

### Ideational leadership in German welfare state reform: how politicians and policy ideas transform resilient institutions

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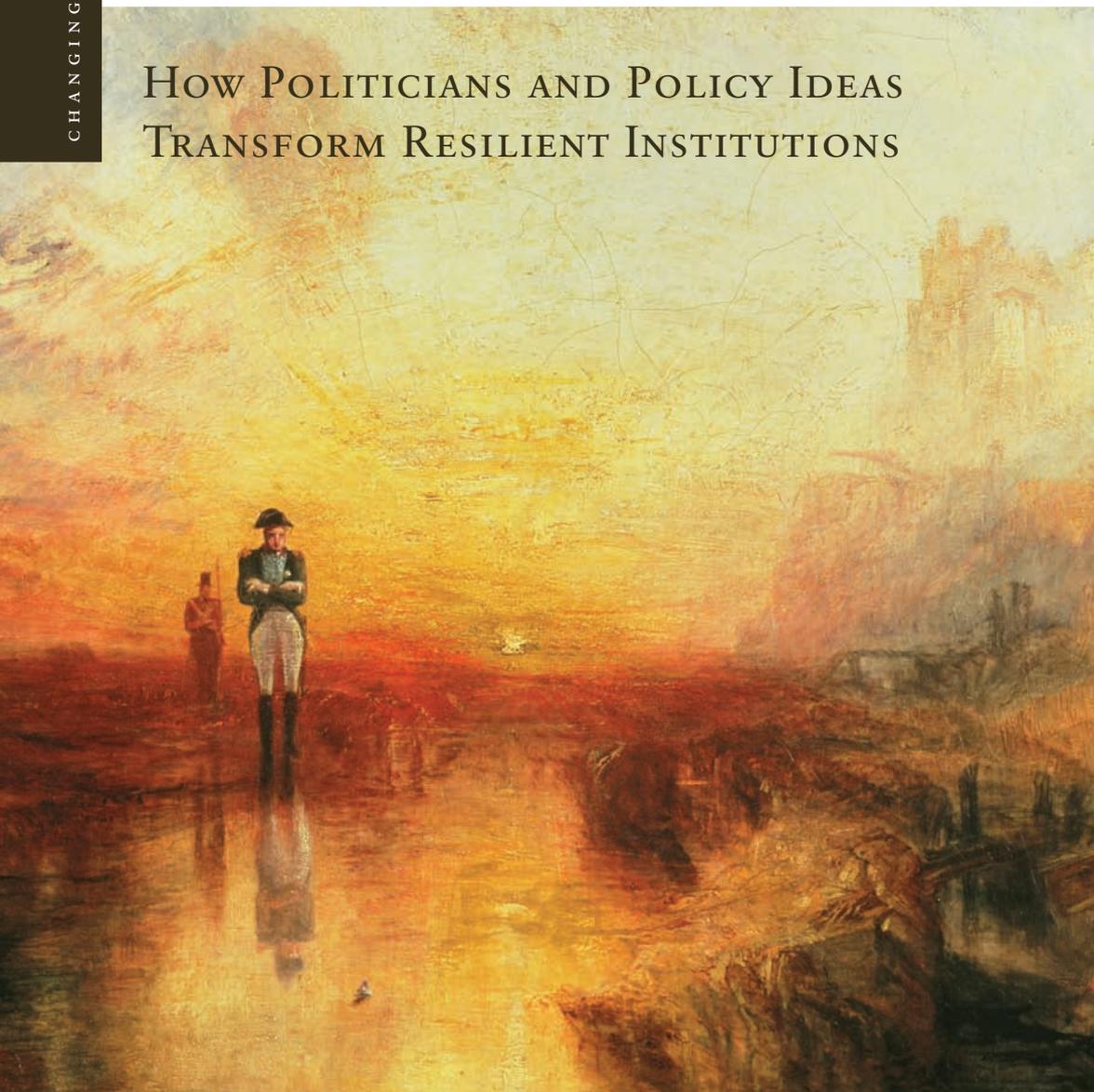
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Sabina Stiller

CHANGING WELFARE STATES

# Ideational Leadership in German Welfare State Reform

HOW POLITICIANS AND POLICY IDEAS  
TRANSFORM RESILIENT INSTITUTIONS



AMSTERDAM UNIVERSITY PRESS

# IDEATIONAL LEADERSHIP IN GERMAN WELFARE STATE REFORM

## CHANGING WELFARE STATES

Advanced welfare states seem remarkably stable at first glance. Although most member states of the European Union (EU) have undertaken comprehensive welfare reform, especially since the 1990s, much comparative welfare state analysis portrays a ‘frozen welfare landscape’. Social spending is stable. However, if we interpret the welfare state as more than aggregate social spending and look at long-term trends, we can see profound transformations across several policy areas, ranging from labour market policy and regulation, industrial relations, social protection, social services like child care and education, pensions, and long-term care. This series is about trajectories of change. Have there been path-breaking welfare innovations or simply attempts at political reconsolidation? What new policies have been added, and with what consequences for competitiveness, employment, income equality and poverty, gender relations, human capital formation, and fiscal sustainability? What is the role of the European Union in shaping national welfare state reform? Are advanced welfare states moving in a similar or even convergent direction, or are they embarking on ever more divergent trajectories of change? These issues raise fundamental questions about the politics of reform. If policy-makers *do* engage in major reforms (despite the numerous institutional, political and policy obstacles), what factors enable them to do so? While the overriding objective of the series is to trace trajectories of contemporary welfare state reform, the editors also invite the submission of manuscripts which focus on theorizing institutional change in the social policy arena.

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# **Ideational Leadership in German Welfare State Reform**

**How Politicians and Policy Ideas  
Transform Resilient Institutions**

Sabina Stiller

AMSTERDAM UNIVERSITY PRESS

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This book started out as a (much lengthier) doctoral thesis at the Department of Political Science of Radboud University Nijmegen. In its present form, it is a shorter yet extended story of how ideational leaders have managed to transform the German welfare state. This conversion process was not simple at times, but as one of my thesis supervisors, Kees van Kersbergen, told me some time ago, '*schrijven is schrappen*': writing means cutting down on words. The result is an account of reform processes that reflects much more on the contemporary shape of the German *Sozialstaat* than I could do in my thesis, and which also sheds light on recent developments in family policy.

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*Sabina Stiller*  
*September 2009*

## 1 Introduction

‘Partisan conflict, political stalemate and, more recently, major reform efforts – for example, on questions of labour markets, economic policy-making and social policy – for the time being leave open the question of whether we are witnessing a recalibration or a dismantling of Germany’s semisovereign state.’

(KATZENSTEIN 2005: 304)

From today’s perspective, there is at least one conventional wisdom in welfare state studies: mature welfare states have been facing major strains for several decades. During the 1990s, scholars started to investigate the responses of welfare states to those strains. What they found, though, were not fundamental policy shifts but an intriguing contradiction: although structural pressures for change could no longer be ignored, welfare state programmes had remained relatively stable. The main approaches that tried to explain such stability despite increasing demands for major change were historical institutionalism (Pierson 1994, 1996), and welfare regime theory (Esping-Andersen 1990, 1999). In those perspectives, powerful institutional and electoral mechanisms and regime-specific characteristics prevented comprehensive reforms of European welfare states. Ever since, these explanations have been increasingly called into question, as numerous substantial reforms have taken place across Europe from the late 1990s onwards. Apparently, welfare state institutions were not those immovable objects – like oversized oil tankers – they were thought to be. Given these developments, an enormous research interest in how and why welfare state reform occurs has ensued.

Even in the Federal Republic of Germany, the well-established *Sozialstaat* has undergone significant reform efforts, as the above quote by senior observer Peter Katzenstein underlines. This is remarkable since Germany is certainly not an icon of policy flexibility: on the contrary, it was long considered the example *par excellence* of institutional and po-

litical resilience to change. In the politically and economically difficult years following the country's unification, observers of German politics lamented that the country was plagued by *Reformstau* (reform deadlock). This frequently used catchword expressed the difficulty of carrying out comprehensive reforms of economic and social policy that were deemed necessary for the very survival of the welfare state. That Germany has since been able to produce some far-reaching reforms presents us with a puzzle that institutionalist approaches are unable to solve.

We argue that they put too much emphasis on how institutions can obstruct change while remaining silent or overly pessimistic on the role influential policy-makers can play in reform adoption. However, it is precisely actors and how they communicate their policy ideas that hold the key to this puzzle. In this book, we develop the argument that ideational leadership of key policy-makers can overcome obstacles to major reforms, which results in structural shifts of policies and changes in their underlying principles. Empirically, we assess this claim by studying a number of reform processes in three areas of the German welfare state. More generally, we draw attention to the fact that Germany, through the adoption of some structural reforms, has definitely embarked on the path to transforming its traditional welfare state edifice. In 2008, the long-standing Bismarckian principles that underpinned the German *Sozialstaat* are no longer intact.

In what follows, we present the puzzle that inspired this book. Discussing the work of two prominent welfare state theorists, Gøsta Esping-Andersen and Paul Pierson, we argue that predictions of relative stability do not help us explain why major reforms happen. Moreover, their thinking about institutions in terms of remarkable stability may be outdated, as a new literature on gradual institutional change is emerging. After illustrating that many advanced welfare states have adopted important reforms in recent years, we explain why we chose Germany as the focus of our analysis. Next, we briefly present our argument about how ideational leadership of key political actors explains the adoption of major reforms and define the latter as structural, i.e. producing shifts in policy programmes and changing their underlying principles. Finally, we preview the structure of the book.

## **1.1 Sources of Welfare State Persistence**

### Esping-Andersen: Focus on Policy Substance

In his seminal work *The Three Worlds of Welfare Capitalism* (1990), Gøsta Esping-Andersen distinguishes three clusters of welfare states, a social-

democratic, a liberal and a conservative regime. These regime types have since become a widely used classification of advanced welfare states to welfare state research.<sup>1</sup> Regimes differ with regard to the mix of institutions that guarantee the provision of social security: the state, the market or the family. In addition, they vary with respect to the kind of stratification systems upheld by their welfare programmes (referring to, for instance, the extent of status differentiation and inequality the system tolerates). Finally, regimes can be distinguished by their degree of de-commodification, i.e. to what extent people can make a living without having to rely on their participation in the labour market (Esping-Andersen 1990: 37). Esping-Andersen's work relies on the assumption that welfare state institutions are subject to path-dependent processes (Esping-Andersen, 1990, 1996).

Given the path-dependent character of these regimes, what are the prospects for policy change? The three types are based on certain shared institutional characteristics, which are assumed to determine regime-specific future policy trajectories (and therefore possible reform directions). It follows that if policy changes do occur, they are likely to remain within the regime-specific policy path. In this viewpoint, successful reform adoption depends upon a broad consensus among various social interests capable of overcoming a regime's inherent resistance against change (Esping-Andersen 1996a: 266-267). Until the late 1990s, despite clear changes in the context of social policy-making (as identified in Pierson's 'new politics' approach, see below) and politicians' efforts to adapt welfare states to new challenges, regimes would not diverge significantly from their institutionally prescribed path. Rather, 'the inherent logic of our three welfare state regimes seems to reproduce itself' (Esping-Andersen, 1999: 165). This idea of path-dependent change is also reflected in the assumed regime-dependent character of reform politics: patterns of change are said to differ across welfare state regimes and, ultimately on their particular institutional features (Pierson, 2001a: 454). In essence, Esping-Andersen's account stresses the power of welfare state institutions and therefore structural characteristics. It focuses on the substance of welfare states, but turns a blind eye to agency, which is in marked contrast to Paul Pierson's account on welfare state politics to which we turn next.

#### Pierson: Focus on Institutions and Reform Process

In his 'new politics' account, Paul Pierson claims that the politics surrounding mature welfare states clearly differs from the previous politics of expanding welfare states. He identifies three main sources of

constraints that confront politicians wishing to scale back or 'retrench' welfare states (Pierson 1994; 1996). First, welfare states are protected by the fact that they constitute the status quo, 'with all the political advantages that this status confers. Non-decisions generally favour the welfare state. Major policy change usually requires the acquiescence of numerous actors' (Pierson 1996: 174). Second, scaling down welfare states involves considerable electoral hazards. Social policy programmes not only continue to enjoy widespread popularity among the electorate at large. It follows that retrenchment is inherently unpopular and therefore public opinion acts as a constraint on politicians who wish to carry it out. In turn, these politicians are forced to resort to blame-avoidance strategies in order to avoid electoral risks and being punished at the polls. Third, mature welfare states have produced new interests who act as defenders of these arrangements. Comprising 'new organized interests, the consumers and providers of social services' (1996: 175), they are assumed to strongly defend welfare state programmes such as social housing, health care, education and social security. The latter are associated with 'path continuity', which implies resistance to change that manifests itself in organized opposition to reform efforts. Pierson argues that such networks constitute proof of 'path-dependent' processes, which rest essentially on mechanisms of increasing returns and positive policy feedback. Once a certain course of policy development has been taken and those processes are setting in, it is difficult to reverse them. The concept of path-dependency is frequently associated with historical institutionalism, which sees institutions as 'relatively persistent features of the historical landscape and one of the central factors pushing historical development along a set of "paths"'. The technical consequences of this are effects such as policy "lock-in" and "sticky institutions"' (Van Kersbergen 2000: 23 ).

