Sabina Stiller

Surveying the German Welfare State: Challenges, Policy Developments and Causes of Resilience

ZeS-Arbeitspapier 1/2007

Zentrum für Sozialpolitik
Universität Bremen
Parkallee 39
D-28209 Bremen

Sabina Stiller MA
Abteilung Politikwissenschaft
Fakultät für Managementwissenschaften
Radboud Universität Nijmegen
Postbus 9108
6800 HK Nijmegen
Niederlande

This working paper is the product of a two-month stay (January-February 2006) at the Department 'Institutions and History of the Welfare State' of the Centre for Social Policy in the context of my doctoral research. I would like to thank the staff of the CeS for enabling my stay in the first place, for the warm welcome I received, and for assistance with my research. In particular, my thanks goes to Eric Seils, Herbert Obinger, Petra Buhr and Irene Dingeldey. In a slightly different form, this paper forms part of my doctoral dissertation that is due to be published in 2007.

Herausgeber:
Zentrum für Sozialpolitik
Universität Bremen
- Barkhof -, Parkallee 39
28209 Bremen
Tel.: 0421/218-4362
Fax: 0421/218-7540
e-mail: srose@zes.uni-bremen.de
http://www.zes.uni-bremen.de
Umschlaggestaltung: Wolfgang Zimmermann
ZeS-Arbeitspapiere
ISSN 1436-7203

Zusammenfassung

Dieses Arbeitspapier befasst sich mit den Mechanismen, die gemäß institutionellen Wohlfahrtstaatstheorien die Reformresistenz des deutschen Sozialstaats erklären sollen. Es richtet sich dabei auf Reformhindernisse, die auf der institutionellen Struktur des Wohlfahrtsstaats beruhen, sowohl auf Makroniveau (sozialstaatliche Prinzipien) als auch auf Mesoniveau (Teilbereiche). Dabei legt es systematisch dar, wo sich tatsächlich Pfadabhängigkeiten und andere Ursachen von Veränderungsresistenz verbergen. Darüber hinaus wird auf die politisch-institutionellen Quellen der Reformresistenz eingegangen. Die Analyse wird ergänzt durch eine Besprechung der Ursachen des wachsenden Reformdrucks und einer Übersicht der Policy-Entwicklung der letzten 30 Jahre in den Teilbereichen Rente, Arbeitslosenversicherung und Gesundheitspolitik. Das Papier kommt zu dem Schluss, dass trotz des erheblichen Reformdrucks die zahlreichen Resistenzmechanismen ein Muster inkrementeller Veränderungen zur Folge hatten und dieses erst in den letzten Jahren durch eine Reihe von Strukturreformen unterbrochen wurde.

Summary

This paper takes a closer look at the supposed mechanisms behind German welfare state resilience, which are given in mainstream institutionalist theories. I focus on reform hurdles associated with the make-up of the German welfare state, both at the macro-level (principles) as well as at the meso-level (programmes), exposing systematically mechanisms of path-dependence and other sources of policy stickiness. In addition, I zoom in on the political-institutional sources of resilience. This survey of institutional reform obstacles is complemented by a review of reform pressures and policy developments in the main social policy areas, old age pensions, health care, and unemployment policy between 1975 and 2004. The main conclusion is that despite numerous sources of pressure for far-reaching welfare state reform, the various mechanisms of resilience have made for a pattern of incremental reform, although a number of structural reforms have occurred fairly recently.

Inhalt

1 Introduction

It is widely assumed that the German welfare state is highly resistant to comprehensive change, despite considerable social, economic, and demographic pressure for such change. This assertion is mostly informed by the literature on welfare state regimes (Esping-Andersen 1990; Esping-Andersen 1996) and the politics of welfare state reform (Pierson 1996; Pierson 2001). Both political and institutional factors are said to be responsible for the relative stability of welfare states and the German welfare state is by no means an exception. Pierson (1996), for instance, has stressed that "status-quo-ness", electoral hazard, organizational interests and path-dependent mechanisms form obstacles to far-reaching reforms. Although these factors are frequently assumed to apply to the German context, to my knowledge, they have hardly been surveyed in their entirety, that is, across the different parts of the welfare state.

The present paper strives to fill this gap by assessing whether the supposed mechanisms behind resistance can be found as to confirm or disconfirm the assertions about German reform resistance in this respect. It will focus on those reform hurdles associated with the make-up of the welfare state, both in terms of its overall principles and in terms of its programmes. It attempts to expose systematically the supposed mechanisms of path-dependence and other sources of policy stickiness. In addition, it summarizes the political-institutional sources of resilience. Put differently, the analysis will cover the main macro-level (regime-level and political-institutional context) and meso-level (programme-level) characteristics of German social policy arrangements. While reform resistance is also due to political reasons, such as policy-makers shunning the risks implied by comprehensive reform ("electoral hazard"), these are beyond the scope of this analysis.

The paper is structured as follows: the survey of institutional obstacles to reform is preceded by an analysis of the aforementioned reform pressures, followed by empirical reform trends. Section 1 presents the main characteristics and principles on which the German welfare state is built. Some of these principles can still be seen more than 125 years after Bismarck created the first social insurance programmes. They include the principles of wage-centred social insurance; familialism; ensuring the former standard of living; and corporatism. The second part of the section covers the main 'post-industrial' pressures that are impacting on mature welfare states and the specific reaction of its Continental type, leading to 'welfare without work' (Esping-Andersen 1996). In the specific German context, this implies that the effects of external shocks on employment and state finances have been buffered by using social policy programmes (and their budgets). Next, the actual record of social policy reform will be examined next to see whether it underscores the assertion that resistance to reform has indeed hindered large-scale reforms. Section 2 thus summarizes what German governments have done to react to the pressures on welfare states, and reviews overall policy development since 1975, considering the record of the Social-Liberal coalition, the Christian Democrat-Liberal coalition and the Red-Green coalition (see for all three periods Schmidt 2005; Bleses/Seeleib-Kaiser 2004; see for 1998-2003 also Egle et al. 2003; Gohr/Seeleib-Kaiser 2003). The purpose of this section is to illustrate how major policy programmes evolved over time and identify overall patterns of change (for instance, periods of cost-containment, consolidation, or structural shifts within programmes). Section 3 then turns to the supposed sources of resistance to comprehensive change. It firstly discusses the sources of 'stickiness' on the level of political institutions and then probes into those linked to social policy programmes. Central to the discussion will be three policy sectors, whose features are briefly introduced: old-age pensions, unemployment insurance, and health care (see for detailed introductions of social policy programmes Alber 2001; Schmid 2002; Opielka 2004; Schmidt 2005).

2 The Continental welfare state and its German prototype

2.1 Macro-level Characteristics: Wage-Centredness, Familialism, Securing Former Standard of Living and Corporatism

Esping-Andersen's seminal contribution to the conceptualization of the welfare state was his work on welfare state regimes (Esping-Andersen 1990), which has since widely been used in the literature dealing with social policy change and reforms. Part of this literature has tried to assess the extent to which there has been convergence towards one specific regime type. Along with the Social Democratic and Liberal welfare state types, Esping-Andersen distinguished the Continental or Conservative welfare state, which is my main concern here. This type of regime is based on the type of social insurance introduced by Bismarck in the 1880s and has at least four main characteristics. While explaining these briefly, I will also point out why they are potentially linked to change resistance.

Firstly, the Continental welfare state is based mainly on the wage-centred social insurance principle. That is to say, its benefits and services are financed by contributions withheld from wages, rather than financed by general taxation. Wage-centredness defines both the nature of the benefit (contribution-based rather than flat-rate) as well as their financing source (workers and employees rather than the general population). At the same time, contribution-based benefits tend to be associated with 'earned' or rather accumulated rights and may pose legal and technical problems to retrenchment and reforms. In addition, trade unions which represent contributors may be expected to come to their defence. Secondly, this welfare state type exhibits a focus on familialism, i.e. its programmes and benefits are centred on the male breadwinner while his family provides a safety net that plays a supplementary role: it is expected to take over responsibilities that, in other welfare state types, correspond to the state (e.g. the provision of public day care in Scandinavian welfare state) or are left to the market (e.g. the provision of private day care in Liberal welfare state). Such bias comes at the expense of the availability of social care services such as they exist in Scandinavian welfare states. Thirdly, the Continental welfare state is biased towards granting benefits to male bread-winners. The usually generous provision of benefits is geared towards ensuring the previous standard of living in cases of illness, old age and unemployment. The last two principles define the beneficiaries of welfare state arrangements as well as the nature and generosity of benefits. As a rule of thumb, generous earnings-related benefits tend to receive more (political) support from large parts of the population than targeted and flat-rate benefits and reducing them may be much more difficult (Bonoli/Palier 2000b).[1] It is to be noted that the first three characteristics are linked to the welfare regime type: ensuring living standards, putting a prime on the family as 'service provider' and maintaining differences of status according to occupation.

Fourthly, as Schludi (2001: 63) points out in his discussion of pension reforms, Conservative welfare states also tend to be corporatist in nature. They usually allow for a partial decentralization of state authority to quasi-public administrative bodies which are often controlled by representatives of business and labour, i.e. the social partners. According to several authors, this characteristic increases the number of key actors in welfare state politics, giving them plenty of opportunities to delay or obstruct policy change contrary to their interests (Swank 2001; Palier 2002; Siegel 2002). In turn, it diminishes the state's capacity to control social policy development, also by adding actors who legitimately participate in debates about welfare state reform (Palier 2002). In addition, Myles and Pierson point out that the role for trade unions in the administration of social policy transfers grants them a de facto veto power against reforms (Myles/Pierson 2001; Palier 2002). Concerning the German context, Leisering states that 'intermediaries' – organizations that stand between the state and the individual beneficiary – are characteristic of the provision of welfare. In as far as these organizations enjoy a privileged legal status as providers and coordinators of social services; they form part of a state-regulated and corporatist structure of society. Potentially, such intermediaries can produce a high level of flexibility, but the extent to which they form a corporatistically regulated and solidified actor structure means that they also form a source of paralysis. Corporatism and regulation appear to many as a main source of inflexibility in the process of adapting to global challenges (Leisering 2000).

Among the Continental European welfare states, the post-war German welfare state can be literally described as its prototype. During its 'Golden Era', that is, the post-war period up to the mid-1970s, it exhibited fully the characteristics identified by Esping-Andersen. Through the course of its historic development (Bleses/Seeleib-Kaiser 2004; Schmidt 2005), Germany became characterized by a wage-earner-centred social policy, which carried certain implications in terms of requirements for employment relationships and benefit recipients.

[1] Flat-rate benefits are less likely to be supported by medium and high-income earners than earnings-related benefits, as with rising incomes, flat-rate benefit will not contribute more to someone's standard of living. The political implication is that flat-rate (and low level) benefit structures might be related to a lack of support from medium and high income earners. As wage inequality increases, such benefits are supported mainly for ideological reasons rather than based on material interest and are more easily subjected to criticism. Thus, it is easier to reduce flat-rate/means-tested benefits than contributory ones (Palier 2002).

'Wage-earner centred' implied two things: a social policy that applied more or less to male earners or bread-winners and an associated sphere of unpaid welfare services by married women. Moreover, the male bread-winner's mode of employment was the standard employment relationship, characterized by four assumptions: work as dependent work with a single employer, or as full-time job, a salary higher than the subsistence level, a continuous, as well as a sufficiently long employment history, a life course following the education-work-retirement track, and, the income and social policy status of the earner's wife and children derive from and are dependent upon the male breadwinner status (Mückenberger 1985, in: Bleses/Seeleib-Kaiser 2004:18). From these assumptions, the wage-earner approach derives some rules concerning the entitlement to social benefits: before receiving them, someone must have been in employment; they are based on the level of previous earnings; and, while someone is receiving benefits, he or she should demonstrate his willingness to work (this does not apply to retirement benefits). While these rules define entitlement for those who have been and are able to work, only those who do not meet such criteria should resort to other forms of benefits, i.e. tax-financed social assistance. The corollary is that this social policy model can only function as long as the majority of the working population is in a standard employment relationship (implying also that women stayed home for care) and employment is freely available (Bleses/Seeleib-Kaiser 2004: 18f.).

