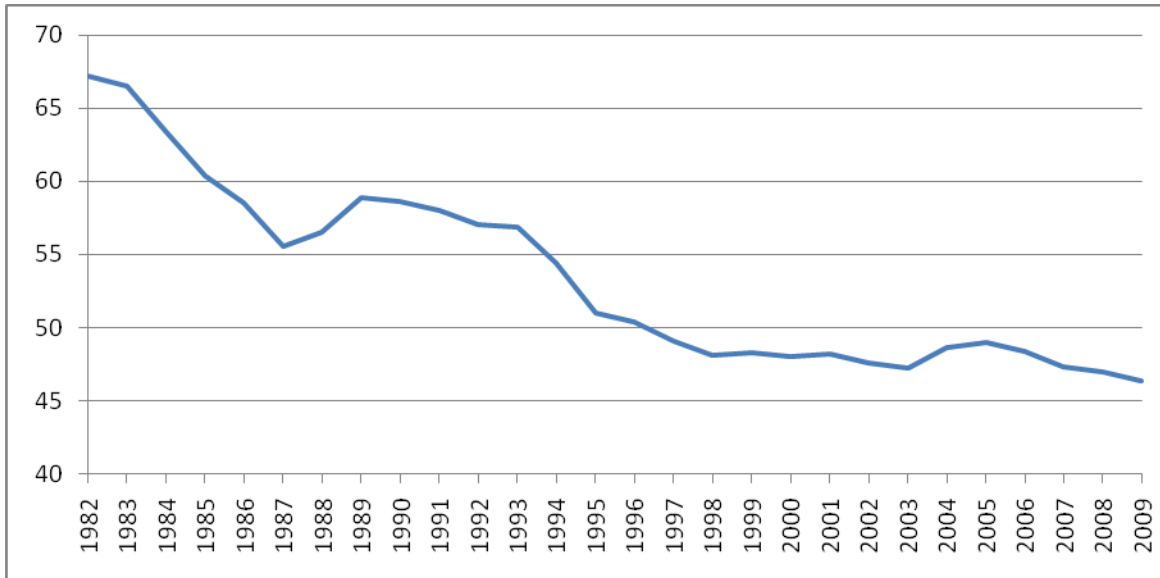
As to the question of when and how policy makers engage in dismantling, the case studies show that looking at programmatic design is central. In relation to how, dismantling by freezing – not directly cutting back – benefit levels is a common strategy. In relation to when, the case studies show that policy makers often opt for dismantling when programmatic design offer them “low hanging fruits”. e.g. opportunities for dismantling through non-decisions. In other words, the programmatic design offers attractive possibilities of blame-avoidance.

In light of the broader Consensus project, the case studies of indexation rules offer several conclusions worth highlighting. First, changing indexation rules or exploiting their possibilities of non-decision seem central to the way governments react to economic pressures. Second, it shows the potential of the perspective on policy change offered by Consensus. The intensive quantitative coding based on legislation, which is one part of Consensus, led to the focus on indexation rules, which have then been studied more in detail. In other words, for a full

understanding of how governments manage economic and social trade-offs under economic pressure or permanent austerity require such a strategy.

For policy makers, there are several implications of these findings. The first one is that is the long term effect of setting up indexation schemes like the one set up in Denmark in 1990. When the opposition parties suggested the scheme and were able to secure a majority in parliament, the ambition was to secure the indexation of benefits. The long-run dismantling effects of setting up the indexation fund were never quite envisaged. However, though the dismantling effects of the scheme are broadly recognized, the scheme is hard to change because of the credit claiming opportunities it offers to politicians. The other implication for policy makers is that leaving scheme without indexation rules as is the case with Swedish unemployment benefits, makes the scheme very vulnerable. The maximum amount of the Swedish unemployment benefit scheme has been substantially dismantled despite occasional raises.

Figure 1: Maximum amount of the Danish unemployment insurance scheme as share of the average wage



Note: Data on average wages is taken på OECD's Taxing Wages (online version: www.sourceord.org). Following OECD's own definition average wages 1982-2004 are calculated for full-time workers in manufacturing, which from 2005 onwards is changed by including more industries.

Figure 2: The basic amount of the Danish national pensions as percentage of average wage