This powerful combination of restraints substantially limits the options available to policy-makers. Major change is difficult to achieve, although Pierson carefully stresses that 'change continues, but it is bounded change', that is, remaining within the previously chosen path (Pierson 2001: 415). Although the 'new politics' account draws on a picture of policy-makers caught up between mounting reform pressure and blame-avoidance strategies, he suggests a number of 'political preconditions for significant reform'. Retrenchment will be facilitated by electoral slack, budgetary crises, strong chances for reducing the visibility of reform, and good prospects for changing the rules of the game, or 'institutional shifts' (Pierson 1996: 176-178).

To sum up, due to powerful interests and path-dependent processes, Pierson sees the persistence of the policy status quo as the most likely outcome. On the other hand, he does speculate about the conditions that need to be in place for a process of reform adoption,<sup>2</sup> which makes his account much more attuned to political processes of change than the account of Esping-Andersen.

### Institutionalist Approaches and Stability Bias

Both approaches have sought to explain the remarkable institutional stability of the welfare state until the first half of the 1990s. They have focused on regime-level and policy programme-level mechanisms that preclude structural change, and, in Pierson's case, on the obstacles in the political process. Therefore, they are very well equipped to explain the relative stability of welfare states, which is also their greatest strength. However, they can also be criticized for their strong continuity bias, the risk of overlooking empirical developments of profound welfare state change, and the relative neglect of political agency as a potential motor of such change. By overemphasizing the weight of institutions as obstacles to far-reaching change, they leave open few possibilities for such change, which creates a stability bias: reforms that make welfare states diverge from the historical legacy of their institutions are nearly ruled out. Thus, they have deflected scholarly attention from actual patterns of change, which bears the risk of overlooking empirical developments of welfare state change.

In addition, institutionalist accounts lack attention to the role of political agency (Ross 2000b). Although policy-makers do appear in these theories, their scope for significant restructuring remains severely limited. Pierson contemplates blame-avoidance strategies and grants that under certain conditions (financial crises, electoral slack, increased opportunities to 'hide' reforms, and changing the 'rules of the game') politicians may have the opportunity to implement radical change. Esping-Andersen remains even more pessimistic about the capacity of policy-makers, as he foresees major reform only in rare instances of broad social and political consensus. As he puts it, 'the alignment of political forces conspires just about everywhere to maintain the existing principles of the welfare state' (Esping-Andersen 1996a: 265). In our view, these analyses remain too pessimistic about the potential of political agency, which we are going to express through the concept of ideational leadership.

Beyond the approaches stressing institutional stability, we note more recently an emerging literature about gradual institutional change, which has the potential to take over the 'mainstream' status of the former and may change traditional ideas about stability and change as two clearly delineated and opposed phenomena (e.g. Ebbinghaus and Manow 2001; Crouch and Farrell 2004; Thelen 2002, 2004; Hering 2004; Streeck and Thelen 2005; Streeck 2009). This growing literature highlights the possibilities for change despite path-dependencies and institutional resilience by pointing to mechanisms of institutional evolution instead of rare instances of all-encompassing change as conventional punctuated-equilibrium models of change assume. At the end of Chapter 2, we briefly discuss the relationship between the IL argument and a piece of work exemplifying this literature, the edited volume by Streeck and Thelen (2005).

## **1.2 Major Welfare State Reforms Do Occur**

Since historical-institutionalist theories were created, empirical developments have gone into another direction. Despite their predictions, many reforms have been adopted throughout Europe that analysts would consider far-reaching. Since the 1990s, we can find examples of such reforms across different welfare state regimes. As for the Scandinavian regime, Sweden implemented an important pension reform in the early 1990s (Anderson 1998; Lindbom and Rothstein 2004; Anderson and Meyer 2003); Denmark managed to restructure its pension arrangements (Andersen and Larsen 2002) and made the transition to a 'workfare' type of labour market policies (Torfing 1999; Cox 2001); and Norway's health care system saw some important decentralizing reforms (Hagen and Kaarbøe 2006). Looking at Anglo-Saxon welfare states, we can find major reforms in the United Kingdom (Clasen 2005a, 2005b), New Zealand, Australia (Goldfinch and 't Hart 2003; Boston, Dalziel, and St John 1999), and, to some extent, in the United States (Hacker 2002; Hacker 2004).

Even for the continental regime type, which allegedly struggles most with extensive adjustments, the list of significant reforms is fairly impressive. The Netherlands made a switch to more activating social policies in a formerly passive welfare state, which constituted one element of the much-envied 'Dutch miracle' (Hemerijck and Van Kersbergen 1997). Most recently, the Dutch health insurance system underwent a structural shift: the distinction between those insured via sickness funds and those insured privately was abolished (as of January 2006), setting the course for a

less particularistic and more universal system.<sup>3</sup> Even disability insurance, long considered a blemish on the Dutch record of exemplary socio-economic reforms has recently (as of January 2006) undergone a structural shift. Instead of focusing on disability as such, the reform stresses and seeks to improve people's (remaining) ability to work, reserving full disability benefits only for those with hardly any or no future employment possibilities.<sup>4</sup> In France, new 'paths' have been chosen in the reforms of unemployment insurance, and in the financing base of social contributions (Palier 2000; Vail 2004). Even crisis-ridden Italy managed to carry out important reforms of pension insurance in her run-up to entering the Economic and Monetary Union in 1996 (Ferrera and Gualmini 2000, 2004). An important pension reform has also been passed in Austria, although some analysts associate it more with retrenchment than with innovation (Busemeyer 2005).

Finally, some analysts have also signalled far-reaching reforms and signs of social policy transformation in Germany, the country on which we focus in this book (Bönker and Wollmann 2000; Czada 2005).<sup>5</sup> Indeed, there have been developments across the main areas of social policy: health care provision (e.g. cost-containment and broadening the choice between sickness funds during the 1990s, see Chapter 4; health care reforms in 2004 and 2006), pension policy (partial privatization of the public pension scheme 2001, see Chapter 5), and labour market policy (Hartz Commission proposals to reduce unemployment through temp agencies and other instruments 2002/2003, merger of unemployment assistance and social assistance 2003/2004, see Chapter 6). In a recent analysis of the German political economy since the 1970s, social policy as a whole has arguably undergone a 'reorganization' (Streeck 2009). The Red-Green government's failed attempt to involve employers and unions in a comprehensive overhaul of welfare state benefits led to 'incisive changes' in unemployment provision and labour market policy along with a 'unprecedented assertion of state control over social policy, at the expense of union and employer associations who lost their status as corporatist co-governors' (2009: 61-62).

### Germany: The Least Likely Candidate for Reform

If the occurrence of major reforms in general presents us with a puzzle, finding them in Germany is particularly intriguing. Germany has long been considered the prototype of the continental welfare regime and its political institutions favour the policy status quo. Therefore, finding ma-

major reforms there is at odds with expected patterns of domestic policy change. According to a senior observer of German politics, domestic policy change 'usually requires a longer planning period, is often incremental in nature, and borders occasionally on a degree of institutional inertia which critics describe as 'policy immobilization' or *Reformstau* (Schmidt 2003: 202). The *Reformstau* perspective implies that Germany has been struggling to carry out necessary reforms, and those reforms which have passed tend to be incremental adjustments that fail to effectively address underlying problems. Both in public and scholarly debate about the future of the welfare state, this characterization of relative policy continuity has a negative connotation, as it stands for the absence of renewal of socio-economic policy that is needed for its very survival.<sup>6</sup> For the supporters of the *Reformstau* perspective, the issue at hand is not only the welfare state but also the sustainability of the German socio-economic model as a whole. In turn, this is linked to the question of to what extent German institutions are capable of reform, which brings us to the special constellation of Germany's welfare and political institutions (to be addressed in Chapter 3).

The country's long-time welfare state stability becomes even more perplexing if one considers the combination of pressures for reform: they include persistently high unemployment and slow economic growth; a relatively high (non-wage cost-based) tax burden on labour (Manow and Seils 2000); the social and financial impact of reunification (Czada 1998; Czada 2004); and adverse demographic trends including rapid population ageing and relatively low fertility rates (Bönker and Wollmann 2001; OECD 1996). Nevertheless, these pressures had not been translated into reforms by the mid-1990s. Pierson, for instance, contends in his assessment of welfare retrenchment in various European countries that, despite continuing demographic and budgetary pressures ensuring an 'atmosphere of austerity will continue to surround the German welfare state', 'a fundamental rethinking of social policy seems a remote possibility' (Pierson 1996: 170), not least due to consensus-promoting political institutions.

The combination of plentiful sources of resilience and pressures for comprehensive reform makes Germany a prime candidate for studying unexpected welfare state reforms. The country can even be seen as a crucial case: if far-reaching reforms do occur there, they can be expected to occur anywhere. Germany thus provides us with an intriguing context to evaluate our argument about the role of ideational leaders in the adoption of major reforms.

### 1.3 Ideational Leadership and Structural Reforms

As Chapter 2 will develop in much more detail, ideational leadership (IL) implies 'leadership with the help of ideas'. It is exercised by those key policy-makers who use strategies that are idea-based ('ideational'), and purposively aim for the achievement of change, even in view of reform resistance ('leadership'). Key policy-makers are those actors who commonly initiate major reform proposals, that is, ministers, and subsequently try to defend these proposals against the resistance by veto players or other forms of opposition. IL can be seen as a resource that helps key policy-makers to transform such resistance into acceptance of a particular reform initiative, but also as a combination of abilities. These include a number of aspects: exposing drawbacks of old policy principles and policies built on them; legitimizing new policy principles by using cognitive and normative arguments; framing reform resistance as problematic for societal welfare and stakeholders' interests; and making efforts at political consensus-building in support of the reform initiative. In addition, ideational leaders are assumed to be more policy-oriented than power-oriented. The different aspects of IL taken together convince reform opponents of the merits of policy innovations, allowing eventually for their adoption. How does this work? The mechanisms behind these aspects establish four conditions that are needed to resolve institutional deadlock: the availability of a superior policy alternative; decreasing effectiveness of the status-quo; more and better information about policy alternatives; and decreasing switching costs (Woerdman 2002). Once these conditions are in place, major reforms that replace policy structures can be adopted through a country's political institutions. IL therefore impacts on the two main sources of path-dependence identified by institutionalist approaches: political institutions, on the one hand (as stressed by Pierson) and institutional or programme-related obstacles (as stressed by Esping-Andersen and Pierson alike).

Up to now we have referred to numerous examples of major reforms, but this presents us with a difficulty: the welfare state literature struggles with a clear definition of what 'major' actually entails. Accordingly, approaches to measuring change, based on quantitative and qualitative conceptualizations, abound.<sup>7</sup> Studies that apply qualitative typologies of change (Clasen and Clegg 2005; Leitner and Lessenich 2003; Schmid 2003; Hemerijck and Van Kersbergen 1997) draw upon general models of policy change (Hall 1993; Hay 2001; Sabatier and Jenkins-Smith 1993).<sup>8</sup> To capture shifts in the institutional set-up of policies – as conceptualized by

the IL argument – we also define major reforms in qualitative terms, as ‘structural reform’.

Our definition draws on two existing concepts in the welfare state literature. First, welfare state institutions or ‘structures’ can be divided into financing, benefit (provision and eligibility rules), and management or regulatory structures (Bonoli and Palier 2000; Palier 2002). Second, a definition of structural reforms in the context of German health care reforms (Webber 1988, 1989), highlights what happens when those structures are affected by reform, namely the ‘re-ordering of competences and responsibilities regarding financing, provision, and regulation of medical services’ (Webber 1989: 263-264, own translation). The table below shows which changes in these structures would be considered structural.

**Table 1.1 Characterization of structural reform**

<b>Structure</b>	<b>Description</b>	<b>Examples of structural shifts</b>
<b>Financial</b>	Financing mode (taxation, payroll contributions, insurance premiums etc.) <i>(Who pays for the programme?)</i>	Change from insurance premium to payroll financing of health care services
<b>Benefit</b>	Kind of benefit(s) and/or services, including eligibility mode (means-tested, flat-rate, earnings-related, contribution-related) <i>(What kind of benefits/services are supplied, and by whom?)</i>	Change from a contribution-financed to a means-tested system of unemployment insurance
<b>Management/ Regulation</b>	Management mode (state, social partners, private actors etc.) <i>(Who makes decisions about the management of programme?)</i>	Trade unions get a say in the management of formerly state-regulated (public) pension funds

In the context of the present study, this definition serves as a heuristic to distinguish reforms of a certain magnitude from mere adjustments or incremental changes. The latter may be measured in quantitative terms, for instance, changes in benefit levels or the payment duration of a benefit. Structural reforms, however, are more than mere routine adjustments of policy, and therefore distinct from the type of reforms that institutionalist theories expect. Moreover, structural reforms are characterized by chang-

es in cognitive and normative principles that underpin a certain policy area. Policy innovations entail new mechanisms to solve existing policy problems (cognitive principles) and justify them with reference to norms or values that are readily recognized by society (normative principles). As the empirical chapters will illustrate, key policy-makers with the characteristics of ideational leaders frequently evoke these principles when legitimizing and explaining a reform initiative. In Chapter 7, we return to the changes in principles at the level of individual reforms and at the level of the welfare state as a whole.