From these assumptions and rules we can clearly recognize the aims at the core of Continental welfare states: familialism and securing current standards of living. The focus on bread-winners ensured that women tended to look after their children (although it did not exclude them from work completely) and the link between previous earnings and benefits ensured that those receiving benefits could more or less rely on an income in case of old-age, long-term illness or unemployment. The brief discussion of the wage-earner principle has indicated that some crucial conditions need to be met in order to make the system work properly. Since the end of the welfare state's 'Golden Era', some of these conditions have certainly been eroded, which was mirrored in the literature by a focus on its 'crisis'. After having zoomed in on the core principles of the Continental welfare state and the specific implications of the wage-earner approach for German social policy, I now take a closer look at adjustment pressure and how these characteristics influence the reactions of Continental welfare states.

2.2 Pressures on Contemporary Welfare States

By the end of the 20th century, it had become indisputable that modern welfare states had come under pressure to adapt their institutional make-up in response to changes of a political, social and economic nature. This concern has also been reflected in the comparative welfare literature since the mid-1990s (Van Kersbergen 2000). One basic problem of Continental welfare states (and other welfare state types) is that the post-war conditions, under which the welfare state was created and its programmes were developed and implemented, no longer hold (Van Kersbergen 2000: 21). To recapitulate the more specific sources of pressure, these are changes in social and economic conditions which threaten the fundamentals of the welfare state's policy arrangements: they include the changing nature of employment and the development of post-fordist labour markets, changes in family composition and the role of women, and, finally, unfavourable demographic developments such as ageing and declining birth rates (Esping-Andersen 1996). The combined effect of these developments has affected the standard employment relationship, the male bread-winner model, and the earner-centred contribution base, upon all of which the Continental welfare state was built. Some of these developments are challenging some specific programmes more than others; I will now discuss each of them in turn, focusing on endogenous sources of strain.[2]

Firstly, changes in family values and gender roles have resulted in a decline in the traditional family, which has been increasingly replaced by households made up of single persons and single (or divorced) parents. In addition, the division of labour within families has been changing. The former has led to relatively more claims on social benefits and/or child care services from these households; the latter development has resulted in a questioning of traditional assumptions built into welfare state programmes on who should receive social benefits (Lewis 2002). In addition, different household structures combined with new forms of work (see below) have generated new social needs and demands that are denoted as 'new social risks'. Such risks include reconciling work and family life, lone parenthood, long-term unemployment, belonging to the so-called working poor, or insufficient social security coverage. New risks tend to be concentrated among women, the young and the low skilled. (Bonoli 2005).

As far as the organization of economies and the situation of labour markets and employment are concerned, many changes have occurred in that sphere, too. These include a slowdown of productivity and economic growth compared to the post-war era (Pierson 1998); a transition to post-fordist (or post-industrial) labour markets, implying deindustrialization, a growth of the service sector, new technologies; and flexibilization of employment that affected employment patterns, leading to less life-long careers and more variety in employment types, including temporary and irregular work (Esping-Andersen 1993). The consequences for the welfare state and its programmes may be direct, as their sustainability is

[2] To these largely endogenous sources of strain on welfare states, one may add a decline of traditional corporatist patterns of interest intermediation as well as external pressures stemming from developments such as globalization and intensified European integration (Van Kersbergen 2000: 22). For reasons of space, these trends are not discussed in detail here. Concerning the influence of globalization on welfare states, there exists a sizeable literature disagreeing about the precise nature of the relationship, i.e. whether there is a negative or positive impact, and the mechanisms involved (Andersen 2003; Genschel 2004). In a recent contribution to the debate, an edited volume by Glatzer and Rueschemeyer (2005) stresses the mediating effect of domestic institutions and political struggles on the effect of globalization on welfare states. Similarly, with European integration (or 'Europeanisation') it is difficult to detect effects on national social policy because of conceptualization issues; in addition, its effects on national social policies are hard to trace empirically. In addition, there is disagreement as well as differing empirical evidence the strength of such effects (Leibfried/Pierson 1995; Scharpf 2002; Ferrera 2005; Leibfried 2005; Steffen 2005; Stiller 2006).

affected by an overall reduction of stable contribution revenues (endangering the financing base of programmes) and the fact that less stable employment and lower growth rates tend to produce especially higher structural levels of unemployment (especially with rigid labour markets) puts a greater strain on corresponding benefit schemes (Pierson 1998: 544). Also, the effect may be indirect, as the governments of advanced welfare states face a 'trilemma of the service economy'. In line with this argument, governments need to increasingly balance conflicting goals of employment growth, wage equality and budgetary requirements (Iversen/Wren 1998 in Pierson 1998:544). I will readdress the problem below when the response of Continental welfare states is explained.

In addition, a related argument is that the past expansion of welfare states led to mature and costly welfare states and sizeable fiscal commitments for governments that hamper policy flexibility, constantly create budgetary pressures and thus set extra constraints on government use of revenues. Of these commitments, health care and pension schemes make up the largest proportion. Sizeable commitments are also claimed to drive up unemployment because of upward pressure on the taxation of labour through increasing social policy contributions (Scharpf 1997). During the mid-1970s, these contributions as a share of gross wage still totaled about 30 percent, but rose to over 35 percent in the mid-1980 and reached a critical threshold of 40 percent in the mid-1990s (Kaltenborn et al. 2003:673).[3] In 2003, contributions had reached about 42 percent of gross wages (including both contributions from employers and employees) with contributions for pensions (19.5 percent) and health care (on average 14.3 percent) making up the bulk of the amount. The sensitivity of experts (especially economists) and policy-makers to the (supposedly adverse) effects of non-wage labour costs and its employment effects has considerably increased since the mid-1990s. More recently, it has resulted more recently in concrete pledges of policy-makers to at least contain or lower the rise of contribution rates: to give two examples, the 2003 reform programme 'Agenda 2010' of Chancellor Schröder was intended to decrease non-wage labour costs from 42 to at least 40 percent.[4] Also, the current CDU/CSU-SPD government took up the issue in its coalition agreement of fall 2005, striving to keep social contribution rates durably below 40 percent.[5]

[3] The strong rise of contributions in the 1990s was caused by a number of extraordinary factors: the introduction of long-term care insurance; additional burdens for social insurances because of reunification and the increase of other sorts of ('versicherungsfremde') expenditures, such as pension payments to migrants from the former ethnic German areas in Eastern Europe and the former Soviet Union (Ibid: 674).

[4] Speech by Chancellor Schröder to Parlament, Mut zum Frieden und Mut zur Veränderung,_14.03.2003, Bundestag parliamentary protocol 15/32, p. 2479-2493.

[5] Coalition agreement of CDU/CSU-SPD 11.11.05, 'Gemeinsam für Deutschland – mit Mut und Menschlichkeit', p. 21, source: http://www.bundesrat.de/nn_38758/DE/foederalismus/bundesstaatskommission/Mitglieder/Koalitionsvertrag,templateId=raw,property=publicationFile.pdf/Koalitionsvertrag.pdf

Finally, a combination of demographic trends that lead to population ageing is a final and important challenge for welfare states. The combination of longer life expectancy and decreasing birth rates has led to a growing share of the population aged 65 and older.[6]

The corresponding figures for Germany envisage increases in the retired population (65 years and older) from 15 percent in 1990 to 26.1 percent in 2030 and 28.4 percent in 2050 (UN Population Division 1999, in: Schirrmacher 2004:44). The prevision of the German Statistical Office is even more drastic: in its 2003 population prevision it concluded that the proportion of those over 60 years is to increase from a current 23 percent to 37 percent during the next fifty years; at the same time, the proportion of those under 20 years is to decrease from 21.3 percent to 16 percent. Through these changes, the German population, given a certain level of net immigration, will shrink from 82 million to 75 million during the same time period. As life expectancy still increases, the higher proportion of retired people will drive up the average age of the population; at the same time, the share of the working population will decrease by 15 to 30 percent until the year 2040 (Statistisches Bundesamt 2003, in: Sesselmeier 2006:25). These developments have immediate and far-reaching implications for social policy programmes: on average older populations put more strain on (statutory) pension and health care schemes, while the amount of contributions tends to decline (because of a decrease in those paying contributions), necessitating a search for complementary sources of funding if current benefits and service are to be maintained. Fiscal strain on these two schemes in particular is set to increase, the average increase in pension spending between 2000 and 2030 is set at 3.9 percent of GDP across the OECD countries, for health care provisions, it is set at 1.7 percent, totalling an average increase of expenditures for these two programmes of 5.6 percent of GDP (OECD 1996 in Pierson 1998: 550-551). As far as Germany is concerned, the proportion of GDP spent on pensions and health care has shown a continuous upward trend since reunification (1992: pensions 10.5; health care 10.4 percent; 2000: pensions 10.9; health care 10.7 percent; 2003: pensions 12.4; health 10.9 percent).[7] In a ten-year period, the ratios for pension expenditure/GDP had thus risen by 1.9 percent and for health by 0.5 percent, combining to 2.4 percent. With the onset of demographic effects after 2010, this trend is set to continue.

2.3 Consequences of Adjustment in Continental Welfare States:'Welfare Without Work'

With regard to the reaction of Continental welfare states to these pressures, their problems with responding to the changing economic situation (and to economic crises), have received the most attention in the literature. The gist of the arguments is that such crises, which usu-

[6] While the percentage of the population in the OECD countries aged over 65 was still 9.4 percent in 1960, it was projected to rise to nearly 14 percent by the year 2000 and is anticipated to reach 23 percent by the year 2035, with the major part of this transition to occur from 2010 onwards, when the large cohort of 'baby boomers' are retiring (OECD 1995, 1998 in Pierson 1998: 550).
[7] Sozialbericht 2005, Berlin: Bundesministerium f. Gesundheit und Soziale Sicherung, p. 197

ally bring about unemployment and higher burdens on public budgets, tend to threaten its basic workings. In the following, I will refer to the difficulties of adjustment that relate to the characteristics of Continental welfare states in general. At the same time, these problems are particularly relevant for Germany, given that the country has had to cope with a particular challenge, in many respects comparable to an external economic shock, namely reunification (Czada 1998). The fiscal and economic implications of integrating Eastern Germany into the Federal Republic were heavy burdens on public budgets and social security systems - which other countries did not experience - and which exacerbated or intensified other sorts of pressure.

In reaction to the challenges described above (and in particular economic pressures), the Continental model seems to be unable to generate employment growth. Instead, labour markets are characterized by high and chronic unemployment levels, especially among the young, low female participation in the work force and sluggish service sector growth. All of these factors combine and make labour markets into typical 'insider-outsider' markets (Esping-Andersen 1996: 78f.). Esping-Andersen argues that the model

„(...) has an inbuilt tendency to eat the very hand that feeds it. Unable to promote employment expansion, it reverts to labour supply reduction policies which, for males, mean unemployment and pension costs; for women the necessary continuation of male breadwinner dependencies. This translates into extremely high labour costs and labour market rigidities because the 'insiders' are compelled to defend their employment security'" (Esping-Andersen 1996: 80).