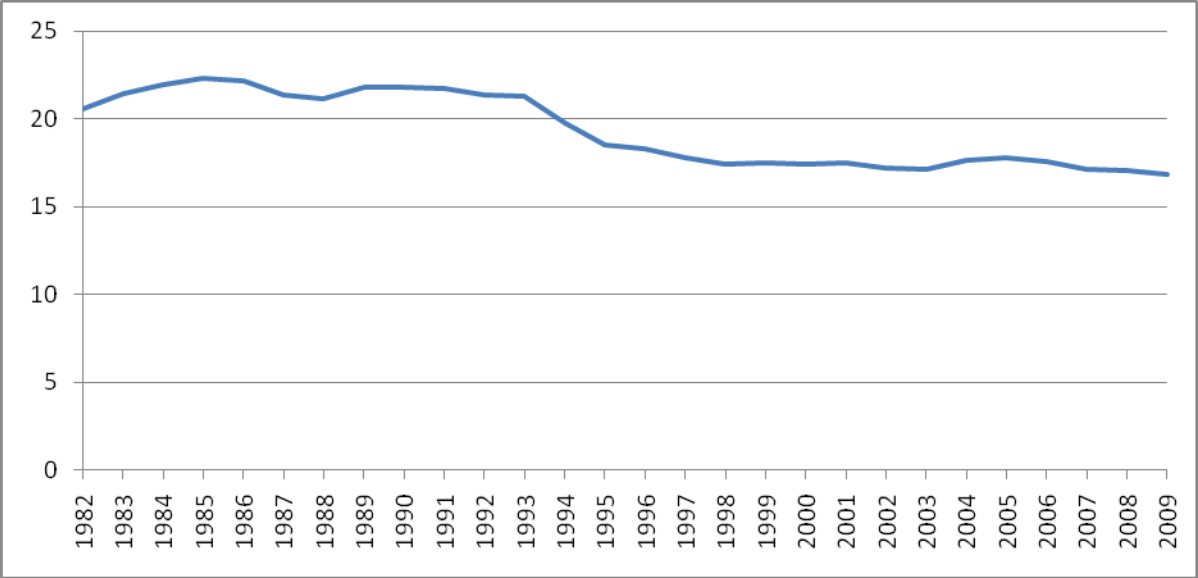


Figure 3, The Danish child family allowance as percentage of the average wage

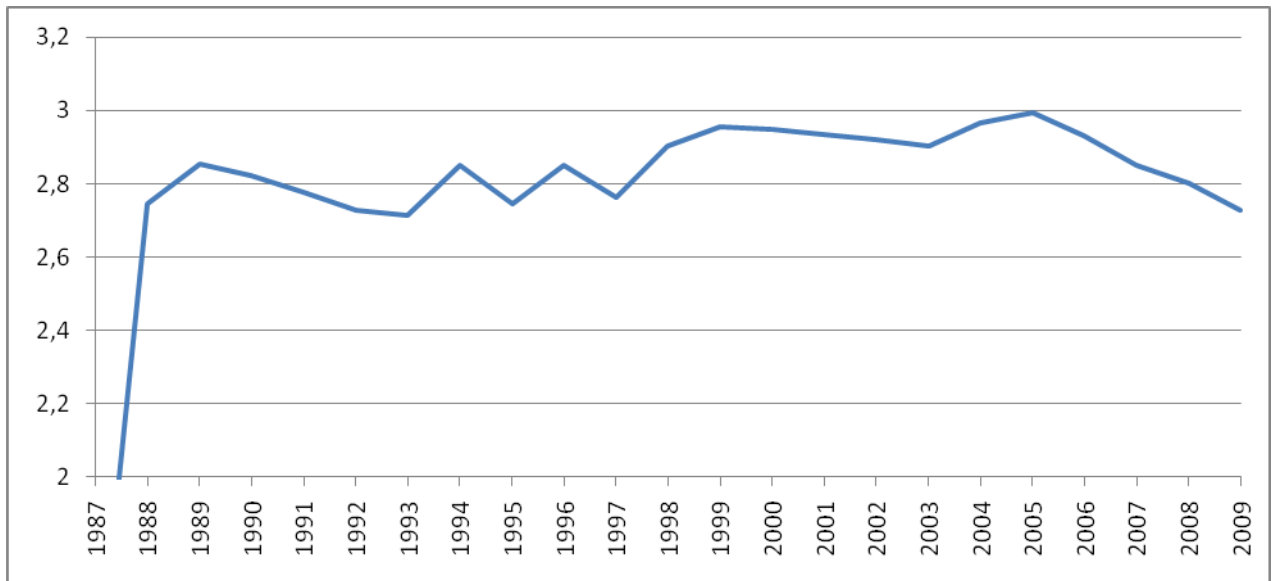
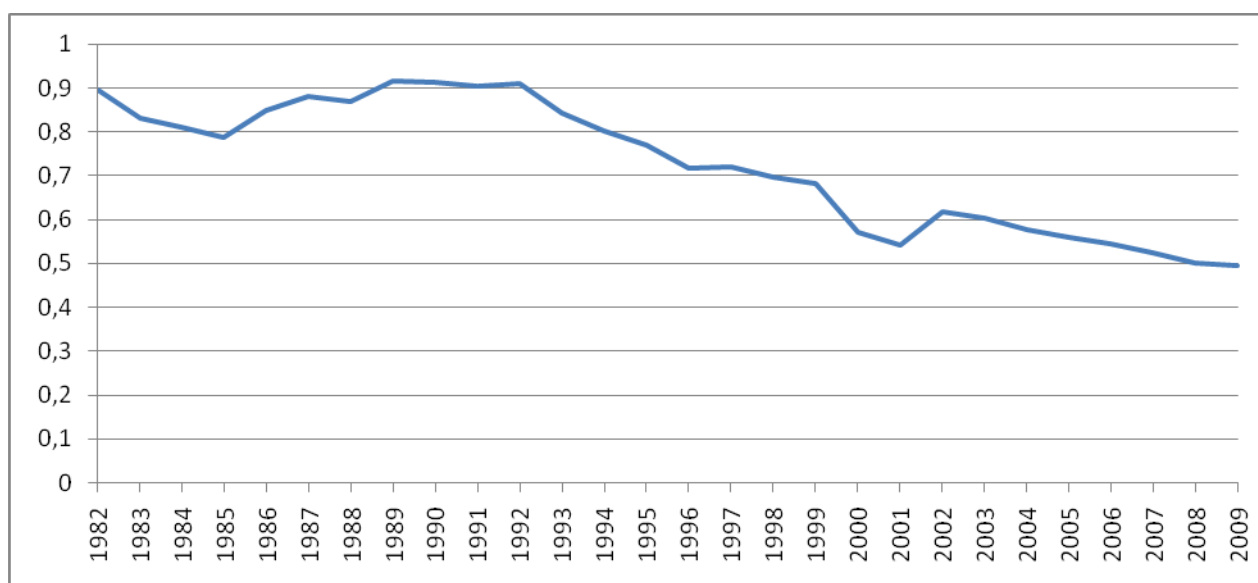


Figure 4; The maximum amount of the Swedish unemployment benefit as percentage of the average wage.



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