#### **1.4 Structure of the Book**

Chapter 2 introduces the concept of ideational leadership (IL). It explains the rationale behind considering the role of ideas and leadership in combination, and the mechanisms between the behavioural and communicative aspects of IL and structural reform. Chapter 3 takes a closer look at the macro- and meso-level sources of resilience of the German welfare state design as well as its institutional features and social policy programmes. Moreover, it summarizes the main pressures that impact upon existing arrangements in the policy areas of old-age pensions, unemployment insurance, and health care, and gives an overview of the policy responses by the different governments from the mid-1970s onwards to the 'Grand Coalition' led by Chancellor Merkel (2005-2009). Chapters 4, 5, and 6 present examples of structural reforms as evidence for a gradual transformation of the German welfare state. They contain studies of two health care reforms under Minister Seehofer during the 1990s, the 2001 pension reform under Minister Riester and the Hartz IV reform merging unemployment assistance and social assistance under Minister Clement (2003/2004). The two core questions guiding each case study are *to what extent IL can be observed in the reform processes*, and *how it relates to the adoption of structural reforms*. The former will be addressed by tracing whether each of these ministers exhibited the communicative and behavioural patterns implied by IL. To answer the latter, we look for signs of effectiveness of IL and assess whether two alternative strategies for overcoming reform resistance were used: concession-making (quid pro quo transactions) and outmanoeuvring reform opponents, i.e. avoiding institutions that are expected to block decisions or to ignore the opposition of anti-reformists altogether. In terms of data, we relied on textual sources (a wide variety of policy documents from ministries, political parties, Parlia-

ment and informal sources; speeches, interviews and other texts by key actors; quality press coverage) as well as the accounts of 35 semi-structured interviews with close observers of the policy processes conducted between May 2004 and February 2006. That material was used both for background information as well as for retrieving evidence for IL and its effectiveness. Finally, Chapter 7 revisits the empirical findings, traces how policy principles have changed in another policy area, family policy, and asks what kind of welfare state Germany has become as of 2009. How have its underlying principles changed and can we still characterize Germany as an exemplary Bismarckian welfare state? What kind of welfare state edifice has emerged following the adoption of several structural reforms with the potential to redefine traditional principles?

## **2 Ideational Leadership: Key to Overcoming Welfare State Resistance to Change**

We now turn to the key of the puzzle sketched in Chapter 1, ideational leadership (IL). IL draws on two extensive bodies literature, on the role of ideas in policy-making (see for overviews Braun and Busch 1999; Maier 2003: 46), and on leadership (Burns 1978; 't Hart 2000; Blondel 1987; Moon 1995; Helms 2000; 't Hart and Ten Hooven 2004; Goldfinch and 't Hart 2003). We start by arguing that to explain significant reforms in the German case, one needs to search for an explanation at the micro-level – the level of political actors – because macro- and meso-level factors do not offer sufficient leverage. Then, we discuss leadership concepts that are relevant for political and policy science (Section 2.2), and show how ideas relate to political agents and processes of social policy change (Section 2.3). Section 2.4 illustrates how IL draws together elements from both literatures, compensating some of their respective weaknesses: idea-based theories can be improved by linking ideas to agency and spelling out how actors make use of ideas in pushing for policy reform. In turn, leadership concepts can be made more specific by using insights from ideational approaches on how leaders communicate effectively in order to achieve policy change. Section 2.5 explains the separate aspects of the IL concept and presents the mechanisms that link it to the adoption of structural reform. Finally, Section 2.6 discusses how IL can be situated vis-à-vis the emerging mainstream literature on institutional change.

### **2.1 Situating IL Among Reform Explanations**

To explain structural reforms in advanced welfare states, we need a theory that engages with the resilience of welfare state institutions and the obstacles in the political process. Such a theory needs to indicate how to overcome institutional obstacles, and subsequently, how to achieve change through distinctive strategies of political leadership. Many scholars who

became interested in the 'new politics' of the welfare state have emphasized the role of politics in changing the status quo of welfare state institutions. The ensuing literature on welfare state politics has highlighted various factors explaining welfare state reform and restructuring (see for an overview Green-Pedersen and Haverland 2002). They include economic explanations, including studies of macro-economic challenges (Huber and Stephens 2001; Castles 2001), internationalization and globalization (Huber and Stephens 2001; Andersen 2003; Kemmerling 2005); political institutions (Bonoli 2001; Swank 2001); party-political explanations (Levy 1999; Ross 2000a; Kitschelt 2001; Green-Pedersen 2001); and, as the most recent addition, ideational explanations that focus on discourse and framing (Schmidt 2002a, 2002b; Béland 2005; Ross 2000c; Cox 2001).<sup>1</sup>

We argue that none of these explanations can satisfactorily account for major reforms in the German context. Economic explanations run into trouble since mounting economic and fiscal strain, especially after unification, have not readily translated into far-reaching reforms. In addition, German political institutions make for many veto players (Tsebelis 1995), potentially forming a steady defence of the social policy status quo. Party-political factors, such as the country's party system with its built-in electoral competition on social issues, also tends to make radical reforms difficult (Kitschelt, 2001). Likewise, it is questionable whether far-reaching reforms can be explained solely by credit-claiming strategies (Levy 1999) or the advantages arising from a party's issue associations (Ross 2000a). As for ideational explanations, both Vivien Schmidt and Robert Cox found, in their respective studies, the absence of a 'reform-facilitating discourse' or the construction of a 'need for change' when looking at the period before 2001. In this sense, these two perspectives explain stability rather than change. As for the argument made by Fiona Ross about the conditions for successfully framing reform issues, it is doubtful if her conditions for such framing (based on a case study of the UK under Thatcher) would also hold in the German context. Thus, the value of existing ideational approaches is at best mixed as it cannot be adequately assessed.

Since these macro (i.e. regime-level) and meso-level (i.e. policy programme level) explanatory factors seem to be better suited to explain stability than major reforms as far as the German context is concerned, the solution may lie in explanations at the micro-level of analysis, which focus on individual policy-makers and their patterns of communication and behaviour. Ideational approaches, which use framing and discourse arguments, indicate the importance of linking ideas to political agency as

the transmission of ideas is carried out by political actors. Therefore, we consider the combination of political agency and ideational factors, ideational leadership (IL), as essential in explaining how institutional reform obstacles can be overcome. IL implies that influential policy-makers, who make use of ideas to justify the choice for a particular policy, convince resisting actors of the need for and appropriateness of reform, overcoming institutional barriers.

## **2.2 Contributions from the Leadership Literature**

Surveying the leadership literature, we found a number of concepts which help to elucidate the role of political actors in processes of policy change and serve us as sources of inspiration to develop the IL concept. These concepts all relate to leadership in the context of politics and policy-making.<sup>2</sup>

### Concepts of Political Leadership

In this category, we find the seminal work by James Burns on political and social leadership (1978). For Burns, throughout history, leadership in society has been either transformative or transactional. Transactional leadership involving an exchange between the leader and his follower(s), with the relationship between them limited to bargaining. In contrast, transformative leadership changes their followers' motivations. It is the latter concept that matters for the purpose of developing the IL concept. While it does seem to overstate the possibilities of leaders in multi-actor contexts of policy-making, it also provides a convincing argument for considering acts of 'non-coercive' leadership as a possible explanation for significant and lasting change, underscoring the importance of considering leadership-based explanations.<sup>3</sup> Note also that Burns sees leadership as a necessary factor in achieving what he calls 'significant' or 'real' change,<sup>4</sup> which fits in well with the definition of structural change that implies leaving behind old policy paths.

In another important contribution, Jean Blondel drew up a theory of political leadership in the interactionist tradition, seeing leaders as constrained by their environment, but also as counting upon 'institutional and other resources' (Blondel 1987: 182). His leadership typology is based on an assessment of its impact, which is closely tied to the external environment and the opportunities and constraints this offers.<sup>5</sup> Blondel's thinking on leadership matters for IL as he clearly sees a link between

innovative leaders and ‘large changes’, which underlines the rationale for taking up leadership as one component of IL. He indicates, similarly to Burns, that to achieve large-scale change, we need innovative leaders, which is what IL is all about. However, this raises the question about what precisely leaders do in order to achieve far-reaching change.

### Concepts of Leadership in Policy-Making

While Burns and Blondel emphasized the general necessity of leadership for far-reaching change, the question is how leaders prepare their environment for such change. To answer this question, we will turn to leadership concepts from policy sciences. Theories on how leadership manifests itself in public policy contexts reflect the constraints and challenges leaders need to confront when making policy. Moreover, they also identify functional aspects of policy-makers’ behaviour who work towards policy change. Three concepts are presented: policy, innovative, and reformist leadership.<sup>6</sup>

Policy leadership refers to a form of leadership that ‘works in political and inter-organizational contexts where authority is shared and power is dispersed [...]’ (Luke 2000:49). It consists of four essential tasks, of which three are directly related to the stages in the policy process and which are most suitable for IL.<sup>7</sup> The first one requires ‘leaders to intervene in the policy arena by directing attention towards an undesirable condition or problem, defining and framing the issue in a way that can mobilize others around the search for responses’. The second one is about bringing the necessary people together to address a situation earlier defined as undesirable. Such mobilization of an collective effort may be achieved by, for instance, ‘advocacy coalitions, collaborative alliances, issue-oriented networks, political action committees, and stakeholder groups’ and may either be organized around the problem itself or around particular solutions (Luke 2000: 52-53). Third, policy leadership requires coming to agreements, which involves ‘multi-party problem-solving among diverse interests that results in the development of multiple strategies to achieve agreed-upon outcomes’ (ibid: 53). In turn, the latter is supported by direction setting, option generation, searching, designing and crafting policies, selecting policy options and authorizing and adopting them (ibid: 56-58). Despite its detailed description, policy leadership remains deficient in some respects. For example, policy leadership cannot be associated with any one individual, since the context of public policy-making makes for the ‘decreasing [of] the ability of any one individual, agency or institu-

tion to mobilize a sufficient number of individuals behind any particular policy agenda' (Luke 2000: 49). The concept rests on a different view of agency compared to the one adopted for IL. Furthermore, some tasks of policy leadership remain underspecified; the third task, for instance, 'forging agreements on policy alternatives and viable options for action' leaves it to the reader's imagination to decide how a policy leader would go about doing this.

Moon (1995) bases his concept of innovative leadership on two dimensions, political will and political capacity, and develops a typology of office-holding. Therein, innovative leadership is characterized by a strong sense of political will and strong policy capacity. Other forms of office-holding, as a combination of absence or presence of these dimensions are zealotry, managerialism and inertia (Moon 1995: 3-4). The first characteristic implies commitment to pursue particular policies together with 'a partisan rather than consensus-seeking approach to policy-making'. It also implies 'determination to pursue policies beyond those which arise by force of circumstance'. Strong policy capacity, on the other hand, implies '(...) an understanding of cause and effect in the policymaking process which might assist innovation (...) enhanced by policy learning prior to and during office'. The latter is said to 'enable office-holders to increase their capacity to innovate in ways that might have been beyond them on election' (Moon 1995: 2). Essentially, innovative leadership combines political motivation with political or policy capacity, which distinguishes it from the earlier concept of policy leadership that was defined in terms of a sequence of tasks. In short, 'irrespective of its direction and goals, innovative leadership requires a sense of purpose backed up with some coherence' and 'it entails not just taking others along a path, but doing so in a fashion sufficiently informed to achieve lasting policy redirection' (Moon 1995: 3). As with policy leadership, this leadership type requires 'an understanding of cause and effect in the policymaking process which might assist innovation'. While its aspects of commitment and cognitive insight in bringing about innovation are valuable elements for developing IL, the concepts again lack precision: the very general phrasing of the latter requirement does not tell us much about how political actors put it into practice.