Such an inbuilt tendency towards 'self-destruction', to put it somewhat bluntly, has also been identified by other analysts. For instance, in discussing the Continental model, Scharpf notes their 'low or very low rates of total employment', and 'low or very low rates of female participation in the labour market' and he stresses that 'the comparatively high dependence of Continental welfare states on social insurance contributions also creates specific vulnerabilities' (Scharpf 2000a: 219ff.). This vulnerability works two ways: employment losses weaken the financing base of social security programmes while putting higher burdens on them, especially in the case of unemployment insurance. On the other hand, insurance-based benefits tend to be more resistant to retrenchments or replacement by means-tested benefits than are a tax-based benefit, which explains why higher burdens usually translate into higher contributions for benefits. Thus, 'Continental welfare states are vulnerable to a vicious cycle in which rising unemployment will lead to increases in non-wage labour costs which will further reduce employment opportunities in private sector services' (Scharpf 2000a: 222).

The 'vicious cycle' described by Scharpf has also been described, from a more distinctly political economy perspective including firm behaviour in reaction to economic shocks, as a 'pathological spiral of welfare without work' (Hemerijck et al. 2000). It implies that in reaction to competitive pressures; firms try to increase labour productivity, which not only means investments in training, but also dismissing workers, and mostly those who are less productive and most costly. Given the Continental welfare states' dependence on male bread winners, it results in rising social security contributions and taxes. In the meantime, non-wage labour costs have increased, which invites firms to review their productivity again and leads to even more lay-offs. This ‘particular interplay between production and social protection’ leads to overall low employment and high structural employment, low female participation rates, declining participation of older workers, weak growth of part-time employment and employment in the service sector (Hemerijck et al. 2000: 109).

The above described patterns of ‘insider-outsider’ labour markets, ‘vicious cycles’ and ‘welfare without work’ indicate a general difficulty or perhaps even inability of Continental welfare states to cope with the challenges of a socio-economic nature, leading to loss of employment. The following question is how Germany, as a prototype of this welfare state type, has tended to react to these challenges. Two analyses of German economic adaptation have taken a wider political economy perspective as their point of departure. Firstly, and offering an alternative explanation for Germany’s poor employment performance, Manow and Seils find a process of ‘dual externalization’ of costs by the state and firms onto the welfare state in adjusting to external shocks, most recently German reunification, but also in earlier crises (Manow/Seils 2000). In a broader study, analyzing the historical development of the German political economy and its system of social protection at length, Manow identifies two patterns illustrating the use and misuse of the welfare state in coping with external shocks, showing that the welfare state served as a buffer and shock absorber for both the labour market and public finances (Manow 2001).[8] These studies suggest that social policy programmes have been instrumentalized by the state and by firms, indicating that these actors preferred additional burdens for the welfare state to substantial reforms, despite the risk of endanger its financial viability in the long run. However, demonstrating that social policy programmes are repeatedly used for buffering economic shocks does not yet provide a clear explanation for the resilience of these programmes. I will cover these sources of resilience in its social policy model in Section 3. Before that, however, I will consider the development of German social policy over time.

3 Reacting to Pressures? A Summary of Policy Developments Since the Mid 1970’s

The current section deals with the answers policy-makers formulated in response to the pressures illustrated in Section 1.2. Did policy-makers attempt comprehensive reforms in their reaction to slow growth and unemployment, demographic developments and other pressures? Did they adjust policies or did they prefer to react by adopting incremental re-

[8] First, governments used social insurance schemes to cope with the labour market consequences of the crisis. Second, social insurance schemes are used (with a certain time lag) to cope with the financial implications of the crisis which occurs through cost-shifting at the expense of the contribution-financed social programs.

forms, as the supporters of the *Reformstau* perspective would argue? The answer is given in the form of an overview of German social policy development, focusing on the changes to the three main programmes, old-age pensions, unemployment insurance and health care Its purpose is to offer a general impression of whether reforms (of the three programmes and generally) were more incremental or more comprehensive (and possibly structural) in character rather than tracing whether different types of pressure had resulted in matching policy amendments (the latter would be beyond the scope of this study and would warrant a distinct research project). Also, it presents information that cannot be included in the case studies, as they zoom in on particular reform processes, but it acquaints the reader with the general picture of German social policy development over time. In terms of its time frame, the overview covers the main phases of social policy development since the end of the 'Golden era' of the welfare state and is structured by the periods of subsequent coalition governments. For each period, I will describe the general characteristics of each government's approach to social policy before summarizing the main policy changes in each of the three programmes, including major reform legislation. The main purpose of these summaries is to indicate overall policy trends; they are not intended to cover each reform in detail.

3.1 The Social-Democrat/Liberal Coalition (1969-1982): Expansion and the Beginning of Consolidation[9]

From 1969 onwards, the new Social-Democrat/Liberal (SPD-FDP) coalition set the German welfare state on an expansionary course, which formed part of a common reform plan backed by both parties.[10] A prime example of this expansionary course, which took place across all programmes expanding the circle of programme beneficiaries and raising the levels of transfers and services, was the pension reform of 1972 (see for the main provisions Schmidt 2005: 94). That course of widening and deepening the welfare state had to take a blow with the recession of 1974, when, for the first time, a financial crisis in social policy budgets became a real possibility. The first reaction of policy-makers was hesitant, and first cost containment-measures only followed after the change in leadership from Chancellor Willy Brandt to Helmut Schmidt in 1974. The 1975 budget initiated a different kind of social policy and first of all introduced cuts in active and passive labour market policy, including unemployment benefits. After the federal elections in 1976, this trend of cost contain-

[9] The general part of this and following two sections are based on Schmidt 2005, Chapter 1.4.
[10] Quantitative measures of welfare state activity confirmed this new strategy: the percentage of the population living primarily from social security income rose from 14.4 per cent in 1969 to 18.2 per cent in 1982 (reflecting more pensioners and more people receiving unemployment insurance) and the ratio social expenditure/GDP climbed from 24.6 per cent in 1969 to a high of 31.4 per cent in 1975 and only slightly fell to 30.7 per cent in 1982. This expansion was primarily financed from higher contributions, which also rose from 27.8 per cent at the beginning of the period to an impressive 34 per cent at its end (Schmidt 2005: 93)

ment gained pace and during 1977 and 1981 it saw cuts in all major programmes: a time of consolidating social budgets in line with the levels of 1970 had begun.[11]

In September 1982, the coalition fell apart, not least because the positions of SPD and FDP on economic and social policy had become irreconcilable. The change of government to a new conservative-liberal coalition of CDU/CSU and FDP ended an era of high hopes with regard to social policy and, towards the end, deep frustration amongst their party members and electorate. Evidently, 'social capitalism' had reached its limits. The legacy of the SPD-FDP government was visible with a high unemployment rate of 7.5 per cent, more than 2 million social assistance recipients and a combined social contribution rate of 34 per cent of gross wages. On the positive side, the social expenditure/GDP ratio had been increased, at least until 1975, and the welfare state as a whole had worked well as a buffer in the years of economic turmoil (Schmidt 2005: 98).

How did major programmes fare during the period after the end of expansion? Labour market policy was clearly dominated by cost-containment concerns which, as far as unemployment transfers were concerned, led to the first benefit cuts (from 1975 onwards), and to a pro-cyclical approach to active labour market policy: means that in times of high unemployment, measures were cut only to be expanded again when the economy recovered (Bleses/Seeleib-Kaiser 2004: 51). Furthermore, programmes that promoted individual training (one area of active labour market policy), which had been initiated by the same coalition, were cancelled, and the level of benefits across social programmes was decreased while there was tightening of eligibility rules, applying to unemployment insurance as well as to pensions (Schmidt 2005: 97).

With regard to old-age pensions, several adjustments were made in 1977 and 1978 including the postponement of annual benefit adjustments, caps on future benefit increases and a technical measure minimizing the wage-based adjustment of benefit levels. On the revenue side, the contribution rate was increased by a half percentage point and a new contribution for the unemployed (to be paid by the Federal Employment Agency) was introduced. On the whole, the Social-Democrat/Liberal coalition enacted incremental benefit curtailments, which were largely designed to control expenditures (Bleses/Seeleib-Kaiser 2004: 68f.).

Concerning the area of health care, the mid-1970s marked the beginning of a perennial effort of cost-containment. Therefore, the post-war aims of expansion and matching patient demand were replaced by a focus on revenue-based expenditure policy. As an addition to

[11] This included a number of measures: the automatic adjustment of pensions to wage increases was delayed; co-payments were introduced in the health insurance scheme, which also saw the institution of a body consisting of health care stakeholders which was to deliberate about further cost savings; eligibility rules of unemployment insurance were tightened and the levels of transfers were lowered. Other areas of social benefits, such as social assistance, child allowance and others were also affected. In order to stabilize social budgets, the SPD-FDP government raised contribution rates across all social insurance programmes. Since these measure were considered to be insufficient, the federal government also resorted to balance deficits by transfers between social budgets and between the federal budget and social budgets.

the first 1977 cost-containment law, the so-called Concerted Action in Health Care (*Konzertierte Aktion im Gesundheitswesen*) was established as a corporatist body of interest concertation designed to support the aims of this legislation (Rosewitz/Webber 1990; Döhler 1995: 387f.). This period also saw the first introduction of patients' co-payments for medical services.

3.2 The 'Era Kohl' (1982-1998): Consolidation, Expansion and 'Restructuring'

The new CDU/CSU-FDP coalition led by chancellor Kohl started its period in office with a diagnosis of crisis, both in the economy, and in the systems of social security. As a consequence, two steps were seen as necessary: putting on the breaks immediately with regard to social expenditure and, in the long term, a restructuring of social policy with a stronger focus on solidity, security and stability as well as on individual abilities and initiative (2005: 99). Schmidt focuses his discussion of the Kohl period on to what extent the coalition achieved its goals in consolidating social budgets. Here, he distinguishes two periods: firstly, from 1982 until 1990 the government could book successes, while from 1990 onwards, this policy encountered reactional tendencies (2005: 100ff.).

The first period was characterized by a mix of cost-containment and improvement of revenues, backed by Minister of Labour and Social Affairs Norbert Blüm.[12] To start with, the new government carried on with a restrictive social policy, while stepping up the pace of consolidation.[13] In response, the opposition and trade unions were furious about what they saw as large scale-retrenchments (*Sozialabbau*), while the government stressed that consolidation had been carried out carefully and in a socially balanced manner. With the benefit of hindsight, the 1980s were termed a period of 'smooth consolidation' compared to the processes in other European countries (Schmidt 2005:11). However, there was a countermovement to this trend, which, from 1985 onwards brought about improvements in social policy, such as in unemployment insurance (longer entitlements for older unemployed) and an expansion of family policy. Therefore, the first period saw no dismantling of the welfare state but high doses of cost-containment while the welfare state was left essentially intact.

The second period, in contrast, saw further attempts to consolidate social budgets but these were overshadowed by forces that had a contrary and thus expansionary effect. They had to do with the decision to generously fund reunification, and there was an underestimation of its costs, a rapidly rising unemployment rate and the set-up of a new social programme,

[12] The ratio social expenditure/GDP was reduced accordingly from almost 31 per cent to 27.6 per cent in 1990. Programmes which contributed most to this trend, were old-age and widowers' pensions, health care policy and unemployment insurance.

[13] This translated into several cost-cutting reforms in the years 1983 and 1984, which, among others, targeted social assistance (decrease of indexation), unemployment insurance and assistance benefits (level of benefits/tightened eligibility rules) and pensions (faster introduction of health insurance contribution, deferral of automatic adjustments and limitation of disability pensions).

long-term care insurance, in 1994[14]. Apart from consolidating social budgets, the Kohl government also intended to carry out qualitative changes in the welfare state or restructuring (*Umbau*). However, such restructuring was to conserve its social insurance character and leave the right of the social partners to conclude collective agreements (*Tarifautonomie*) untouched.[15]

How were the major programmes affected by the phases of consolidation and the intentions of restructuring? It is convenient to distinguish again two periods here, one before and one following reunification. Starting with labour market policy, the 1980s were synonymous with 'selective cuts and targeted improvements' (Clasen 2005: 64). In 1983 and 1984, this meant a repetition of the previous pattern of 'small and dispersed cuts, which mainly disadvantaged peripheral workers, while refraining from benefit retrenchment which might affect core workers'. Between 1984 and 1987, the pattern of 'selective retrenchment' turned into one of 'selective expansion' (e.g. easier access to unemployment benefit, extending entitlement periods for some groups from twelve to thirty-two months). Subsequently, there was a reversal to selective retrenchment when active labour market measures were cut and access to benefits was restricted for people with less continuous employment histories (Clasen 2005: 65). Bleses and Seeleib-Kaiser similarly note a selective trend towards recommodification: younger and middle-aged workers were increasingly forced back into the labour market because of the curtailments in the unemployment insurance and assistance schemes (exceptions were made for unemployed workers with children). Older workers, however, were able to claim benefits for a substantially longer amount of time, which allowed firms to externalize dismissal costs with a downward effect on the labour supply. At the same time, active labour market policy covered more individuals without causing higher expenditures, as less funds were allocated to these programmes (Bleses/Seeleib-Kaiser 2004: 56).

In the period following reunification, firstly, selective cuts continued (cuts in labour market programmes; selective reductions in unemployment insurance (ALG) and unemployment assistance (ALH) focusing on those without children; scaling back of ALH for claimants without prior receipt of ALG. Then, signalling a change of development, from 1995 onwards, two things happened: on the one hand, retrenchment gained speed (now even core

---

[14] These developments contributed to a steep rise in total payroll contributions (from 35.9 percent in 1989 to 42.2 percent in 1998) which for the most part were caused by the decision to increase social contributions across all programmes. The social expenditure/GDP ratio again rose to 31.9 percent in 1996 and was higher than at the beginning of the Kohl era.

[15] The goals set included the reduction of unemployment, adapting the welfare state to socio-economic and demographic change, introduce more flexibility and personal responsibility into the system and redirect social provision to those who needed it most (Schmidt 2005: 104). From a macro-perspective, looking at the German welfare state in its entirety, Schmidt identifies the following successful outcomes of the restructuring plans (Schmidt 2005:105f.): the rapid transfer of the West German systems of social security to the new *Länder* (which on the other hand also meant immense costs); the decision to establish a long-term care programme in 1994; the strengthening and extension of family policy despite the difficult budgetary situation from the mid 1980s; the dampening of expenditure-raising effects of unemployment and ageing in pensions (reforms in 1992, 1999 and health care: 1993, 1997)

workers had to accept small-scale benefit cuts) and activation policies became more pronounced in the granting of formerly ‘passive’ transfer payments. As for the latter, a focus on employability and work requirements was noticeable for ALH and social assistance claimants, but also for those who were claiming long-term ALG benefits (Clasen 2005: 69f.). Additionally, Bleses and Seeleib-Kaiser stress that active labour market measures were used extensively to combat unemployment and incentives for early retirement from the 1980s were replaced by other measures. With respect to the curtailment of transfer payments, they note a continuing trend toward recommodification of workers (again exempting those unemployed with children) (Bleses/Seeleib-Kaiser 2004: 61).

With regard to developments in old-age pension arrangements in the same two periods before and after 1990, what can be observed? Arguably, the change in government did not affect the direction or pattern of pension policy, leading to a pre-1990 period of ‘consensual adaptation and adjustment’. More specifically, it caused ‘a wide range of cutbacks affecting current and future pensioners (...) aimed at curtailing expenditure for both pension insurance funds and the federal government’. The measures employed to achieve this included several increases in contribution rates, softened by lowering pensioners’ contribution rates to unemployment insurance (Clasen 2005: 105f.). Just before reunification, in 1989, an important pension reform was concluded (to take effect in 1992), which included major new aims such as indexing pensions in line with net rather than with gross earnings and fixing the level of federal subsidies (Schmähl 1993, 1999, in: Clasen 2005: 107).

The post-unification period was characterized by the breakdown of the traditional pension consensus between the major parties, which meant more cross-party conflicts over pension policy and an increase in the politicization of the pension issue. This new conflictive political style culminated in the 1997 pension reform as a ‘new and more far-reaching round of cutbacks and revenue enhancing changes (Clasen 2005: 111f.): it combined changes affecting the level of pensions, limiting early retirement options for disabled people and the introduction of the so-called demographic factor (designed to link the indexation of pensions with the life expectancy of generations of pensioners). From the perspective of the principles of pension insurance, Bleses and Seeleib-Kaiser note the entire ‘era Kohl’: in several steps, all of which constituted incremental reforms, the government strengthened the link between contributions and pension benefits, which boils down to weakening what was conceived to be a ‘socially adequate’ retirement income. Thus, pensions moved away from the wage replacement principle, especially for those who were unable, for whatever reason, to complete the required amount of contributions to receive a full pension. On the other hand, pension arrangements increasingly accommodated the needs of families by introducing child-rearing credits, which is seen as a ‘systematic departure from the strong male breadwinner model and wage-earner centred social policies’ (Bleses/Seeleib-Kaiser 2004: 75)

Finally, in the area of health care, we can distinguish at least two periods during the ‘Era Kohl’. The period up to 1992 continued to be dominated by a ‘traditional’ cost-containment strategy. It included several strategies: revenue-centred expenditure policy (focusing on stable contribution rates); a cautious strengthening of sickness funds versus care providers (in terms of their competences); a cautious correction of supply-side structures and incentives for care providers (regarding, for instance, the remuneration of doctors and the budgeting of their services); and a trend towards the privatization of health care costs via co-payments (Rosenbrock/Gerlinger 2004:247f.). During the 1980s, the early involvement of interest groups in reform processes foreclosed the introduction of changes of incentives for care providers, which had been on the policy agenda since 1985 (Bandelow/Schubert 1998: 117) The 1988 Health Care Reform Act (GRG) was intended to go further than mere cost-containment, but it was substantially watered down in the process (Webber 1989). From 1992 until 1998, the government strategy changed, notably because the failure of the GRG had made visible the limits of traditional cost-containment. The 1992 Health Care Structural Reform Act (GSG) marked the beginning of a shift in health policy that would continue to be felt until the present. The focus on stable contribution rates was strengthened and backed by the introduction of sectoral budgets for expenditures and new steering instruments were either introduced or extended in order to change the incentives of stakeholders (free choice of sickness fund, introduction of budgets, more privatization of health care costs from 1996 onwards): this combination amounts to a 'paradigmatic change in health care policy' (Rosenbrock/Gerlinger 2004: 249f.). While the GSG introduced the most far-reaching changes and which was adopted still in consensus between the two major German parties, from 1995 the health care consensus broke down, and the later reforms of the period (in 1996 and 1997) were adopted against the will of the SPD opposition. Towards the end of the Kohl period, the focal point of reforms switched from health care providers to the insured and, to some extent, to sickness funds (Brandhorst 2003: 213).

3.3 The Red-Green Coalition (1998-2005): Cost-Containment and Structural Change

Evaluations and interpretations of the Red-Green coalition often focus on the question whether it stood for continuity or discontinuity of policy and whether its course in social policy-making was particularly social-democratic in character. While the coalition itself (both towards the end of its first term in 2002 and its second term in 2005) issued positive self-evaluations in terms of having reached its social policy goals, outside evaluations were less positive about their policy legacy. On the one hand, critics from the left (including the left wing of the SPD and trade unions) diagnosed their work as a 'neo-liberal tax and welfare state reform project' in order to secure Germany's status as an economic location. On the other hand, more business-related circles detected continuity of an ambitious social policy including high social contributions, a high social expenditure/GDP ratio and high-standard social policy and labour law regulations: this view identified an urgent and unfulfilled need for reforms under the Red-Green coalition (*Reformstau*), comparable with the immobility of the latter years of the Kohl government. While probably neither of these views correctly characterizes Red-Green social policy making, it is more fruitful to point out those instances of reforms which were in line with what could be expected from a SPD-led government and those which constituted a break (Schmidt 2005: 113). The first reforms in 1998 were directly linked to what the SPD had promised during its election campaign and repealed some late reforms of the Kohl government: this applied to pensions (suspension and later abolishment of the demographic factor of the 1998 reform that was to lower pension levels gradually), disability pensions; the deregulation of dismissals; cuts in sickness benefit; and the introduction of privatizing measures and instruments strengthening personal responsibility in health care insurance. In contrast with these reforms, the Schröder government was also capable of breaking with established policy legacies and thus produced discontinuities with the policy of earlier governments: examples were the Riester pension reform with its move towards a 'revenue-oriented expenditure policy 'in old-age pensions', during the first term, and the labour market reform Hartz IV, during the second term (Schmidt 2005: 114ff.).

What happened to the major programmes during the period? Let us firstly look at labour market policy. The Schröder government continued and extended active labour market schemes and the differential treatment of unemployed by benefit type in accordance with the objectives of 'status adequate' reintegration and maintaining a sizable second labour market (i.e. subsidised public employment). In 2001, new legislation introduced stricter rules for job-search activities, profiling and reintegration contracts for unemployed persons (Clasen 2005: 72f.). Following the 2002 Hartz proposals and the announcement of Schröder's reform programme Agenda 2010, in 2003 there was an 'acceleration of the speed of reform' and the 'breaking of new ground by introducing new benefit structures' (Ibid: 75), when the reforms called Hartz I-III (including for instance, organisational reform of job centres as well as the Federal Employment Agency, and the introduction of new forms of [self]-employment) were adopted.

Hartz IV was a second path-breaking reform and originated from the proposals of the Hartz-commission on labour market reform. It merged social assistance with unemployment assistance, replacing the latter with a new means-tested benefit.[16] Regarding the once guaranteed standard of living, Bleses and Seeleib-Kaiser note that active and passive labour market policy reduced the commitment to this principle by further weakening the wage-earner centred approach. As far as passive labour market policy is concerned, rather than reversing the cuts of the Kohl government, the Red-Green coalition added to them. On the other hand, the unemployment insurance scheme became more family-oriented by defining family time as equivalent to contributions. Regarding active labour market policy, it is striking that the aim of getting the unemployed back into standard employment had de facto been given up, as measures at odds with the guaranteed living standard principle were enacted (Bleses/Seeleib-Kaiser 2004: 66).[17]

[16]The Hartz IV-reform strengthened the incentives for unemployed to accept job offers and sanctioning the unwillingness to comply, while considerably widening the definition of which jobs were 'acceptable'. The principle of the 'activating' welfare state was applied to social assistance and unemployment insurance through Hartz IV (Schmidt 2005: 119 f.).