Finally, reformist political leadership is perhaps the most useful concept to consider for IL; it has also the closest links with the chosen context of policy reform (Goldfinch and 't Hart 2003).<sup>8</sup> It builds upon an earlier version of the concept, reformist leadership ('t Hart 2000), which distinguishes a communicative and a strategic or coalition-building di-

mension. The former includes unmasking the status quo, communicating willpower, and propagating a solution; while the latter dimension involves co-opting groups needed for implementation and controlling the game.<sup>9</sup> Reformist political leadership consists of a number of functional requirements: articulating the need for reform; proposing a set of radical reform objectives; seeing to it that these are politically sanctioned; and guarding their integrity during implementation (Goldfinch and 't Hart 2003: 237). These translate into five propositions. 'Articulating the need for reform' stands for a – preferably dramatic – portrayal of current issues as serious and acute crises. Secondly, reform leaders are to gather allies in order to form a coherent team that will support important changes. Thirdly, reformers would have to 'develop and employ strategies targeted at persuading their political environment that the proposed changes are both desirable and inevitable, as well as being practically feasible'. Fourthly, seeing to political sanctioning involves 'managing to secure early support for implementing actors for their crisis-response strategy'. Finally, tight control of leaders over the crisis-management process, both formally and in terms of taking personal initiative, is a last requirement (Goldfinch and 't Hart 2003: 238-41). In short, 'reformist leadership requires the embracing of novel policy ideas, the skills to 'sell' them to diverse audiences, and the wielding of power to see them enacted'(ibid: 237).<sup>10</sup>

Compared to the first two concepts, reformist leadership has added value because it draws attention to the communicative and coalition-building aspects of leadership, which is a distinction that will be translated to the IL concept, since it describes its essential elements in rather concrete terms. A reformist leader would be expected to highlight the problems with the policy status quo, and then to communicate, resolve, and propagate a solution to the problem. This makes it much more tangible than the concepts of policy or innovative leadership, where the communicative aspect of such leadership remained unaccounted for. However, even the specification of reformist leadership could be improved upon, by for instance spelling out more clearly what persuasive arguments involve and how it links certain leader behaviour to policy results.

The discussion above has highlighted both strengths and shortcomings of a number of leadership concepts. In particular, three of their features constitute important building blocks for IL, 1) 'unmasking' or rejecting the status quo, 2) consistently propagating the solution, and 3) making efforts at political consensus-building. The first two are essential for making an argument for innovation in any policy sector, while the third one

recognizes that even relatively autonomous political actors will have to secure some support from other actors in order to assure the success of a reform project.

### Limitations of Leadership Concepts in Explaining Policy Change

Without doubt, there are notable efforts to clarify the relationship of leaders and policy change in the leadership literature. Some theories tell us how leaders act in order to accomplish innovation and far-reaching policy change. In addition, leadership scholars have been thinking about the conditions under which behaviour associated with leadership leads to such change. Notwithstanding these efforts, we argue that the leadership literature suffers from a general shortcoming that needs addressing. The problem is that although it points to various possibilities for individual actors to change policy instruments or institutional structures, it usually remains vague on how these actors need to behave and what they need to communicate to their audiences in order to successfully push through change. What we find lacking is a more concise specification of what leaders do and say to achieve change, including the mechanisms that link their behaviour and the outcome of far-reaching reforms.

We think that elements drawn from the ideational literature enable us to formulate a theory about reform-oriented leadership in more concrete terms, improving the understanding of processes leading to major policy change. Next, we will turn to the characteristics of idea-based approaches to politics and policy-making.

### **2.3 Contributions from the Ideational Literature**

The rise of idea-based approaches in public policy research was to some extent a counter-reaction to the focus on corporatist intermediation in the 1970s and network theory during the 1980s, both of which assumed that political negotiations were essentially interest-based. In the 1980s, there also emerged a number of studies examining organizations and networks, which were not compatible with an interest-based approach and pointed to an ideational dimension in politics.<sup>11</sup> Among these approaches, which also sought to offer more general explanations of the relationship of ideas and policy-making, the studies of Sabatier and Jenkins-Smith (1988, 1993) and Kingdon (1995) stand out, as they address the issue of how ideas matter (Parsons 1995: 173). The central issue was how, within

policy communities and networks (composed of politicians, civil servants, experts, policy analysts, and stakeholders such as interest groups), ideas were advocated within certain policy areas. By examining networks or communities, analysts were to learn if and how an idea has had an impact on policy outcomes.

To give two examples, in Paul Sabatier and Hank Jenkins-Smith's 'advocacy coalition' framework, the interaction of various advocacy coalitions – containing actors from various institutions and their shared set of policy beliefs within a policy subsystem – became the focal point of analysis with major policy change being the result of competition between advocacy coalitions and events outside of the policy subsystem. Ideas appeared in the form of policy beliefs of various sorts, which are diffused by processes of policy-oriented learning (Sabatier 1999: 9). In contrast, in John Kingdon's 'multiple stream' framework, the role of agency is more pronounced (Kingdon 1995). Major policy change occurs when a policy entrepreneur succeeds in making use of a 'window of opportunity', connecting the otherwise independent streams (problems, policy and politics) that make up a policy process (cf. Sabatier 1999: 9; Kingdon 1995). The policy entrepreneur is thus the crucial carrier of ideas in this framework (cf. Béland 2005).<sup>12</sup> For another important prerequisite of launching new policy ideas, we need to look to the strand of the ideational literature that deals with policy learning (Hecl 1974; Hall 1989, 1993; see for applications to welfare state reform e.g. Visser and Hemerijck 1997; Hemerijck and Schludi 2000). Hall's well-known definition of policy learning describes it as a 'a deliberate attempt to adjust the goals or techniques of policy in the light of the consequences of past policy and new information so as to better attain the ultimate objects of governance' (Hall 1993:278). Moreover, policy learning 'requires a readiness to subject pre-established policy ideas to critical insights, new information, and experience across time and place' and 'is about the mobilization of ideas and expertise to identify problems and propose solutions' (Hemerijck and Schludi 2000: 131). Therefore, for policy learning, human insight into failures is a necessary condition for bringing innovation onto the political agenda.

### Ideas and Social Policy Reform

How to conceive the link between ideas and key policy-makers who try to promote alternative policies? In the ideational literature, this aspect of the role of ideas has been presented in the form of 'discourse' or 'framing'. For instance, Robert Cox argues that the 'social construction of an

imperative for change' explains why substantial social policy reforms happened in Denmark and the Netherlands, but not in Germany (Cox 2001). In order to achieve such understanding, Cox sees 'path-shaping' processes, in other words, the framing of issues in ways that generate widespread support for reform, as a crucial factor. Politicians who successfully created public understanding for policy change are singled out as the explanatory factor for reforms. It also stresses the importance of 'framing', stressing that 'carefully framing issues' needs to be considered in more detail.

Giving another example, Fiona Ross specifies necessary conditions for a successful framing of policy initiatives by political leaders. These conditions are linked to the characteristics of different welfare regimes and applied to a specific case of reform in the United States (Ross 2000). The question is under what conditions politicians may successfully frame reform proposals (which are assumed to be potentially unpopular), and framing is presented as an intentional strategy of actors to overcome reform obstacles. The answer includes extant or existing 'frames', actors, institutions, and the nature of the policy arena (Ross 2000a: 173-176). However, regarding the causal impact of framing, Ross merely points to the difficulty of estimating such an effect, presenting it as an intervening rather than an independent variable (ibid: 188). While her work is valuable in specifying contextual conditions for framing, it fails to directly spell out what the framing exercise itself should entail: but this is exactly what is needed to make the 'ideational' part of the IL concept more concrete.

This gap is filled to some extent by Vivien Schmidt, who specifies the conditions for how, where and when discourse is supposed to matter (Schmidt 2002a, 2002b). Discourse is conceptualized in terms of a content or ideational dimension (including both cognitive and normative aspects) and an interactive dimension (including the coordination and communication of the discourse) (Schmidt 2002b: 308-309). In contrast to Ross' cautious argument about the impact of framing, Schmidt posits that discourse is an explanatory factor in the politics of economic adjustment. To specify the causal influence of discourse in the politics of adjustment alongside other variables (culture, institutions and interests), she explores the role of political-institutional context ('single' vs. 'multi-actor' systems) and its consequences for policy-makers and envisaged policy adjustments. Through a comparative case study of macro-level economic and welfare reforms, the argument made is that discourse can explain changes (or the absence of change) that other factors cannot.

Discourse is said to matter in two ways, 'ideationally, by representing a policy programme as conceptually sound' and 'resonating with national values'. In addition, there is an interactive function, 'serving policy actors as the basis for constructing a policy programme' and 'as the basis for persuading the larger public as to its merits' (Schmidt 2002b: 256). In terms of causal effects, the success of discourse in the process of adjustment is said to depend on both the ideational dimension and the interactive dimension,<sup>13</sup> as well as in moments of crisis (Schmidt 2002: 309).

### Building Blocks for IL from the Ideational Literature

Which elements from the ideational literature complement the building blocks from the leadership literature? As scholarship on policy learning suggests, the prerequisite for introducing alternative policies is to first identify the drawbacks of the policy status quo and its old policy principles. Therefore, pointing out policy failure is an important first building block for IL.<sup>14</sup>

Second, the analyses by Cox and Ross draw attention to actors' framing efforts, suggesting politicians may be at an advantage by framing their reform message in a careful way. They underscore the need to see ideas as 'hooks', helping policy-makers to justify policies. When taking up the role of ideas in the IL concept in line with the framing literature, ideas are incorporated as justifying devices for overcoming institutionalist obstacles of far-reaching change.

A third element concerns the more substantive characteristics of policy-makers' argumentation. The ideational dimension of politicians' discourse, as discussed in the work of Schmidt, becomes relevant here. A persuasive (and therefore successful) policy discourse is composed of cognitive and normative arguments that are each based on a different logic: the 'logic of necessity' and the 'logic of appropriateness'.<sup>15</sup> Cognitive arguments are said to justify through the 'logic of necessity' and provide 'core ideas with great potential, demonstrate relevance, applicability, coherence, and greater problem-solving capacity of a programme' (Schmidt 2000b: 218, Table 5.2). The logic rests in that cognitive arguments establish a causal link between a (policy) problem and the solution proposed by a policy-maker. Normative arguments are said to legitimize through the 'logic of appropriateness' and 'respond to problems of the polity and reflect/affect national values' (ibid.). Therefore, normative arguments justify policy solutions in terms of (societal) norms and values,

which are compatible with the belief systems of those to be persuaded. These terms inform the second aspect of IL, 'consistently propagating a policy solution', by clarifying what propagating involves: IL-type leaders need to rely both on cognitive and normative arguments to legitimize their reform plans persuasively. Therefore, the second aspect of IL becomes 'consistently legitimizing the policy solution with cognitive and normative arguments'. These insights into the substantive components of discourse raise the question of how the choices of individuals can be influenced.

The fourth building block relates to the conceptualization of interests in relation to choices made by actors. For this, we need to look into the underlying assumptions on individual choice of ideational approaches. Commonly, it is assumed that the search for meaning precedes the making of human choices.<sup>16</sup> Also, how individual actors arrive at decisions does not only depend on their interests or preferences, but also on their cognitive frames and belief systems, allowing ideas to form part of their decision-making. The search for meaning involves cognitive frameworks which enable actors to know what 'is' and what is 'feasible'; in a second step, evaluation enables actors – on the basis of values and norms – to find out what they 'ought' to do (Goldstein and Keohane 1993). To consider how individuals can be influenced in their decision-making processes, it is useful to draw upon a distinction made between different types of interests, 'material' and 'ideal' ones (Braun 1999: 13-14), based upon Max Weber's earlier distinction between these concepts (Weber in Gerth and Mills 1948: 61 ff.).<sup>17</sup> If one accepts the postulate that actors can be either driven by material or by idealistic motivations,<sup>18</sup> the communicative message of ideational leaders can be assumed to 'speak' to these motivations and potentially impact on them.

To conceptualize ideal interests as distinct from material interests has important consequences for thinking about how reform resistance can be overcome: the distinction between types of interests offers the key to how IL reduces or neutralizes such resistance. In the context of institutional reform resistance, reform-opposing actors may hold ideal interests (e.g. considerations about their public image or reputation alongside their material interests) that relate to their bargaining position and the welfare of their constituents. To turn this insight into a behavioural aspect of IL, an ideational leader may be thought to deal with resisting actors by framing this resistance as a) problematic for societal welfare,<sup>19</sup> and, b) detrimental for the bargaining position of interest groups and the long-term welfare of their constituents.<sup>20</sup> While the latter option is

contingent on a number of theoretical assumptions (such as, whether actors actually believe it affects their bargaining position and the relative influence of interest groups), the first option may be more plausible, as well as easier to test empirically. It will form the third aspect of the IL framework as 'framing reform resistance as problematic (to societal welfare)'.

### Limitations of Ideational Approaches

Despite their merits, ideational approaches also have some weaknesses. The first apparent limitation is that some idea-based approaches result in bold statements about the causal effects of ideas on policy outcomes. At the same time, they fail to specify and demonstrate the causal nexus between the presence of certain ideas and their effects. However, specifying causal mechanisms is a way of making theoretical frameworks more sensitive to the dynamics of political struggles in policy-making (Van Kersbergen 2002). Vivien Schmidt, for example, rightly asks how to establish the causal influence of discourse, but instead of an answer, she formulates statements that sum up conditions: 'For discourse to have a significant influence in the adoption of a policy programme, in short, it must be able to help policy actors overcome entrenched interests, institutional obstacles, and cultural blinkers to change' (Schmidt 2002b: 251). A second limitation has to do with the role ascribed to ideas. It is difficult to imagine that ideas have an impact by themselves, detached from what policy-makers do, let alone to show such a connection empirically. Ideas are usually considered cognitive or normative constructs that cannot enter the policy-making arena on their own and, for that reason, need an agent to gather them, put them on a political agenda and further communicate them to a certain audience (cf. Jones 1994; Ross 2000). In spite of various (and sometimes competing) theoretical perspectives on public policy-making, few scholars would deny that actors have some sort of impact on policy-making, even within the confines of institutional possibilities; the core of the issue is expressed in the seemingly intractable structure-agency problem (see for a lucid description of the problem Wight 2003). Observers who ascribe more importance to agents argue that policy transitions should be understood in terms of a relationship between structural possibilities and political agency (Campbell 1998).