[17] These measures included the increasing promotion of new forms of subsidised self-employment and temporary work. In addition, employers were freed from paying unemployment insurance contributions

Similarly with labour market policy, old-age pensions experienced at least one path-departing reform in contrast to previous periods. As a whole, the post-1998 period first saw a combination of reversed policy and incremental changes[18] and then a structural reform: the so-called Riester pension reform, which was discussed as early as 1999 and got adopted in 2001. That reform marked the transition towards a pension policy that is oriented towards securing its financing base and stabilizing contribution rates, rather than towards securing a certain level of benefits. As a result, future decreases in benefit levels could no longer be ruled out and were met with a new privately funded but state-subsidized pillar, in the Riester reform. It was path-breaking in so far as it departed from the traditional social insurance state adding an element of capital-funding in old-age provision, which tends to be associated with liberal welfare states (Schmidt 2005: 116ff.). In reaction to renewed pension budget deficits in 2003, another round of incremental cutbacks included the suspension of pension indexation for 2004 and cuts that would affect the pension entitlements of those in higher education and starters and those wishing to retire early. Another reform containing measures with long-term effects was legislated in 2004 with the so-called 'sustainability factor' (which incorporates the changing ratio between contributors and recipients into the pension formula) designed to influence future pension adjustments (Schmidt: 116f.). The reforms of the Red-Green coalition have been characterized as a 'partial privatization of the old-age and disability insurance system, minimizing its decommodification potential, whilst at the same time expanding family-oriented benefits'. While the government withdrew from the principle of guaranteeing the achieved living standard in the public system, it offered fairly generous incentives for people to participate in the new private pension scheme and it intended to improve the situation of very low-income senior citizens by enacting a special social assistance benefit for them (Bleses/Seeleib-Kaiser 2004: 77)

In health care policy, the Red-Green coalition was committed to increase efficiency by modernizing care provision structures and contractual relations between stakeholders to ensure the stability of contribution rates and retain a comprehensive benefit catalogue in the statutory health insurance (SHI). Three distinct phases can be distinguished (Gerlinger 2003: 7). Initially (1998-2000), the government repealed a number of privatizing measures of the Kohl government and adopted the 2000 SHI Reform Act: it modernized contractual relations and care provision in order to control costs and improve quality in the SHI. In a second phase, from 2001 to 2002, the coalition sought to address some visible malfunctions in the system: the existing risk-adjustment scheme and regulation concerning medication provision. In the future, the risk-adjustment scheme would take account of more character-

for older workers and public support was granted for jobs with wages below the former income of workers.

[18] The Red-Green coalition started by suspending parts of the 1997 pension reform under Kohl (especially its demographic factor which was to lower pension levels in the long run) and cuts in disability benefits. It also added some revenue-enhancing reforms such as including low-wage earners and those in atypical employment into the circle of contribution payers and introduced a tax on energy consumption that was to complement pension fund revenue. In turn, contribution rates could be lowered by 1.2 per cent to 19.1 per cent in 2001 (Clasen 2005: 112 f.).

istics of the insured population, including morbidity (from 2007), thus reducing risk selection of sickness funds and strengthening the solidaristic character of the SHI (Brandhorst 2003: 218). With regard to medication, a number of reform acts were enacted - after budgets for pharmaceuticals and rules concerning regress of doctors had been lifted – in order to control price hikes by other means (see for details Hartmann 2003: 266ff.). Since 2003, the 2004 Health Care Modernization Act (GMG) and some subsequent reforms strengthened the pace of privatising costs, but also introduced some innovations.[19]

3.4 General Patterns of Change in Major Programmes

To conclude this section, I will attempt to identify some general patterns of change from the early 1970s to the present. Labour market policy and especially unemployment protection underwent a continuous series of cuts that started off moderately in the 1970s, gained speed during the 1980s, with instances of selective expansion towards the end of the decade. The 1990s saw first an intensification of active labour market policy followed by further curtailments and tightening of eligibility rules. After 1998, the trend towards cost-containment and restricting access to benefits continued, but, most importantly, the general approach to labour market policy became more focussed on activating job-seekers. With the Hartz-commission's work, the different elements of labour market policy were questioned and generated reform activity which culminated in a structural reform that merged unemployment assistance and social assistance and intended to change demands on job-seekers and job centres alike. All in all, after three decades of cost-cutting and gradual tightening of access, the policy field saw some reforms that went beyond these measures, introducing an element of activation (and thus recommodification) and changing existing benefit structures.

The development of old-age pensions followed a similar pattern. After a last spell of expansion in the early 1970s, pensions experienced continuous cuts in levels and annual adjustments with contributions rising until and including the 1990s. In the course of this development, the policy instruments used to contain the rise of pensions became ever more extensive, reflecting also the realization of the beginning demographic stress on the statutory pension scheme. After 1998, the mix of cost-containment and increasing revenues briefly continued, but it was punctuated in 2001 by a structural reform that introduced a privately financed pillar of old-age provision and replaced the goal of preserving pension levels with

[19] The GMG, on the one hand, reduced the benefit catalogue, increased co-payments including the much-discussed quarterly flat-rate charge for seeing a doctor (*Praxisgebühr*) and increased the share of the contribution rate paid by employees by 0.5 per cent. On the other, it reinforced family doctor schemes, strengthened patients' rights by including their associations in the major self-governance venue, the Federal Commission (*Gemeinsamer Bundesausschuss*), and introduced an independent Institute for Quality and Efficiency. During late 2004, one controversial measure of the GMG, which would have excluded dental replacements from the SHI, was repealed: in return for re-inclusion in the SHI catalogue, the insured had to accept an increase in contributions by 0.4 percent (Bandelow forthcoming, 2007).

stabilizing contribution levels. Since then, more efforts to stabilize contribution rates have been undertaken, which amounts to a continuing course of cost-containment.

Finally, health care policy is somewhat comparable with the other two policy areas. Cost containment was introduced as a goal in the late 1970s and has been a guiding theme in policy-making with the goal of stabilizing contributions becoming ever more entrenched by the early 1990s. Structural reforms had been initiated in the early 1990s (sickness funds, self-governance) with cost containment, the burdens of which are increasingly borne by patients instead of care providers, continuing. In contrast with pensions and unemployment insurance, which provide benefits, the provision, financing and management of health care services is much more complex, giving rise to conflicting goals between stakeholders. As a result, agreement on structural reforms becomes more difficult than in other social policy domains.

4 Sources of Resilience: the Political-Institutional Context of the State and Programme-Specific Characteristics[20]

4.1 The Political-Institutional Context

The German post-war constitution, the Basic Law of 1949, has contributed to democratic regime stability, democratic consensus, government and policy stability. However, it is also held responsible for high transaction costs of policy change, and problems with accountability and transparency (Saalfeld 2003: 347). German policy-making in general and the capabilities of governments to effect policy changes in the area of the welfare state in particular, are influenced by the political-institutional make-up of the state. In other words, the political-institutional context is said to be an important source of welfare state resilience. Its constitution ‘created a host of powerful institutional checks on the government’ which ‘led to complex, multilayered agency relationships’ and decisions that ‘are frequently compromises between the federal government and some of these various actors’. However, ‘if no com-

[20] Clasen argues that next to formal political and welfare state institutions, linkages between social policy programmes and features of national political economies should be considered as a third category of institutions that influence welfare state reform patterns (Clasen 2005). For instance, ‘production regimes’ including industrial relations, labour market regulation and financial governance structures have linkages with social policy arrangements (Huber and Stephens 2001a). Germany has been classified as a coordinated market economy (Hall/Soskice 2001), which entails strong employee representation at company level, extensive coordination among firms based on business associations and industry-wide collective bargaining between social partners without state interference, the so-called *Tarifautonomie.* Clasen finds a specific link in the ‘the notion of a ‘social wage’ (the entitlement to a wage replacement benefit rendered by employment-based contributions to social insurance, complemented by a high level of employment protection), implying ‘that for German workers, wages, insurance-based “deferred wages” and employment protection are interlinked domains’. Combined with the fact that large German employers and trade unions concur in their interest to invest in workers’ skills, this linkage between the political economy and the welfare state may have led to less retrenchment in Germany compared to countries with different production regimes such as the UK (Clasen 2005: 36-39).

promise is possible, the status quo is preserved, thus increasing the risk of a reduction of the system's problem-solving capacity' (Saalfeld 2003: 371).

Various features of the German political system are relevant in this respect, and I will briefly discuss them in turn. The country's multiple veto points include a bicameral parliament, a federal state structure, a strong judiciary and judicial review of policies by the Federal Constitutional Court, and corporatist procedures for interest mediation.[21] In essence, the existence of veto points may allow government decisions to be blocked by other political actors (Immergut 1992; Bonoli 2001).[22] In turn, the existence of (institutionally defined) veto points allow formal veto players[23] to wield some influence on policy outcomes (Tsebelis 1995; Tsebelis 1999). However, whether this will happen ultimately depends on certain conditions, for instance, whether formal veto players actually make use of the veto points' blocking opportunities: therefore, it is premature to conclude that veto players will always hinder decisions – as the literature often does – but to also take the conditions into account. Moreover, interest groups may try to form alliances with formal veto players or try to influence their policy preferences during a political reform process: if the former are successful, they may be considered 'informal' veto players (Bonoli 2000; Swank 2001) and increase the likelihood of influencing policy outcomes, either in the sense of blocking or expediting them.

Following on from this, the co-existence of two systems of regulation with different and potentially conflicting logics of action has increasingly produced blockades in policy-making. Scharpf has coined the term 'joint-decision trap', describing the combination of multiple veto points and a bicameral parliament that may feature different party majorities in the two chambers of Bundestag and Bundesrat (Scharpf 1988); this condition has also been referred to as 'incongruent bicameralism' (Lijphart 1984). Seen from another angle, the problem stems from potentially conflicting systems of regulation in a federal state; i.e. the two arenas of political party competition and negotiation between different state levels (Lehmbruch 2000).[24] These conflicting logics manifest themselves in particular when there

[21] See for a discussion of these features in interaction with party competition in the context of pension policy (Schulze and Jochem (forthcoming, 2007)

[22] The argument goes that the ability of government to achieve a desired policy outcome depends on the presence or absence of veto points to a large extent (Immergut 1992; Bonoli 2001). A further distinction can be made between formal and informal veto points; the former exist because of constitutional provisions, the latter allow access of interest groups to the formal decision-making processes.

[23] Tsebelis (1995) defines 'veto players' as 'individual or collective actors who agreement is necessary for changing the status quo'. Further, he distinguishes institutional veto players (in presidental systems) and partisan veto players (in parliamentary systems). Moreover, he argues that the policy change becomes less likely the more veto players exist, the larger the difference between their policy positions and the less cohesive these positions are.

[24] In a situation of differing majorities, the opposition acquires a quasi-governing role in the *Bundesrat* and tends to block legislation for electoral-strategic reasons, not the least because the largest parties tend to compete on social policy issues. Because of the frequency of elections (on the *Länder* and federal level), electoral competition tends to be more or less present all of the time which works against reforms or at least creates a permanent electoral risk for a reform-eager government. As a result, opposition parties tend to do well in Länder elections, strengthening their (majority) position even further.

are indeed different majorities in the Bundestag and Bundesrat (for most of the time in the 1990s and thereafter) and when the nature of policy proposals requires mandatory consenting legislation (necessitating Bundesrat approval).[25] The federalism veto point arguably leads to imperatives for consensual reform (which often means that policy preferences of interest groups and/or particular party factions are accommodated) and to an implicit 'grand coalition' in German reform politics between the government and the opposition (Schmidt 2003; Trampusch 2005). However, at the same time, its importance should not be overstated, as the blocking potential of federal structures is arguably conditional on the difference in preferences between political actors (Manow 2005).[26]

Furthermore, German policy-making also takes place within the context of a strong role for the law and the judiciary. This feature makes for a powerful restriction on the competences of parliament, especially for the role played by the Federal Constitutional Court, leading to a situation in which governance can be characterized as 'governing with judges' or even 'governing by judges' (Schmidt 2003: 128). As far as corporatist structures are concerned, Germany has traditionally featured strong relations between the state and between societal interest groups. In the post-war era, labour relations became based on social partnership, on collective bargaining between employers and trade unions without state interference, as well as on the corporation of these social partners in both implementation and administration of welfare state policies (Armingeon 1994). At the same time, formal (or institutionalized) and informal channels of interest groups also try to influence policy-making, forming policy communities that are typically located at the level of policy sectors (Döhler/Manow 1997; Czada 2003).

Given the country's array of institutional constraints on government activity, this fosters a sense of immobility, as Schmidt (2003: 202) puts it: 'policy change in domestic politics in Germany usually requires a longer planning period, is often incremental in nature, and borders occasionally on a degree of institutional inertia, which critics describe as *Reformstau*. It is said to apply social policy-making in particular, since another set of institutional obstacles reinforces the constraints of the political-institutional context.

[25] The latter is frequently the case with social policy legislation, as long as it touches administrative issues or financing issues that concern the interests of the *Länder*.

[26] According to Manow, 'the veto point argument crucially depends on the assumption of significant differences in policy preferences between the different veto players/parties'. Furthermore, such difference cannot simply be assumed in the German context, as the preferences of Christian Democrats and Social Democrats on the welfare state used to be rather similar well into the 1990s. Even in the current context of the German debate about welfare state restructuring, he argues that 'what hinders reform efforts is not so much the blocking effect of federal structures, but rather the dynamics of inter-party competition' (2005: 224 f.).

4.2 Welfare State Institutions and Policy Legacies

Rather than political institutions, the school of historical institutionalism sees policy legacies as the main source of resilience in the face of adjustment pressures on mature welfare states. In other words, welfare state institutions themselves are seen as forming a powerful obstacle to either retrenchment or restructuring because they are often subject to path-dependent processes, making a change to alternative institutional arrangements costly. The reference to PAYGO-type pension systems serves frequently as a prime example (see for instance Pierson 2001: 411-416). In the following discussion of sources of resilience in social policy programmes, I will first of all turn to schemes of old-age provision.

4.2.1 Old-Age Pensions

The German system of pension provision has relied for most of its history (until 2001) on a single statutory pension pillar (with some separate schemes for special occupations like public sector workers, professionals and farmers). Those who are employed, pay wage-related contributions up to a ceiling, with the burden shared equally between employers and employees. Since 1957, the guiding idea of the system has been that pension benefits should reflect relative living standards achieved in working life (tight coupling of entitlements and wage-based contributions), while solidaristic elements include tax-credits for non-contributory periods (e.g. unemployment; education). Pension levels are generally indexed, traditionally in line with gross earnings changes, but since 1992 based on net earnings. In the 1980s, pensioners could still count on a pension level of 70 per cent of average net earnings (assuming 45 contributory years) but, not at least because of labour market changes, actual payments vary widely. A general minimum pension was only introduced recently (2001), as were publicly subsidized private pensions (Clasen 2005a: 95ff.)[27]

Originally, pensions rested on a number of interlinked principles, including a guarantee of the former living standard, the social insurance principle, automatic adjustment of pensions to the development of gross wages, self-governance of pension funds as bodies of public law, a federal subsidy and financing by contributions, based on a pay-as-you-go (PAYGO) arrangement (Nullmeier/Rüb 1993: 94f.).[28] The last of these is very relevant for the argument about the sources of resilience because it implies that contributions paid on the basis of wages provide the financial base of the system. Despite an additional infusion from public budgets, i.e. the federal budget, pension benefits are essentially financed from these contributions. This means that pension benefits paid at any one moment are essentially financed by the current working population. If a government planned to switch to another pension system, for instance, capital-funded pensions, this would create a major difficulty: while

[27] For reasons of brevity, this section only sketches the contours of German pension arrangements. See for more details in English e.g. Clasen 2005 (Chapter 5) and Schludi (2002).
[28] Nullmeier and Rüb (1993) discuss how these and other principles of German pension arrangements came under pressure between the mid-1970s and the 1989 pension reform.

setting up a new system from scratch, there would still be the obligation to meet the pension payments for those who have contributed to the PAYGO system for most of their working careers. Therefore, those in employment at the time of system change would, theoretically, have to pay contributions for current and soon-to-be pensioners and make contributions of some sort to the new system in order to start saving for their own future pension. Essentially, this age cohort or generation would have to shoulder a prohibitively high burden, which puts governments into a difficult situation. The biggest problem would be that employees could simply not afford to pay for two systems at the same time. In addition, employers would have to shoulder even higher non-wage labour costs and are unlikely to give their consent. Both reasons would make it a futile task for governments to communicate the message of a double burden to the electorate; that is why an abrupt change from one system to the other is practically impossible to achieve. Even a more gradual change, so to speak, phasing out the PAYGO component in a pension system and replacing it by other elements, such as capital-funded private or company pensions, tends to be politically delicate. Technically speaking, path-dependency in this type of social policy programme relates to high switching costs from a PAYGO scheme to another manner of funding.

A second important institutional characteristic seen to foster resilience is the social insurance character of pension arrangements, where contributory entitlements constitute quasi-property rights (Schludi 2002: 63). Siegel constructed an institutional index of reform elasticity to assess the degrees of freedom for policy-makers in pursuing retrenchment policies. The index reveals that pension systems with means-tested benefits have considerably less barriers, both legal and political, to government interventions. On the other hand, earnings-related social insurance-based pension systems, such as the Bismarckian and thus the German one, enjoy a high degree of protection (Siegel 2002). Similarly, the resilience of Bismarckian pension arrangements also depends on the degree of system maturation. In this line of argument, the more mature a pension system is, the higher the share of persons with substantial benefit entitlements who are likely to oppose benefit cuts (Myles/Pierson 2001). Accordingly, since German pension arrangements are certainly mature, legal and political obstacles to reform can also be expected.

In addition to these strictly institutional sources of social policy resilience, pension arrangements are ‘sticky’ because influential non-state actors defend them. This line of reasoning relates to the characteristic of corporatistic relations that is present throughout the German welfare state (see Section 1.1). Accordingly, it is to be expected that established societal actors in the area of pensions, particularly trade unions, but also self-governing bodies with employer and trade union involvement such as the VDR (*Verband Deutscher Rentenversicherer*), resist far-reaching restructuring efforts if they go against the interests of pensioners.[29]

[29] Nullmeier and Rüb stress that self-governance in the pension sector is a central and inviolable policy principle and embodies an institutional instrument of cooperation between employers’ associations and trade unions, who act to represent pensioners (1993: 114).

4.2.2 Unemployment Insurance

Unemployment insurance provides protection against the loss of income, and, in agreement with the principles of the Bismarckian welfare state, also aims to secure the standard of living in the case of unemployment. As such, it can be seen as the passive element of labour market policy, while its active component includes diverse measures to re-train and eventually reintegrate the unemployed. Until 2004, German unemployment protection consisted of two tiers: a first tier based on the insurance principle and financed by compulsory contribution (split equally between employers and employees) up to a certain wage ceiling (unemployment insurance benefit, ALG); and a second tier with a benefit related to former earnings, based on means-testing and financed by general taxation (unemployment assistance, ALH) for those not eligible (anymore) to ALG.[30] Both benefits were administered by the Federal Employment Agency or FEA (the former *Bundesanstalt für Arbeit*, since 2004 renamed *Bundesagentur für Arbeit*), which is a tripartite organization (governed by employer, trade union and state representatives) subject to federal legislation. Apart from its responsibility for transfers, it also oversees and finances active labour market measures and programmes. Both active and passive measures are financed from the same FEA budget and the federal government is obliged to help in the case of deficits. This set-up of funding implies three things: until recently, benefit receipt would determine the access of individuals to labour-market measures; a pattern of crowding-out of active labour market programmes would be encouraged when unemployment was high, increasing benefit expenditures; and the federal government would be biased towards cost-saving by its obligation to balance BA deficits (Clasen 1994; Reissert 2005; Clasen 2005a: 54ff.).

Compared to the field of pensions, where most institutional characteristics tend to impede policy change, it is more difficult to detect sources of path-dependency in the institutions regulating unemployment benefits. Rather, the issue of reform capacity (with the other side of the coin being resilience) in unemployment systems has been approached via the degree of institutionalisation of such systems. For instance, Siegel (2002) constructed an institutionalisation index which attempts to measure the degrees of freedom for a state to embark on reform in these unemployment arrangements. A high degree of discretionary power (and a high score) is associated with means-tested unemployment systems (e.g. New Zealand and Australia), while a high degree of state restrictions (and a low score) are found in social insurance-based systems, which tend to exhibit traditions of self-governance and delegation to corporatist actors. Germany's arrangements resemble more closely those of Scandinavian countries than those of Anglo-Saxon ones.

Other authors have adopted a somewhat different perspective, looking at the actor orientations of those participating in labour market policy – which includes unemployment arrangements - more generally. Regarding this approach, the preferences of main interest groups and their ability to influence policy-making can be considered as sources of resil-

[30] A third unofficial tier of the system was formed by social assistance as a potential source of income for unemployed.

ience. Such analyses find that path-dependency can be linked to the existence of corporatist actors in the governance of social policy, which is denoted by self-governance and the social partners (Döhler/Manow 1995, p.140, in: Schreyögg/Farhauer 2004: 249). The existence of self-governance structures often pre-empts state action in the sphere of interest groups. In addition, the social partners, employers associations and trade unions, whose right to conclude collective agreements is guaranteed by the constitution, tend to guard it carefully and thus play a central role in this policy area. Path-dependency manifests itself as follows: reform plans presented for labour market policy tend to be regarded as suspicious by the social partner ,as they guard their autonomy and sources and mechanisms of influence in political decision-making processes. Institutionalised practices make it more difficult to break from the existing path, as social partners exert influence on the labour market's performance via their collective agreement and income policies. In addition, they influence political processes indirectly through lobbying activities, which can lead to mutual blocking of reform initiatives (Schreyögg/Farhauer 2004: 251)[31]

4.2.3 Statutory Health Care Insurance

The German health care system is dominated by the statutory health care insurance (SHI), which covers about 90 per cent of the population, while the remainder is covered by private insurance companies. The SHI is financed by payroll contributions, which are paid in equal parts by employers and employees up to a certain wage ceiling; those who earn more take out private insurance. Contributions are administered by a wide choice of sickness funds, which in the past have insured the population according to individuals' professional affiliation, but, since the mid-1990s, are practically obliged to insure anyone. Sickness funds conclude collective agreements with associations of care providers, the *Kassenärztliche Vereinigungen* (KVs), whose members, individual physicians, offer health care services in kind to the insured and receive payment from the funds in return. The provision of health care services mostly takes place in the ambulant (general practitioners and specialists) and the hospital sector (see for a more general introduction Giaimo 2002; Rosenbrock/Gerlinger 2004).

In the area of health care, the PAYGO financing base of the SHI has been identified as an important source of resilience (Schreyögg/Farhauer 2004: 249).[32] The introduction of the

[31] Under these circumstances, where exactly does path dependency come in? The crucial point is that the social partners tend to disagree about the direction of reform. Trade unions tend to protect dismissal protection, increase wages or decrease working hours, while employers tend to prefer the opposite: longer working hours, decreasing wages and loosening of dismissal regulations. Being aware of the crisis on the labour market they both try to enter a new path, but direct their energies in diametrically opposite ways. As a consequence, their efforts block each other, making it impossible to change the lock-in and reinforcing the status quo. According to Schreyögg and Farhauer, 'a common strategy of the social partners, and thus a pooling of reform potential cannot be seen in Germany; rather, they concentrate on traditional concepts of the enemy' (2004: 251).

[32] Similarly as with statutory pension insurance, the basic choice when creating a health care system from scratch would be between a capital-funded and a PAYGO variant. PAYGO financing assumes that one generation finances the benefits (or, in this case, health care services) of an older generation. The

Bismarckian health insurance in 1883 already marked the beginning of the PAYGO path in the SHI. Since the 1970s, it has become clear that productivity and employment rates were unlikely to increase indefinitely, and the 'generational contract' underlying the system would be especially sensitive to the upcoming demographic changes. However, alternatives have so far been mostly ignored by stakeholders and policy-makers in the field, leading Schreyögg and Farhauer to diagnose a lock-in effect, i.e. the end-state of a path dependent development, as far as the financing side of the SHI is concerned.