Tending towards the latter view, we believe that this rightly points to the opportunities of political leadership within a perspective of politics dominated by institutions. In order to bring change onto the political agenda

(and ultimately to make decisions on particular reform initiatives), ideas must be promoted by political agents who enjoy institutional access. In the IL framework, these potential ideational leaders occupy posts of key policy-makers, that is, senior posts such as cabinet members.<sup>21</sup> In sum, idea-based approaches to policy change can be improved by linking ideas to a certain actor or 'carrier' and by specifying how this carrier makes use of them in pushing for policy reform.

#### **2.4 IL as a Joint Concept**

The IL concept addresses the limitations of the two literatures. Conceptions of leadership generally lack precision in describing how political agents behave when they get involved in the process of pushing through change. They can be made more concrete by elements from ideational approaches, if the latter fill in how leaders communicate effectively in order to effect policy change. Conversely, the ideational literature tends to claim that ideas have causal effects on policy outcomes without substantiating them. We think that these shortcomings may be addressed in two ways. To improve the specificity of leadership concepts, it is necessary to zoom in on political actors as potential carriers of ideas, and how they make use of them in specific policy processes. Furthermore, in order to address the causality question and the lack of agency when considering ideas by themselves, it is necessary to examine the role that ideas have played in actors' behaviour and to illustrate the causal mechanisms that link these ideas to policy outcomes.

In short, IL revolves around 'leadership achieved with the help of ideas'. IL is exercised by *key policy-makers who use strategies that are idea-based ('ideational'), and purposively aim for the achievement of change, even in view of reform resistance ('leadership')*. Key policy-makers we understand as those individuals who are most likely to exhibit leadership, such as senior members of the executive (ministers, in exceptional cases also prime ministers). They commonly initiate major reform proposals and are able to perform as political leaders in the context of a reform process (cf. Thompson 1994; Chabal 2003). Reform resistance is the sum of resistance wielded against a reform proposal, mostly by formal veto power of an actor or institution, but also by other forms of opposition (for instance, the threat of strikes by trade unions).

IL can be seen as a resource of key policy-makers that helps to transform resistance by reform opponents into acceptance (or at least tolerance) of

a particular reform initiative. At the same time, it implies a combination of abilities, namely 1) to expose drawbacks of old policy principles and policies built on them; 2) to make consistent efforts to legitimize new policy principles (using cognitive and normative arguments), 3) to frame reform resistance as problematic for societal welfare (as well as for the interests of lobbyist groups, in terms of their long-term welfare political influence); and 4) to make efforts at political consensus-building in support of the reform initiative. These patterns taken together neutralize or at least decrease reform resistance by convincing opponents of the merits of new policy principles and to allow the adoption of innovative reform initiatives. If one sees reform resistance in terms of various forms of path-dependence, IL affects its two sources: political institutions, on the one hand (as stressed in Pierson's work) and institutional or programme-related obstacles (as stressed by both Esping-Andersen and Pierson). These sources of path-dependence are explored and discussed in more detail in Chapter 3.

## **2.5 Aspects, Mechanisms and Effects of IL**

The IL hypothesis specifies how political actors can overcome institutional obstacles, induced by institutional lock-in mechanisms.<sup>22</sup> How does this take place? The literature on institutional lock-in helps to elucidate how this condition can be reversed. The different aspects of IL reduce the level of institutional lock-in, enabling the adoption of structural reforms. The mechanisms behind these aspects, taken together, establish four conditions for institutional break-out: the availability of a superior policy alternative; decreasing effectiveness of the status-quo; more and better information about policy alternatives; and decreasing switching costs (Woerdman 2002). Once these conditions for institutional break-out are in place, structural reform can be adopted, usually by parliamentary vote. This relationship may at first sight appear tautological, if one assumes that the observation of leadership necessarily implies achieving a certain outcome (structural reforms) or if one automatically associates the term leadership with reform adoption. However, when examining the relationship more closely, this worry is largely unfounded.<sup>23</sup> The four causal mechanisms behind the different aspects of IL are specified in the following figure.

**Figure 2.1 Distinction between causal mechanisms that link IL and structural reform**

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**Ideational mechanisms**

- 1) policy failure or loss of effectiveness brings on the search for alternatives (and new policy principles)
  - 2) creating insights into the logics of appropriateness and necessity behind the innovation helps to lower switching costs and to re-define old policy principles
- 

**Interest-related mechanisms**

- 3) reform-critical interest groups are made to 'face the facts' or to redefine (the perception) of their interest, lowering switching costs
  - 4) forging consensus based on policy-seeking and not power-seeking motives reduces switching costs
- 

The combined effect of these mechanisms is that they tackle lock-in effects, leading to an institutional break-out. In turn, this enables policy-makers to push through structural reforms, which transform the existing institutional structures and their underlying policy principles. There are two kinds of mechanisms: first, an ideational mechanism working through a change in cognitive and normative policy principles which relates to Hugh Hecló's concept of 'puzzling' (Hecló 1974).<sup>24</sup> The second mechanism changes the perception of opposing actors' interests, which is reminiscent of the notion of 'powering within puzzling' (Ferrera and Gualmini 2004).<sup>25</sup> The combination of these mechanisms, effecting both changes in beliefs and norms and in ideal interests, creates the conditions for an institutional break-out and allows structural reform to materialize. Let us now turn to each of the aspects of IL and their underlying mechanisms.

### Exposing Drawbacks of the Status Quo

To begin with, IL-type actors identify the drawbacks of the policy status quo and, at the same time, the old principles it is based upon. In other words, they link the existing situation in a policy area to themes like failure, inefficiency, crisis, welfare loss and the like. As the policy learning literature demonstrates, establishing the fact of 'failure' is a prerequisite for other policy alternatives to be put forward.

The causal mechanism connecting policy failure aspect with institutional lock-out works as follows: the insight of policy actors into the declining effectiveness of existing policies is needed for a transition to new structures.<sup>26</sup> This is important as a certain understanding of policy failure

needs to be established before a breakthrough of institutional blockades can initiate a transition to another set of institutions (Woerdman 2002). This is an example of an ideational-type mechanism that impacts on the cognitive preferences of actors. By referring to the ‘fact’ of policy failure, IL-type leaders make other actors aware of the dangers of the status quo. Consequently, they regard the policy status quo in a different light, starting to allow for possible changes in their set preferences.

### Legitimizing New Policy

Secondly, IL-type actors consistently attempt to legitimize new policy and its underlying principles. This aspect draws upon insights in the importance of showing commitment and consistency in pursuing reform, for instance through reformist leadership (’t Hart 2000; ’t Hart and Goldfinch 2003), and innovative leadership (Moon 1995). Two elements of innovative leadership, the sense of commitment and coherence in pursuing a particular reform, correspond to this aspect; as well as two elements from the communicative dimension of reformist leadership, ‘communicating willpower’ and ‘propagating the solution’. Both of these refer to the legitimization of new policies and their underlying principles.

The causal mechanism between such legitimization of policy principles and structural reform is as follows. The act of legitimizing new policy principles creates certain conditions for institutional break-out, as policy-makers who use plausible, cognitive arguments about policy proposals, facilitate information about superior institutional alternatives. Additionally, arguments using normative principles, either relating to existing ones or possibly redefining such principles as a way of accommodating reform, help to lower switching costs to policy alternatives (Woerdman 2002: 96-97). The combined effect of this consistent use of cognitive and normative arguments – stressing why their alternative works and how it fits existing societal principles – persuades reform opponents of its merits. Like the policy failure mechanism, this one is ideational, bringing about a preference for change. Reform opponents move from rejection or denial towards acceptance of new policy principles, decreasing institutional lock-in.

### Framing Reform Resistance as Problematic

Thirdly, IL-type policy-makers frame reform resistance as ‘problematic’ that is, potentially harmful to societal (or collective) interests. They may request that policy stakeholders (e.g. organized interest groups, pension-

ers) subordinate their particularistic interests to a greater societal interest once politicians have decided on the necessity of far-reaching reforms that further such an interest. The underlying assumption states that although stakeholders' preferences are frequently equated with their particularistic (and material) interests; actors are free to act according to a collective (or societal) interest, thereby subordinating particularistic ones.<sup>27</sup> Therefore, IL-type policy-makers denounce stakeholders' abuse of their interests (manifesting itself by blocking behaviour) as detrimental to reform adoption and appealing to stakeholders to re-think their reform resistance in order to enable political consensus. This aspect of IL is based on a conceptualization of interests as 'ideal' and 'material' interests (Braun 1999) and presupposes that such pleas are capable of making policy stakeholders think twice about the policy implications of resistance. Moreover, it may change the perception of their ideal interests, for instance, considerations about their public image.

The mechanism behind this aspect is based on ideal interests, not material ones. IL-type policy-makers, by appealing to the consciences of reform opponents, influence the ways in which they perceive their interests. By perceiving certain reform measures in the light of a greater, societal interest, it is hypothesized that they adapt their behaviour accordingly, although this may be merely motivated by self-interest, so as not to appear backward-looking, and to demonstrate flexibility.

#### Efforts at Political Consensus-Building

The fourth aspect of IL is concerned with policy-makers' efforts at political consensus-building. In essence, consensus-building serves to mobilize support for a particular reform plan and is contained in reformist and policy leadership. Reformist leadership, in its strategic or coalition-building dimension, highlights 'controlling the game' ('t Hart 2000; Goldfinch and 't Hart 2003) and is about exerting influence on the organization of decision-making or procedural leadership (Goldfinch and 't Hart 2003: 241-242). One important difference can be found between this element and the fourth IL aspect: whereas leaders might use manipulative tactics when 'controlling the game', the consensus-building aspect of IL emphasizes that a leader is policy-oriented in his motivation. In addition, the latter is informed by a task found in policy leadership, 'forging agreements on policy options and alternatives'. According to Luke, this task resembles 'a stream of individual sub-decisions and multiple iterations between information gathering and processing, generating and exploring options,

narrowing down, and selecting options' (Luke 2000:54-55). If this is a correct portrayal of matters, perhaps it is futile to try and elaborate consensus-building in more detail and concentrate on its result, the emergence of consensus. What matters is an IL-type leader, in striving to propagate a particular reform proposal, also cares about assembling sufficient support whilst staying open for suggestions from other actors.

The causal mechanism behind efforts at political consensus-building strategies can be formulated along the following lines. Attempts to gather support in favour of a particular reform proposal serve to lower the level of resistance and heighten the chances of having a proposal accepted by those actors, whether institutional or individuals, who might otherwise veto it. This assumes certain receptiveness on the part of such veto players. They are more likely to be convinced by IL-type leaders who also actively reach out to those criticizing them, than by those who do not. In the terminology of the institutional-lockout framework, forging consensus in this way may reduce switching costs to policy alternatives, facilitating an institutional lock-out.

#### The Orientation of an Ideational Leader

While the first four aspects of IL refer to procedural aspects of behaviour in a particular policy process, IL-type actors share another characteristic as a kind of general orientation. Politicians may base their actions on several motivations. Political scientists commonly distinguish two main motivations of policy-makers leading to a distinction between 'policy-seeking' and 'power-seeking' actors. Policy-seeking is usually described as the motivation to have an impact on public policy, and is associated with an interest in 'good' policy (when translated to the current context, an interest in the substance of a particular reform project).<sup>28</sup> As such, it is opposed to power-seeking or office-seeking behaviour, where acquiring and maintaining a position of authority and enjoying the rewards of public office form a central motivation.<sup>29</sup> IL-type actors are closely associated with the policy-orientation or 'good' policy-orientation. Cognitive arguments are said to justify through the 'logic of necessity' and provide 'core ideas with great potential, demonstrate relevance, applicability, coherence, and greater problem-solving capacity of a programme' (Schmidt 2000b: 218, Table 5.2). The logic rests in that cognitive arguments establish a causal link between a (policy) problem and the solution proposed by a policy-maker. Normative arguments are said to legitimize through the 'logic of appropriateness' and 'respond to problems of the polity and reflect/affect national values'

(ibid.). Therefore, normative arguments justify policy solutions in terms of (societal) norms and values, which are compatible with the belief systems of those to be persuaded. These terms inform the second aspect of IL, ‘consistently propagating a policy solution’, by clarifying what propagating involves: IL-type leaders need to rely both on cognitive and normative arguments to legitimize their reform plans persuasively. This is why the second aspect of IL was formulated as ‘consistently legitimizing the policy solution with cognitive and normative arguments’. However, this does not imply that they are completely unaware of their own authority and sources of power. On the contrary, a certain awareness of their position of authority to launch policy innovations and of the limitations on mustering political support (relevant for the fourth aspect of IL), distinguishes them from policy-makers who are more focused on maintaining power. In contrast to the latter, IL-type actors, are able to think goal-oriented, whenever the search for a consensus on a reform project dictates it, but exhibit a preference for argumentative efforts, as described in the first three aspects.

To conclude, the policy-orientation of IL-type leaders contributes to the workings of the four causal mechanisms described earlier. The assumption is that reform-resisting actors are more easily influenced by someone who legitimizes a policy proposal on the basis of policy substance than by someone who acts on the basis of strategic motives, that is, to maintain or increase power. The discussion so far leads to the following conceptualization of IL:

**Figure 2.2 Conceptualization of IL**

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**Communicative and behavioural aspects**

- 1) Exposing the drawbacks of the policy status quo and old policy principles
- 2) Making consistent efforts to legitimize new policy and its underlying principles
- 3) Engaging with reform opponents by framing their resistance as ‘problematic’
- 4) Making efforts at political consensus building to muster support for a particular reform

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**Orientation/motivation aspect**

- 5) IL-type policy-makers are more policy- than power-oriented
- 

## **2.6 IL and Theorizing on Gradual Institutional Change**

While the IL framework gives an explanation for unexpected instances of social policy change, it also adds to theories of policy change more generally in two ways. First, on the ongoing debate whether such change

is caused by interests (and power) or ideas, and, second, on the tempo of significant change, the empirical case studies suggest that structural reforms materialize after ideational leaders encourage learning processes by opposing actors. In addition, structural reforms result from gradually evolving and lengthy reform processes (even in the context of individual reforms). In turn, this implies that transformative reforms require a certain period of 'incubation' and are not necessarily sudden events triggered by exogenous shocks such as crises. This observation contrasts with one important strand of the literature, which stresses a punctuated equilibrium model of change (Krasner 1988). The latter sees periods of stability interrupted from time to time by 'radical shifts' (Pempel 1998). In addition, the literature on policy change through crises asserts that only extreme circumstances can produce radical policy change. In that view, transformative change is dependent on the construction of crises and their exploitation by political actors to achieve reforms (Kuipers 2004; Hay 2001; Boin and 't Hart 2000). These views of radical change are compatible with Pierson's account of welfare state politics (1994; 1996).

The arguments (and the findings) of our study are closer to another, more recent view on institutional change, which breaks with the dominant view of institutions as extraordinarily stable constructs due to powerful policy legacies and path-dependent processes. As mentioned in Chapter 1, a number of scholars have started to view and study institutional change as a gradual and evolutionary process. Of these, the edited volume by Wolfgang Streeck and Kathleen Thelen (2005) has gone a great way in identifying change-inducing characteristics inherent to institutions and relating them to a number of (empirically observed) mechanisms of incremental yet transformative change. As such, their work exemplifies a new influential view on institutional change. Applying this toolkit of slow institutional change, Streeck (2009) seeks to account for the dynamics of gradual and systemic change of German capitalist institutions, while proposing a 'substantive-historical grounding' for institutional analysis that incorporates capitalism into the Streeck and Thelen model of institutions and social action.

In what follows, we will sketch some possible linkages between the Streeck and Thelen argument and our argument about ideational leadership. They identify five mechanisms of endogenous change which are termed 'exhaustion', 'displacement', 'drift', 'layering' and 'conversion'. 'Exhaustion' refers to the gradual breakdown of institutions over the course of time, while 'displacement' assumes that subordinate elements of institutions slowly gain importance relative to the dominant ones. 'Drift'

occurs when institutional maintenance is neglected despite exogenous conditions demanding it; the result is decline and decay of institutional practice. In contrast, through 'layering', existing institutions are transformed gradually by the attachment of new elements which both change their status and structure. Finally, 'conversion' redirects existing institutions to new purposes (2005: 31).

A first point of comparison can be made about the tempo of change. These mechanisms assume institutional transformation as a result of gradually evolving processes, such as by minor sequential reforms over a longer time period. This is a different conception of overall change compared to the present analysis of individual reforms. The latter transform policy principles and imply structural changes in single policies, leading to a gradual transformation of the welfare state model underlying those policies in the long run. The result of the two processes – transformation – may be comparable, while the actual way of getting there differs.

Second, and more importantly, we can identify some contrasts between Streeck and Thelen's and our argument concerning the debate on the most likely causes of policy or institutional change.<sup>30</sup> Their five mechanisms of gradual change can be roughly divided into two categories in terms of their propensity for political agents to influence institutional change deliberately. Of the five mechanisms, exhaustion and drift are essentially products of erosion and neglect. To a lesser extent, this is true for displacement, which assumes that dormant institutional resources are gaining importance over hitherto dominant ones. What is true for all the mechanisms is that they seem to exclude deliberate political strategies, as they are triggered by the inherent imperfections in institutional design and implementation and how actors react to them. At the very least, their exact source cannot be pinpointed theoretically. In contrast to these somewhat 'hidden' ways of changing institutions gradually, layering and conversion seem to allow a more active role for political agency. As for layering, established institutions are supplemented by new rules to remedy problems with the existing ones. An active role of political agency is also evident when it comes to conversion, which arguably requires creative input by some form of agency to redirect an existing institution to a different use.

To what extent do Streeck and Thelen go into the issue of agency in their underlying conceptualization of institutions and social action? There, they provide a rough sketch of the mutual relationship of 'rule shapers' (i.e. elites) and 'rule takers' within a model of institutions as regimes. That relationship entails the following:

(...) a grounded, 'realistic' concept of social institutions (...) emphasizes their being continuously created and recreated by a great number of actors with divergent interests, varying normative commitments, different powers and limited cognition (2005: 16).

We also find at least one explicit reference to the eternal debate between 'agency' and 'structure' that makes two important points about actors. First, ambiguities or gaps between institutional design and its implementation may lead to political contestation over the form, function, and salience of specific institutions that result in institutional change. Second, such contestation is not seen as occurring periodically (as in the punctuated equilibrium model of change), but as an ongoing process in which institutions create opportunities and constraints to actors. The latter try to achieve change by using institutions to their advantage if they are in line with their interests (or goals) or circumvent or try to recreate them if they are opposed to them (2005: 19).

Describing the role of actors like this, however engaging and plausible it may sound, remains at a high level of abstraction and leaves plenty of room for further specification. In addition, most mechanisms of gradual change avoid specific reference to actors – as we saw above, some more than others – implying unintended or at least undirected processes of change. The IL framework offers one way of setting out what a particular kind of actor – key policy-makers – do to deliberately effect structural reform as a specific kind of institutional change. It elaborates on the role political agency may play by clearly specifying how they go about signalling and legitimizing the need for change and building political support for their reform ideas. Possibly, what the IL framework describes as 'structural reform' may be an instance of conversion or layering, depending on the exact policy area at hand. In sum, the IL framework usefully complements the new theorizing on gradual institutional change by suggesting an additional 'mechanism' that is driven by actors who employ ideas to eventually change institutions.

## **2.7 Conclusion**

The IL framework developed in this chapter offers an answer to the puzzle presented in Chapter 1: the contradiction between major reforms despite theoretical predictions of welfare state stability. The framework combines a number of building blocks from the literature on leadership and ideas.

Each has its weaknesses: leadership concepts underspecify how leaders achieve policy change and why they want to achieve it and idea-based theories often neglect causal mechanisms and the role of political agency. By ‘composing’ IL from elements taken from both traditions, however, we compensate for those weaknesses. The result is a concept that is attentive to how political actors are capable to legitimize and seek political support for major policy changes.

IL departs from traditional thinking about leadership as being essentially power-related. It focuses on innovation-mindedness, persuasion, and the breaking-down of vested resistance to change without relying merely on one’s position of authority. These characteristics make it very well suited to explain major change in the most notoriously stable welfare states of the continental types, such as Germany. IL addresses reform obstacles in terms of both policy substance and policy process. It specifies how actors deal with ineffective policies and how they propose and legitimize new policy principles: this addresses the stability bias attached to policy substance as advocated by Esping-Andersen. Since IL spells out how institutional rigidities can be tackled in terms of cognitive and normative arguments, it speaks directly to this dimension of institutionalist arguments. At the same time, IL explicates how political actors overcome veto points, and, by extension, deal with electoral risks. It thus speaks to Pierson’s arguments about how policy-makers’ radical reform plans are impeded by political-institutional obstacles. Elements from leadership approaches specify that ideational leaders confront reform opponents with the consequences of their obstructive attitude and stress the importance of building political support with important groups. In addition, the assumption of an essentially policy-seeking orientation counters the problem of electoral risks that takes on lesser importance for ideational leaders. The empirical chapters will show how IL can be usefully applied to empirical reform processes. Before that, Chapter 3 turns to the principal characteristics of the German welfare state and its development since 1975.



### **3 A Bird's-Eye View of the German Welfare State**

In this chapter, we will take a closer look at the edifice of the German welfare state. We will put a magnifying glass on its proverbial resistance by surveying both regime-level characteristics and political-institutional context and programme-level characteristics. We start out by presenting the main principles on which this Bismarckian welfare state regime was built. Some of these principles can still be seen more than 125 years after Bismarck created the first social insurance programmes, but are being challenged by recent structural reforms. They comprise wage-centred social insurance, maintaining the former standard of living, a focus on the family as provider of welfare, and corporatism. The section concludes by listing the main post-industrial pressures on mature welfare states and the resulting situation of 'welfare without work' (Esping-Andersen 1996b). The bulk of the chapter analyses the main sources of resistance to comprehensive change on which IL has an impact. First, we discuss the sources of 'stickiness' related to political institutions, veto players. As described in Chapter 2, IL overcomes these by focusing on the framing of reform resistance and by rallying political support for reform proposals. Then, we turn to the more substance-related sources of path-dependence found in the financing, benefit or management structure of individual policy programmes, to name old-age pensions, unemployment insurance, and health care, all of whose main features are briefly laid out (Schmidt 2005; Opielka 2004; see for detailed introductions of social policy programmes e.g. Alber 2001). To overcome those obstacles to change related to policy substance, IL redefines or renews what is accepted as underlying policy principles by pointing out the disadvantages of the policy status quo and pleading for a policy alternative. The final section summarizes the policy answers of recent German governments to mounting pressures on social policy arrangements, reviewing overall trends in policy development since 1975 (Gohr and Seeleib-Kaiser 2003; see for all three periods Bleses and Seeleib-Kaiser 2004; see for 1998-2003 also Egle, Ostheim, and Zohlnhöfer 2003). It illustrates how major social policy programmes

evolved over time and shows when patterns of cost-containment or consolidation were punctuated by reform-induced shifts in the structures of the programmes.

### **3.1 Germany as Prototype of the Bismarckian Welfare State**

#### Welfare State Principles

Esping-Andersen's seminal contribution to the conceptualization of the welfare state was his work on welfare state regimes (Esping-Andersen 1990), which has widely been used in the literature dealing with social policy change and reforms, assessing, for instance, 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 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, we will also point out why they are potentially linked to change resistance.

Firstly, the Continental or Bismarckian welfare state rests 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. This 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, which may pose legal and technical problems to retrenchment and reforms. In addition, trade unions, which represent contributors, may be expected to defend these benefits. Secondly, it is biased towards granting benefits to male breadwinners. The usually generous provision of benefits is geared towards ensuring the previous standard of living in cases of illness, old age and unemployment. Thirdly, this welfare state type exhibits a focus on familialism, i.e. its programmes and benefits are tailored to 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, belong to the state (e.g. the provision of public day care in Scandinavian welfare states), or are left to the market (e.g. the provision of private day care in Liberal welfare states). Such biases come at the expense of the availability of social care services such as they exist in Scandinavian

welfare states. 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 and Palier 2000).<sup>1</sup> It is to be noted that the first three characteristics are linked to the welfare regime type: ensuring living standards, putting a prime emphasis on the family as 'service provider' and maintaining differences of status according to occupation.

Fourthly, as Martin 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 (Siegel 2002; Palier 2002; Swank 2001). In turn, this diminishes the state's capacity to control social policy development, for instance, by adding actors who legitimately participate in debates about welfare state reform. In addition, the role for trade unions in the administration of social policy transfers grants them a *de facto* veto power against reforms (Myles and Pierson 2001). Concerning the German context, we see that 'intermediaries' – organizations that stand between the state and the individual beneficiary – characterize 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 corporatist-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 welfare states, the post-war German welfare state can be literally described as its prototype. During its 'Golden Era', that is, up to the mid-1970s, it exhibited fully the characteristics identified by Esping-Andersen. Through the course of its historic development (Bleses and 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.

Wage-earner centred implied two things: a social policy that applied more or less to male earners or breadwinners and an associated sphere of unpaid welfare services by married women. Moreover, the male breadwinner's mode of employment was the standard employment relationship, characterized by four assumptions: 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 (Muckenberger 1985 cited in Bleses and Seeleib-Kaiser 2004:18). From these assumptions, the wage-earner approach derives some rules concerning the entitlement to social benefits: the recipient must have been employed; they are based on the level of previous earnings; and, while receiving benefits, he or she should demonstrate his/her 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 remained at home for childcare) and employment is freely available (Bleses and Seeleib-Kaiser 2004: 18-19).