While this argument concerns technical issues about the switch between financing modes, it only tells part of the story about resilience in the German health care sector. Additionally, it is important to realize that an institutionally induced lock-in is recognized as such and is left intact by relevant actors in the sector. One feature of the German SHI in comparative perspective (still in place in the mid- 1990s) is its 'high extent of structural continuity, which even endured repeated and comprehensive change of functional requirements on the health care system relatively untouched' (Döhler/Manow 1995: 141).[33] In this view, structural continuity stems from three sources, the federal 'joint decision trap', the dominance of coalition governments (i.e. politico-institutional and party-political factors) and a strong presence of interest groups (*Verbandslastigkeit*) and a bias of policy-makers towards their wishes. While the former two factors help to shed light more generally on limits of reform capacity in the German political system, for an examination of resilience it is instructive to consider their interaction with the interest group factor. The prominent role of interest groups not only refers to conventional pressure group politics, but also to the (highly legitimated) transfer of regulatory competences to the self-governing associations of doctors and sickness funds. In addition, we see a high degree of linkage between heterogeneous societal interest groups (including clientelistic relationships between health care associations and the party system). Moreover, there are also links with the social partners, employers and trade unions, who hold posts in sickness funds' boards of directors (Döhler/Manow 1995: 142f.).

The interacting dimension with political institutions and the party system comes in as follows: coalition governments, the federal system and the degree of codification in German policy-making offer many possibilities for vetoing reform proposals, which in the past often resulted in the watering down of such proposals in the phase of policy formulation (Webber

main implication is that the body administering the funds does not build up a capital buffer, as the incoming funds are being used up by the beneficiaries at any time. This contrasts with a capital-funded system, where any individual of a particular generation builds up his own capital base in order to finance current and future benefits or services.

[33] Döhler and Manow approach this puzzle in a three-fold analytic framework, to explain why the German SHI is both remarkably stable and adjusts to changes in functional requirements at the same time. Their framework includes sectoral structures or institutions, actors and ideas: in their conception, 'structural continuity cannot only be understood as a result of a institutional configuration, which is only permeable for strategies of incremental development, but also relies on the guiding function of a health policy organisational model (*Ordnungsmodell*), which effectively limits the range of admissable options for reform'(1995: 142). For my argument on stickiness, I will only borrow what they identify als 'sectoral structures'.

1989). The special position of the small liberal FDP, as defender of particularistic interests and the obstacles posed by federalism to the change of financing regulations in the hospital sector, illustrate in two ways how such linkages conserve existing structures (Döhler/ Manow 1995: 144). Firstly, the FDP has been using its role as junior coalition partner to transport and represents the interests of self-employed care providers, such as doctors. Secondly, as hospital financing depends on a dual modus between the sickness funds and the *Länder* (the former finance operating costs and the latter cover the cost of investments), costs and benefits are distributed unevenly between them. This constellation, due to a *Länder* blockage in the *Bundesrat*, (idem: 144) has long obstructed a reform of hospital financing in favour of the federal state and the sickness funds.

To sum up, sources of reform resistance in the statutory health insurance can be found both in institutional characteristics defining its financing mode as well as in the interlinkages between sector-specific actors with other societal stakeholders and the political and party systems.

5 Conclusion

The paper has summarized the institutional context of the German welfare state, confirming the argument that both its welfare and politico-institutional characteristics make for a high degree of resilience and, therefore, reform resistance. Section 1 has examined macro-level characteristics of the Continental welfare state (wage-centred social insurance, familialism, guarantee of living standards, corporatist relations), indicating that they tend to inhibit change. By taking a closer look at the German wage-earner approach, I have stressed that its dual focus on income based contributions and male bread-winners makes it vulnerable, as contemporary socio-economic and demographic pressures tend to undermine its financing base. I have also presented the various endogenous sources of pressure on welfare states (value-based, socio-economic, and demographic), finding that they are likely to impact most on pension and health care schemes (through ageing effects and decreases in the amount of employment), but also on unemployment schemes (through socio-economic changes and sluggish growth). Following on from this, I discussed the limited capacity of Continental welfare states to react to economic shocks, which produces adjustment patterns with adverse effects on labour markets and employment. With respect to Germany, in particular, the state has been employing social policy as a shock absorber (and thus as a means to solve economic and financial problems) rather than focusing on its reform.

Section 2 has enquired whether successive German governments have found effective answers to adjustment pressures resulting in the adaptation of welfare state arrangements. The presentation of German social policy development from the mid-1970s until 2005 focussed on general features of policy-making and on the degree of change in three major policy programmes: as for the latter, significant change has been rather rare in German social policy during most of this period. As for old-age pensions and unemployment protection, in both areas, general patterns of cost-containment and tightening of eligibility rules were punctuated by only few structural reforms (reforms that go further than incremental adjustments) since the year 2000. With pensions, the latter resulted in a privately financed and state-subsidized additional layer: policy-makers had reacted to continuing financial and demographic pressures besetting the statutory scheme. With unemployment protection, the Hartz IV reform introduced new benefit structures and a much greater focus on activating policies, reacting to persistently high rates of unemployment. In the health care sector, I found a similar pattern of cost-containment, intermingled with elements of more comprehensive reforms (introducing an element of competition between sickness funds, widening the responsibility of patients and of self-governance) during the 1990's. There, policy-makers have continuously sought ways of controlling perennial cost pressure and keeping the scheme's finances under control, usually with short-term success only.

Subsequently, I have considered the various types of structures which are commonly held responsible for Germany's (relative) policy immobility. These include the political-institutional context of the fragmented political system, where a bicameral parliament, a federal state structure, a strong judiciary and well-developed channels for interest intermediation and influence on policy outcomes interact to make policy-making a rather complex undertaking with plenty of opportunities for the derailing of reform processes. Moreover, they also comprise sources of resilience attached to welfare institutions. The statutory pension scheme was found to be 'sticky' because of its financing mode, its social insurance character that creates rights to benefits, a high degree of system maturation, and the presence of influential (self-governing) corporatist actors who strive to defend pensioners' interests. Unemployment protection is characterized by a high degree of institutionalization, which fosters path-dependent effects. In other words, the social insurance character of provision and especially the strong role of corporatist actors, in particular the social partners (and their contrary preferences) work in favour of the status quo. Health care policy counts on two main sources of resilience: firstly, as with pensions, the scheme's contribution-based financing mode locks in the current system, and secondly, the strength of (self-governing) interest groups and their interaction with political institutions leads to strong obstacles to change.

The preceding analysis has confirmed the essence of arguments found in historical institutionalist and regime theoretical approaches about welfare state stability. These arguments provide ample grounds to assume that Germany, as the prototype of Continental welfare states, is rarely capable of any significant change. However, the review of German social policy developments since 1970 provides us with two contrasting observations. Firstly, most changes to major programmes since the 1970s have been incremental (representing a level of policy change, which the aforementioned theories would allow for under the condition of overall policy stability) and often related to cost containment rather than restructuring policy arrangements. This suggests that German social policy-makers have for a long time reacted to reform pressures by trying to cut back on the costs of social benefits and services (for instance, by restricting access and cutting benefit levels). Secondly, some instances show that policy-makers *have* adopted reforms going beyond incremental adjustments, constituting genuine structural policy shifts. True, these more comprehensive reforms, as an answer to accommodate pressures on advanced welfare states, which began to be felt particularly after German unification, were relatively rare and were only launched (and adopted) after the turn of the century. Crucially, however, observing them makes it legitimate to ask whether the robustness of resilience arguments has been overstated by the literature. In addition, they give rise to a number of important questions. Did these reforms occur simply because of mounting pressures on contemporary welfare states, amplified by the extraordinary burden of unification, that have finally translated into large-scale changes? Given the numerous institutional obstacles to reform in the German polity and its welfare state structure, under what conditions have these obstacles been overcome? What other factors besides reform pressure played a role here, for instance, political agency or political ideas? These questions certainly warrant further research into the reasons behind structural reform.[34]

[34] The question on the role of political agency and ideas has been assessed in the author's doctoral thesis titled 'The Role of Ideational leadership in German Welfare State Reforms: Towards an Explanation of Structural Shifts in Social Policy', forthcoming, 2007.

6. References

Alber, Jens, 2001: *Recent Developments of the German welfare state: Basic Continuity or Paradigm Shift*. ZeS-Working Paper 6/2001. Bremen: Zentrum für Sozialpolitik, Universität Bremen.

Andersen, Torben M., 2003: „International integration and the welfare state", in: Torben M. Andersen; Molander, Per (eds.), *Alternatives for Welfare Policy.* Cambridge: Cambridge University Press, 23-48.

Armingeon, Klaus, 1994: *Staat und Arbeitsbeziehungen: Ein internationaler Vergleich*. Opladen: Westdeutscher Verlag.

Bandelow, Nils C., forthcoming, 2007: „Health Policy: Convergence: Obstacles to Policy Convergence in Britain and Germany?" German Politics.

Bandelow, Nils. C.; Schubert, Klaus, 1998: „Wechselnde Strategien und kontinuierlicher Abbau solidarischen Ausgleichs. Eine gesundheitspolitische Bilanz" in: Göttrik Wewer (Hg.), *Bilanz der Ära Kohl.* Opladen: Leske + Budrich, 113-123.

Bleses, Peter; Seeleib-Kaiser, Martin, 2004: *The dual transformation of the German welfare state.* Basingstoke: Palgrave Macmillan.

Bonoli, Guiliano, 2000: *The Politics of Pension Reform: Institutions and Policy Change in Western Europe.* Cambridge: Cambridge University Press.

Bonoli, Guiliano, 2001: „Political Institutions, Veto Points and the Process of Welfare State Adaptation", in: Paul Pierson (ed.), *The New Politics of the Welfare State*. Oxford: Oxford University Press, 238-264.

Bonoli, Guiliano, 2005: „The Politics of the New Social Policies: Providing Coverage Against New Social Risks in Mature Welfare States", *Policy and Politics* 33: 431-449.

Bonoli, Guiliano; Bruno Palier, 2000: „How do welfare states change? Institutions and their impact on the politics of welfare state reform in Western Europe", *European Review* 8: 333-352.

Brandhorst, Andreas, 2003: „Gesundheitspolitik zwischen 1998 und 2003: Nach der Reform ist vor der Reform", in: Antonia Gohr; Martin Seeleib-Kaiser (Hg.), *Sozial- und Wirtschaftspolitik unter Rot-Grün*. Wiesbaden: Westdeutscher Verlag, 211-228.

Clasen, Jochen, 1994: *Paying the Jobless: A Comparison of Unemployment Benefit Policies in Great Britain and Germany*. Aldershot: Avebury.

Clasen, Jochen, 2005: *Reforming European Welfare States: Germany and the UK compared*. Oxford: Oxford University Press.

Czada, Roland, 1998: „Vereinigungskrise und Standortdebatte: Der Beitrag der Wiedervereinigung zur Krise des westdeutschen Modells", *Leviathan* 26: 24-59.

Czada, Roland, 2003: „Konzertierung in verhandlungsdemokratischen Politikstrukturen" in: Sven Jochem; Nico A. Siegel (Hg.) 2003: *Konzertierung, Verhandlungsdemokratie und Reformpolitik im Wohlfahrtsstaat. Das Modell Deutschland im Vergleich.* Opladen: Leske + Budrich, 35-69.

Döhler, Marian, 1995: „The State as Architect of Social Order: Policy Dynamics in German Health Care", *Governance* 8: 380-404.