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 breadwinners ensured that women were generally responsible for childcare (although it did not exclude them from securing employment outside of the home), 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. This brief discussion of the wage-earner principle indicates 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, we now take a closer look at adjustment pressures and how these characteristics influence the reactions of Continental welfare states.

## 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 (ibid: 21). To recapitulate, the more specific sources of pressure 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 1996b). The combined effect of these developments has affected the standard employment relationship, the male breadwinner 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; we will discuss each of them in turn, focusing on endogenous sources of strain.<sup>2</sup>

Firstly, changes in family values and gender roles have resulted in a decline of 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, single parenthood, long-term unemployment, belonging to the 'working poor', or insufficient social security coverage. New risks tend to be concentrated among women, the young, and low-skilled workers (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 deindustrialisation, a growth of the service sector, new technologies; and flexibilization of employment that affected employment patterns, leading to fewer 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 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) which 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 and Wren 1998 in Pierson 1998: 544).

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 governmental use of revenues. Of these commitments, health care and pension schemes make up the largest proportion. Sizeable commitments also drive up unemployment because of upward pressure on the taxation of labour through increasing social policy contributions.<sup>3</sup> Also, the CDU/CSU-SPD Government took up the issue in its coalition agreement of fall 2005, striving to keep social contribution rates durably below 40 per cent.<sup>4</sup>

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.<sup>5</sup>

#### Reactions of Continental Welfare States to Pressures: '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 usually bring about unemployment and higher burdens on public budgets, tend to

threaten its basic workings. In the following, we 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 exacerbated or intensified other sorts of pressure and were not experienced by other countries.

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 1996b: 78-79). Gøsta 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’ (ibid: 80).

This inbuilt tendency towards self-destruction, to put it somewhat bluntly, has also been identified by other analysts. For instance, in discussing the Continental model, Fritz 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: 219-221).<sup>6</sup>

The ‘vicious cycle’ has also been described as a ‘pathological spiral of welfare without work’ (Hemerijck, Manow, and Van Kersbergen 2000). This involved a more distinctly political economy perspective, including the behaviour of firms in reaction to economic shocks.<sup>7</sup>

The above described patterns of ‘insider-outsider’ labour markets, ‘vicious cycles’ and ‘welfare without work’ indicate a general difficulty or

perhaps even an 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. Offering an alternative explanation for Germany's poor employment performance, Philip Manow and Eric 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 and Seils 2000).<sup>8</sup> 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 endangering 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.

### **3.2 Sources of Resilience: Political Institutions and Policy Legacies<sup>9</sup>**

#### The Political-Institutional Context

The German post-war constitution, the Basic Law of 1949, has contributed to democratic regime stability, democratic consensus and 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 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 compromise is possible, the status quo is preserved, thus increasing the risk of a reduction of the system's problem-solving capacity' (ibid: 371).

Various features of the German political system are relevant in this respect, and we 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 Constitution-

al Court, and corporatist procedures for interest mediation.<sup>10</sup> In essence, the existence of veto points may allow government decisions to be blocked by other political actors (Immergut 1992; Bonoli 2001).<sup>11</sup> In turn, the existence of (institutionally defined) veto points allows formal veto players to wield some influence on policy outcomes (Tsebelis 1995, 1999).<sup>12</sup> However, whether this will happen ultimately depends on certain conditions, for instance, whether formal veto players actually make use of blocking opportunities offered by veto points. Therefore, it is premature to conclude that veto players will always hinder decisions – as the literature often does – but also to take those conditions into account. Moreover, interest groups may try to form alliances with formal veto players or influence their policy preferences during a political reform process: if the former are successful, they may be considered ‘informal’ veto players (Swank 2001; Bonoli and Palier 2000), increasing the likelihood of influencing policy outcomes, either in the sense of blocking or expediting them.

In addition, the co-existence of two systems of regulation with different and potentially conflicting logics of action has increasingly produced blockades in policy-making. Fritz 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).<sup>13</sup> These conflicting logics manifest themselves in particular when there are indeed different majorities in the *Bundestag* and *Bundesrat* (most of the time in the 1990s and thereafter) and when the nature of policy proposals requires mandatory consenting legislation (necessitating *Bundesrat* approval).<sup>14</sup> 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).<sup>15</sup>

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 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 (Czada 2003; Döhler and Manow 1997).

Given the country’s array of institutional constraints on government activity, this fosters a sense of immobility, as Manfred 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 ‘policy immobilization’ or *Reformstau*. This is said to apply to social policy-making in particular, since another set of institutional obstacles reinforces the constraints posed by the political-institutional context.

### 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, we first turn to schemes for old-age provision.

#### 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 taxcredits for non-contributory periods (e.g. unemployment; education). Pension levels are generally indexed, traditionally in line with gross earnings, 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 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 2005b: 95-97).<sup>16</sup>

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 and Rüb 1993: 94-95).<sup>17</sup> 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 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 consent to this. 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 with other elements, such as capital-funded private or company pensions, tends to be politically delicate, as Chapter 5 on the Riester pension reform will illustrate. Technically speaking, in this type of social policy programme, path dependency relates to high switching costs from a PAYGO scheme to another manner of funding.

A second important institutional characteristic that fosters 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. This index reveals that pension systems with means-tested benefits have considerably fewer 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 and Pierson 2001). Accordingly, since German pension arrangements are certainly mature, legal and political obstacles to reform can also be expected from this source.

In addition to these strictly institutional sources of policy resilience, pension arrangements are 'sticky' because influential non-state actors defend them. This line of reasoning relates to the characteristic of corporatist relations that is present throughout the German welfare state (see Section 3.1). According to this argument, 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.<sup>18</sup>

#### 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 contributions (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.<sup>19</sup> Both benefits were administered by the Federal Employment Agency (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 BA 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 (Reissert 2005; Clasen 2005b, 1994).

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 institutionalization of such systems. For instance, Nico Siegel (2002) constructed an institutionalization 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) is 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 resilience. 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 and Manow 1995: 140 cited in: Schreyögg and 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 this right 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 partners, as they guard their autonomy and sources and mechanisms of influence in political decision-making processes. Institutionalized 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 and Farhauer 2004: 251).<sup>20</sup>

#### STATUTORY HEALTH CARE INSURANCE

The German health care system is dominated by the statutory health 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 range 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*, 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 and 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 and Farhauer 2004: 249).<sup>21</sup> The introduction of 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 to 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 (ibid).

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 this 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 and Manow 1995: 141).<sup>22</sup> 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*), as well as a bias of policy-makers towards their wishes. While the former two factors more generally help to shed light 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 (see also Chapter 4). 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 (ibid: 142-43).

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 (Weber 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 and Manow 1995: 144). Firstly, the FDP has been using its role as junior coalition partner to trans-

port and represent the interests of self-employed care providers, such as doctors (see Chapter 7 on health care reforms in the 1990s). 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* (ibid: 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 linkages between sector-specific actors with other societal stakeholders and the political and party systems.

### **3.3 How Have German Governments Responded to Pressures?**

This section reviews the answers policy-makers formulated in response to the pressures illustrated above. We will focus on the changes to the three main programmes, old-age pensions, unemployment insurance and health care, which are also at the core of the structural reform analyses in Chapters 4, 5 and 6. The question to ask is whether reforms (in the three programmes and in general) were more incremental or more comprehensive (and possibly structural) in character. Also, it provides information that could not be provided in the case study analyses, which zoom in on particular reform processes, and thus facilitates extra information to the reader wishing to become familiar with the general picture of German social policy development. The overview starts at the end of the ‘golden era’ of the welfare state and covers the periods of subsequent coalition governments. For each period, the general characteristics of each government’s social policy course are covered before summarizing the main policy changes in the main programmes, focusing on pieces of major reform legislation. Note that the main purpose of these summaries is to indicate overall policy trends and not to cover each reform in detail.

#### The SPD-FDP Coalition (1969-1982): Expansion and the Beginning of Consolidation<sup>23</sup>

From 1969 onwards, the new Social-Democrat-Liberal (SPD-FDP) coalition set the German welfare state on an expansionary course, which was part of a common reform plan backed by both parties.<sup>24</sup> 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 1972 pension reform (see for the main provisions Schmidt 2005: 94). This course of widening and deepening the welfare state was dealt 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 the 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, cost containment gained pace and during 1977 and 1981 it brought cuts in all major programmes: a time of consolidating social budgets in line with the levels of 1970 had begun.<sup>25</sup>

In September 1982, the coalition fell apart, not least because the positions of SPD and FDP on economic and social policy had become irreconcilable. This 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 this 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: this means that in times of high unemployment, measures were cut, only to be expanded again when the economy recovered (Bleses and Seeleib-Kaiser 2004: 51). Furthermore, programmes that promoted individual training (a part 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 tightening eligibility rules: this applied 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 and Seeleib-Kaiser 2004: 68-69).

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 the first 1977 cost-containment law, the Concerted Action in Health Care (*Konzertierte Aktion im Gesundheitswesen*) was established as a corporatist body of interest mediation designed to support the aims of this legislation (Döhler 1995: 387-388; Rosewitz and Webber 1990). This period also saw the first introduction of patients' co-payments for medical services.

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

The new CDU/CSU-FDP coalition led by Chancellor Kohl started its period in office with diagnosing 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, distinguishing two periods: firstly, from 1982 until 1990 the government could book successes, while from 1990 onwards, this policy encountered reactionary tendencies (2005: 100-103).

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.<sup>26</sup> To start with, the new government carried on with a restrictive social policy, while stepping up the pace of consolidation.<sup>27</sup> 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 social policy adjustments in other European countries (Schmidt 2005:11). However, there was a countermove-

ment 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. The reasons for this lay in the decision to fund reunification generously (while there was an underestimation of its costs), a rapidly rising unemployment rate and the set-up of a new social programme, long-term care insurance, in 1994.<sup>28</sup> 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.<sup>29</sup>

How were major programmes affected by the phases of consolidation and the intentions of restructuring? It is again convenient to distinguish two periods, one before and one following reunification. Starting with labour market policy, the 1980s were synonymous with 'selective cuts and targeted improvements' (Clasen 2005b: 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, this 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 (ibid: 65). Similarly, another selective trend concerned 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 and this had a downward effect on the labour supply. At the same time, active labour market policy covered more individuals without causing higher expenditures, as fewer funds were allocated to these programmes (Bleses and Seeleib-Kaiser 2004: 56).

In the period following reunification, firstly, selective cuts continued (cuts in labour market programmes; selective reductions in ALG [unemployment insurance benefit] and ALH [unemployment assistance] focusing on those without children; scaling back of ALH for claimants without prior receipt of ALG). Then, signalling a change in development, from 1995 onwards, two things happened: on the one hand, retrenchment gained speed (now even core 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 2005b: 69-70). Additionally, 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 and Seeleib-Kaiser 2004: 61).

With regard to developments in old-age pension arrangements in the same two periods before and after 1990, what can we observe? 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, this 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 2005b: 105-106). 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 cited in Clasen 2005b: 107).

The post-unification period was characterized by the breakdown of the traditional pension consensus between the major parties: this meant more cross-party conflicts over pension policy and an increase in the politicization of the pension issue. This new conflictive style culminated in the 1997 pension reform as a 'new and more far-reaching round of cutbacks and revenue enhancing changes' (Clasen 2005b: 111-112): this reform combined changes affecting the level of pensions, limiting early retirement options for disabled people, and the introduction of the '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, in several steps, all of which constituted incremental reforms, the Kohl 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 and Seeleib-Kaiser 2004: 75).

Finally, in the area of health care, we can distinguish at least two periods during the 'Kohl Era'. 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 and Gerlinger 2004: 247-248). During the 1980s, the early involvement of interest groups in reform processes foreclosed the changes in incentives for care providers, which had been on the policy agenda since 1985 (Bandelow and 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 Structural Health Care 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 and Gerlinger 2004: 249-250). While the GSG introduced the most far-reaching changes, and was still adopted in consensus between the two major German parties, from 1995 this 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 Era', the focal point of reforms switched from health care providers to the insured and, to some extent, to sickness funds (Brandhorst 2003: 213).

#### 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 approach as a 'neo-liberal tax and welfare state reform project' in order to secure Germany's status as an investment and industrial location (*Standort Deutschland*). 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, comparable with the immobility of the latter years of the Kohl Government. Since 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 that was to lower pension levels gradually, introduced by the 1998 reform), disability pensions; the deregulation of dismissals; cuts in sickness benefits; 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 of this 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) (ibid: 114-116).