Döhler, Marian; Manow, Phillip, 1995: „Staatliche Reformpolitik und die Rolle der Verbände im Gesundheitswesen" in: Renate Mayntz; Fritz Scharpf (Hg.), *Gesellschaftliche Selbstregelung und die Rolle der Verbände im Gesundheitssektor.* Frankfurt/New York: Campus, 140-168.

Döhler, Marian; Manow, Phillip, 1997: *Strukturbildung von Politikfeldern: Das Beispiel bundesdeutscher Gesundheitspolitik seit den fünfziger Jahren*. Opladen: Leske + Budrich.

Egle, Christoph; Ostheim, Tobias; Zohlnhöfer, Reimut (Hg.), 2003: *Das Rot-Grüne Projekt.Eine Bilanz der Regierung Schröder 1998-2002.* Wiesbaden: Westdeutscher Verlag.

Esping-Andersen, Gøsta (ed.), 1990: *The Three Worlds of Welfare Capitalism*. Oxford: Polity Press.

Esping-Andersen, Gøsta, 1993: *Changing Classes. Stratification and Mobility in Post-Industrial Societies.* London: Sage.

Esping-Andersen, Gøsta, 1996: *Welfare States in Transition. National Adaptations in Global Economies* London: Sage.

Ferrera, Maurizio, 2005: *The Boundaries of Welfare. European Integration and the New Spatial Politics of Social Protection*. Oxford: Oxford University Press.

Genschel, Phillip, 2004: „Globalization and the Welfare State: a Retrospective", *Journal of European Public Policy* 11: 613-636.

Gerlinger, Thomas, 2003: „Rot-Grüne Gesundheitspolitik 1998-2003", *Aus Politik und Zeitgeschichte* 33-34: 6-13.

Giaimo, Susan, 2002: *Markets and Medicine: The Politics of Health Care Reform in Britain, Germany and the United States*. Ann Arbor: University of Michigan Press.

Glatzer, Miguel; Rueschemeyer, Dietrich, (eds.), 2005: *Globalization and the Future of the Welfare State.* Pittsburgh, PA: University of Pittsburgh Press.

Gohr, Antonia; Seeleib-Kaiser, Martin (Hg.), 2003: *Sozial- und Wirtschaftspolitik unter Rot-Grün*. Wiesbaden: Westdeutscher Verlag.

Hartmann, Anja, 2003: „Patientennah, leistungsstark, finanzbewusst? Die Gesundheitspolitik der rot-grünen Bundesregierung", in: Christoph Egle; Tobias Ostheim; Reimut Zohlnhöfer (Hg.), 2003: *Das Rot-Grüne Projekt.Eine Bilanz der Regierung Schröder 1998-2002.* Wiesbaden: Westdeutscher Verlag, 259-281.

Hemerijck, Anton; Manow, Phillip, Van Kersbergen, Kees, 2000: „Welfare without work? Divergent experiences of reform in Germany and the Netherlands", in: Stein Kuhnle (Hg.), *Survival of the European Welfare State.* London: Routledge, 106-127.

Immergut, Ellen, 1992: *Health Politics: Interests and Institutions in Western Europe*. Cambridge: Cambridge University Press.

Iversen, Torben; Wren, Anne, 1998: „Equality, employment and budgetary restraint: the trilemma of the service economy", *World Politics* 50: 507-46.

Kaltenborn, Bruno; Koch, Susanne; Kress, Ulrike, Walwei, Ulrich; Zika, Gerd, 2003: „Sozialabgaben und Beschäftigung", *Mitteilungen aus der Arbeitsmarkt- und Berufsforschung* 4: 672-688.

Lehmbruch, Gerhard, 2000: *Parteienwettbewerb im Bundesstaat: Regelsysteme und Spannungslagen im politischen System der BRD.* Opladen: Leske + Budrich.

Leibfried, Stephan, 2005: „Social Policy. Left to Courts and Markets?", in: Helen Wallace; William Wallace; Mark A. Pollack (eds.), *Policy-Making in the European Union*. Oxford: Oxford University Press, 267-292.

Leibfried, Stephan; Pierson, Paul, 1995: *European Social Policy. Between Fragmentation and Integration,* Washington D.C.: Brookings Institution.

Leisering, Lutz, 2000: „Kontinuitätssemantiken: Die evolutionäre Transformation des Sozialstaates im Nachkriegsdeutschland" in: Stephan Leibfried; Uwe Wagschal (Hg.), *Der deutsche Sozialstaat: Bilanzen, Reformen, Risiken.* Schriften des Zentrums für Sozialpolitik, Bd. 10. Frankfurt/New York: Campus, 91-114.

Lewis, Jane, 2002: „Gender and Welfare State Change", *European Societies* 4: 331-357.

Lijphart, Arend, 1984: *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-one countries.* New Haven: Yale University Press.

Manow, Phillip, 2001: „Social Protection, Capitalist Production. The Bismarckian Welfare State and the German Political Economy from the 1880s to the 1990s" Habilitation Thesis, Konstanz: University of Konstanz, Department of Public Administration.

Manow, Philip, 2005: „Germany: co-operative federalism and overgrazing the commons", in: Herbert Obinger; Stephan Leibfried; Frank G. Castles (eds.), *Federalism and the Welfare State: New World and European Experiences.* Cambridge: Cambridge University Press, 222-262.

Manow, Philip; Seils, Eric, 2000: „Adjusting Badly. The German Welfare State, Structural Change and the Open Economy" in: Fritz Scharpf; Vivian A. Schmidt (eds.); *Welfare and Work in the Open Economy Vol. II: Diverse Responses to Common Challenges.* Oxford: Oxford University Press, 264-308.

Myles, John; Pierson, Paul, 2001: „The Comparative Political Economy of Pension Reform", in: Pierson, Paul (ed.), *The New Politics of the Welfare State.* Oxford: Oxford University Press, 305-333.

Nullmeier, Frank; Rüb; Friedhelm, 1993: *Die Transformation der Sozialpolitik: vom Sozialstaat zum Sicherungsstaat.* Frankfurt/New York: Campus.

Opielka, Michael, 2004: *Sozialpolitik. Grundlagen und vergleichende Perspektiven.* Hamburg: Rowohlt.

Palier, Bruno, 2002: „Beyond Retrenchment: four problems in current welfare state research and one suggestion how to overcome them", in: Jochen Clasen (ed.), *What Future for Social Security? Debates and reforms in national and cross-national perspective.* Bristol: Policy Press, 105-120.

Palier, Bruno, 2002: *The politics of Bismarckian welfare state reforms*, unpublished manuscript.

Pierson, Paul, 1996: „The new politics of the welfare state", *World Politics* 48: 141-179.

Pierson, Paul, 1998: „Irresistible forces, immovable objects: post-industrial welfare states confront permanent austerity", *Journal of European Public Policy* 5: 539-60.

Pierson, Paul, 2001: „Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies" in: Paul Pierson (ed.), *The New Politics of the Welfare State*. Oxford: Oxford University Press, 410-456.

Reissert, Bernd, 2006: „Germany: a late reformer", in: Jochen Clasen; Maurizio Ferrera; Martin Rhodes, *Welfare States and the Challenge of Unemployment.* London/New York: Routledge.

Rosenbrock, Rolf; Gerlinger, Thomas, 2004: *Gesundheitspolitik. Eine systematische Einführung.* Bern: Verlag Hans Huber.

Rosewitz, Bernd; Webber, Douglas, 1990: *Reformversuche und Reformblockaden im deutschen Gesundheitswesen.* Frankfurt/New York: Campus.

Saalfeld, Thomas, 2003: „Germany: Multiple Veto Points, Informal Coordination, and Problems of Hidden Action", in: Kare Strøm; Wolfgang C. Müller; Tjornbörn Bergman (eds.), *Delegation and Accountability in Parliamentary Democracies.* Oxford: Oxford University Press, 347-374.

Scharpf, Fritz, 1988: „The Joint-Decision-Trap: Lessons from German Federalism and European Integration", *Public Administration* 61*:* 239-78.

Scharpf, Fritz, 1997: „Nötig, aber ausgeschlossen – Die Malaise der deutschen Politik", *Frankfurter Allgemeine Zeitung,* 5.6.97: 35.

Scharpf, Fritz, 2000: „The Viability of Advanced Welfare States in the International Economy: Vulnerabilities and Options", *Journal of European Public Policy* 7: 190-228.

Scharpf, Fritz, 2002: „The European Social Model: Coping with the Challenges of Diversity", *Journal of Common Market Studies* 40: 645-670.

Schirrmacher, Frank, 2004: *Das Methusalem-Komplott.* München: Blessing.

Schludi, Martin, 2002: *The reform of Bismarckian pension systems: a comparison of pension politics in Austria, France, Germany, Italy and Sweden;* PhD thesis. Berlin: Humboldt Universität, Philosophische Fakultät III.

Schmid, Josef, 2002: *Wohlfahrtsstaaten im Vergleich.* Opladen: Leske + Budrich.

Schmidt, Manfred G., 2003: *Political Institutions in the Federal Republic of Germany.* Oxford: Oxford University Press.

Schmidt, Manfred G., 2005: *Sozialpolitik in Deutschland. Historische Entwicklung und internationaler Vergleich.* Wiesbaden: VS Verlag.

Schreyögg, Jens; Farhauer, Oliver, 2004: „Die Reformfähigkeit der Sozialpolitik in Deutschland aus Sicht der ökonomischen Theorie der Pfadabhängigkeit", *Sozialer Fortschritt* 10: 247-253.

Schulze, Isabelle, Jochem, Sven, forthcoming, 2007: „Germany: beyond policy gridlock", in: Ellen Immergut; Karen Anderson; Isabelle Schulze; *The Handbook of Pension Politics in Western Europe*. Oxford: Oxford University Press, 660-710.

Sesselmeier, Werner, 2006: „Die demographische Herausforderung der Alterssicherung", *Aus Politik und Zeitgeschichte* 8-9: 25-31.

Siegel, Nico A., 2002: *Baustelle Sozialpolitik. Konsolidierung und Rückbau im internationalen Vergleich.* Schriften des Zentrums für Sozialpolitik, Bd. 14. Frankfurt/New York: Campus.

Steffen, Monika (ed.), 2005: *Health governance in Europe: issues, challenges, and theories.* Oxon/New York: Routledge.

Stiller, Sabina, 2006: „Framing European Integration in Germany and Italy: Is the EU Used to Justify Pension Reforms?", in: Ronald Holzhacker; Markus Haverland (eds), *Europeanisation Reloaded.* Deventer: Springer, 43-64.

Swank, Duane, 2001: „Political Institutions and Welfare State Restructuring. The Impact of Institutions on Social Policy Change in Developed Democracies", in: Paul Pierson (ed.), *The New Politics of the Welfare State*. Oxford: Oxford University Press, 197-237.

Trampusch, Christiane, 2005: „From Interest Groups to Parties: The change in the Career Patterns of the Legislative Elite in Terman Social Policy", *German Politics* 14: 14-32.

Tsebelis, George, 1995: „Decision-Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism", *British Journal of Political Science* 25: 289-325.

Tsebelis, George, 1999: „Veto Players and Law Production in Parliamentary Democracies: An Empirical Analysis", *American Political Science Review* 93: 591-608.

Van Kersbergen, Kees, 2000: „The declining resistance of welfare states to change?", in: Stein Kuhnle (ed.), *Survival of the European welfare state.* London: Routledge**,** 19-36.

Webber, Douglas, 1989: „Zur Geschichte der Gesundheitsreformen in Deutschland: II. Teil: Norbert Bluems Gesundheitsreform und die Lobby", *Leviathan* 17: 262-300.