What happened to the major programmes in this period? Let us firstly look at labour market policy. The Schröder Government continued and extended active labour market schemes as well as the differential treatment of the unemployed by benefit type in accordance with the two objectives of 'status adequate' reintegration and maintaining a sizable second labour market (i.e. subsidized public employment). In 2001, new legislation introduced stricter rules for job-search activities, profiling and reintegration contracts for unemployed persons (Clasen 2005b: 72-73). Following the 2002 Hartz proposals and the announcement of Schröder's reform programme *Agenda 2010*, 2003 saw 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, II and III (including for instance, organizational reforms of job centres and 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.<sup>30</sup> Regarding the guaranteed standard of living, Bleses and Seeleib-Kaiser note that active and passive labour market policies enacted during this period 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 continued them. Then again, 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 and Seeleib-Kaiser 2004: 66).<sup>31</sup>

Similar to 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<sup>32</sup> and then a structural reform, the Riester pension reform, which was discussed as early as 1999 and 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, the Riester pension plans. This novelty was path-breaking insofar 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: 116-118). 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 pension entitlements of those in higher education and starters as well as those wishing to retire early. Another reform containing measures with long-term effects was legislated in 2004 with the 'sustainability factor' (which incorporates the changing ratio between contributors and recipients into the pension formula), designed to influence future pension adjustments (ibid: 116-117). The reforms of the Red-Green coalition have been characterized as a 'partial privatization of the old-age and disability insurance system, minimizing its de commodification 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 and Seeleib-Kaiser 2004: 77).

In health care policy, the Red-Green coalition was committed to increasing efficiency by modernizing care provision structures and contractual relations between stakeholders: this should 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 characteristics 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 con-

trol price hikes by other means (see for details Hartmann 2003: 266-268). After 2003, the 2004 Health Care Modernization Act (GMG) and some subsequent reforms strengthened the pace of privatizing costs, but also introduced some innovations.<sup>33</sup>

#### The 'Grand Coalition' of CDU/CSU and SPD (2005 – 2009): Standstill or Giant Steps Forward?

Due to Chancellor Schröder's risky decision to solicit a renewed mandate of confidence by calling elections, the Red-Green coalition ended prematurely. In September 2005, the SPD lost to the CDU/CSU by a narrow margin and government formation along traditional party lines became difficult. After the eventual formation of a 'Grand Coalition' consisting of CDU/CSU and SPD, expectations ran high. This had to do with the fact that observers expected the coalition's majority in both chambers of Parliament to lead to numerable important reforms not tackled by past governments (when typically one of the main parties led the opposition and frequently obstructed or blocked reform attempts by the government). However, at the time of writing (spring 2009), the record of Chancellor Merkel and her cabinet members responsible for welfare state issues (Ministers of Labour and Social Affairs Müntefering [until November 2007], Olaf Scholz [November 2007 – present] and Minister of Health Care Ulla Schmidt) appears rather mixed.

In labour market policy, the government started to act upon the first comprehensive evaluations of the Hartz reforms and announced legislative adjustments of instruments that were perceived as either problematic or ineffective. In particular concerning unemployment insurance, a host of corrections of an earlier structural reform, Hartz IV, were adopted. In line with the coalition's pledge to lower labour costs, payroll contributions to unemployment insurance have been decreased twice, from 6.5 to 4.2 per cent in 2007 and again to 3.3 per cent in 2008. Another labour market issue has been dividing the coalition for a long time: the SPD fervently advocates the introduction of a universal minimum salary, but faces major objections by the CDU/CSU and business associations who fear a loss of competitiveness for businesses. While the SPD secured coalition approval for a minimum wage for postal workers and some other sectors in 2007, a subsequent administrative court ruling called the measure into question a few months later. Notwithstanding the uncompleted legal issues, the cabinet agreed to amend existing legislation (Posting of Workers Act) to stipulate even more sectors in which minimum wages are to apply.<sup>34</sup> In

October 2008, the corresponding legislative proposals had been brought before Parliament but their adoption is still pending.<sup>35</sup>

With regard to old-age pensions, the 'Grand Coalition' agenda has centred on the proposal to increase the legal pension age to 67 years which will be introduced over the years to come. Taken on the whole, pension policy under the Merkel Government has taken the shape of incremental measures – in entitlement rules, contribution financing and automatic benefit adjustments – with the common goal of securing the main pillar of provision, statutory pensions. Although these measures seem small in scale, they can be expected to have substantial effects in the long run by strengthening the financing base and reducing the level, and, indirectly, the average duration, of benefits.

In health care policy, the Merkel Government concluded a major reform of health care policy, which was 'inherited' by the previous government due to its premature ending. After struggling to accommodate considerable intra-coalitional differences, the reform proposal passed all parliamentary hurdles in early 2007 and came into effect in April 2007. The cornerstone of the reform, a general health care fund to redistribute contributions between all sickness funds, was implemented with extra state funding in 2009. The latter implied nothing less than a structural shift in health care financing. However, the introduction of the fund brought a rise in contribution rates for most sickness fund members: in October 2008, the coalition approved a recommendation from an expert panel advising them to set the new universal contribution rate at 15.5 per cent (compared to an average rate of 14.9 per cent in 2008). That decision directly played a role in lowering unemployment insurance contributions, as previously mentioned, in order to keep the coalition's pledge about lowering overall labour costs.<sup>36</sup> In contrast to the developments in health care, a comprehensive reform of long-term care insurance to address its deficit problems – as announced in the coalition agreement – has not been forthcoming. This is not to say that the coalition has avoided the issue altogether. In March 2008, the *Bundestag* adopted a reform package that raised wage contributions for long-term care by 0.25 per cent (to 1.95 per cent) and included dementia patients in the insurance scheme for the first time.<sup>37</sup> Critics, however, objected that the measures taken do not make the scheme more sustainable in the long term and fail to align the supply of care services to the rising demand.<sup>38</sup>

In sum, given the extent of substantial party-political disagreements between CDU/CSU and SPD, the Merkel Government's record on social policy has fallen short of the great expectations that were voiced at its be-

ginning. Despite the ongoing quarrelling between the coalition parties, a number of initiatives that complement reforms of earlier cabinets have been passed, while substantial changes have been implemented, most notably in health care. In addition, the 'Grand Coalition' has certainly moved forward the recalibration of another policy area, family policy (see Chapter 7).

### **3.4 General Patterns of Change in Major Programmes**

We can now distill some general patterns of change that could be observed since the early 1970s. Labour market policy, and especially unemployment protection has undergone 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 first saw 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 focused 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 had experienced some reforms that went beyond these measures, introducing an element of activation (and thus recommodification) and changing 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 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 continuing cost containment, the burdens of which are increasingly borne by patients instead of care providers. 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. This characteristic makes agreement on structural reforms more difficult than in other social policy domains.

### **3.5 Conclusion**

This chapter has illuminated the institutional context of the German welfare state given the commonplace argument about its high degree of resilience. First, we have identified its underlying principles of wage-centred social insurance, guarantee of former living standards, familialism, as well as corporatist relations, indicating how each of them tends to inhibit change. A closer look at the German wage-earner approach revealed that a dual focus on income-based contributions and male breadwinners make it vulnerable to contemporary socio-economic and demographic pressures that undermine the welfare state's financing base. Next, analysing the impact of endogenous pressure on welfare states (value-based, socio-economic, and demographic), we found that pension and health care schemes (through ageing effects and decreases in the amount of employment) are likely to be hit hardest, followed by unemployment schemes (through socio-economic changes and sluggish growth). All of this is linked to the limited capacity of Bismarckian welfare states to react to economic shocks, as their adjustment patterns tend to have adverse effects on labour markets and employment. Here, Germany in particular reportedly employed social policy as a shock absorber and thus as a means to solve economic and financial problems.

Furthermore, the various types of structures which are commonly held responsible for policy immobility have been examined. These included the political-institutional context of the fragmented German political system, wherein 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 complex undertaking with plenty of opportunities for derailing reform processes. Another important source of resilience has also been identified in welfare state 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 features 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.

Following these two surveys, we have summarized the answers of successive German governments when confronted with adjustment pressures, resulting in mostly step-based and more rarely structural reforms. As for old-age pensions and unemployment protection, general patterns of cost containment and a 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, we 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 1990s. 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.

This review of the institutional principles and obstacles typifying the German welfare state edifice confirms the essence of arguments given in historical institutionalism and regime theory as regards policy stability. The latter provides ample grounds for claiming that Germany is hardly

capable of adopting significant change. However, German social policy development provides us with two contrasting observations. On the one hand, most changes to major programmes to date have been incremental and often related to cost containment rather than restructuring. On the other, mounting pressures of the sort bearing upon all contemporary welfare states, and the extraordinary burden of reunification have, more recently, translated into significant reforms. This observation begs the question under what conditions institutional obstacles cease to block reform efforts. All in all, the evidence suggests that German social policy-makers have done more to cut back costs of social benefits and services (by restricting access and cutting benefit levels) than engaging in comprehensive reform. However, they have sometimes pushed through genuine structural policy shifts, albeit only towards the end of the century. In the chapters that follow, we will show that ideational leadership, as described in Chapter 2, has helped to overcome the many sources of resilience and to allow for the adoption of those structural reforms.

## 4 Transformation of Health Care Policy? The Legacy of Minister Seehofer

‘In the short term, I will try a radical expense-cutting strategy to create a reprieve. At the same time we are initiating structural reforms in order to address the core of the problem, for instance, with hospitals and the number of physicians. But even this will not result in a long-term solution. We need to use our time to renew the statutory health insurance for the coming century.’

(Minister SEEHOFER in an interview  
with *DER SPIEGEL*, 3 August 1992)

Our first case study turns to a policy area which as early as the 1990s experienced important changes: health care. While other areas of the welfare state were still adjusted in incremental steps, Minister of Health Horst Seehofer, the central actor in our analysis, brought a number of reforms into being that had the potential to change the structures and principles of health care provision. Seehofer, a member of the Christian Democratic sister party CSU, served as Minister in the last two cabinets under Chancellor Kohl between 1992 and 1998. His career in the party ranks of the Bavarian CSU led him slowly but steadily to the post of State Secretary under Minister of Labour and Social Affairs Blüm. Working with Blüm in preparing the ill-fated 1989 Health Reform Act, he quickly learned about the many pitfalls of reforming the sector’s structures with its notorious lobby groups. By the time he was appointed as Minister of Health, high hopes were set on Seehofer, not least by Chancellor Kohl himself. During his following six years in office, he acquired a reputation for forcefully tackling the mounting problems in a sector plagued by powerful interests.<sup>1</sup>

Our analysis starts with a sketch of German statutory health insurance including its actors, and the situation of the health care sector at the beginning of the 1990s. We then take a closer look at Seehofer’s major reform projects: the 1992 Structural Health Care Act (*Gesund-*

heitsstrukturgesetz, GSG) and the 1997 Structural Reorganization Acts (1./2.GKV-Neuordnungsgesetz, GKV-NOG). For each reform, we discuss the main changes and recount the reform process and its political context, focusing particularly on the role played by the minister. Both analyses end with an evaluation of whether the reforms truly entailed structural changes. The conclusion compares Seehofer's performance in the two processes and addresses the analytical goal of the chapter, the question whether a presumed ideational leader also succeeded in adopting structural reforms.<sup>2</sup>

#### 4.1 A Sketch of Statutory Health Insurance in the Early 1990s

Table 4.1 provides a summary of the main actors that are present in the three structures of the statutory health insurance (SHI).

**Table 4.1 Organization Structural Health Insurance (SHI)**

<b>Structure</b>	<b>Actors</b>
<b>Financing</b>	<p><i>Employers and employees</i></p> <ul style="list-style-type: none"> <li>– finance payroll contributions 50%/50%, including coverage of children; solidarity principle: contribution as percentage of gross wage up to statutory wage ceiling</li> </ul> <p><i>Sickness funds</i></p> <ul style="list-style-type: none"> <li>– organized on the lines of occupational groups; primary and substitute funds, administration of funds; redistribution of insured risks via risk compensation scheme across funds</li> </ul>
<b>Care provision (ambulant and stationary)</b>	<p><i>Physicians represented by:</i></p> <ul style="list-style-type: none"> <li>– Associations of Sickness Fund Physicians (Kassenärztliche Vereinigungen, KVs) and its peak organization (Kassenärztliche Bundesvereinigung, KBV)</li> <li>– Federal Chamber of Physicians (Bundesärztekammer): obligatory membership, representation vis-à-vis the state</li> <li>– Hartmannbund/Marburger Bund: associations with voluntary membership; visible in protests and during negotiations of collective agreements, no formalized influence on state policy-making</li> </ul> <p><i>Hospitals (administered by religious organizations, municipalities, regional bodies, private investors)</i></p> <ul style="list-style-type: none"> <li>– German Association of Hospitals (Deutsche Krankenhausgesellschaft, DKG) and its regional branches in the Länder</li> </ul>

*Pharmacists*

- pharmacists' chambers (Apothekerkammern), Federal Association of German Pharmacists (Bundesvereinigung Deutscher Apothekerverbände): little formal involvement in health politics and institutionalized arenas of consultation and negotiation
- 

**Regulation**

*State*

- regulation of sickness funds; providers and SHI (contributions, income ceiling, benefit package, terms of cooperation between physicians and sickness funds; implements frame legislation by means of

*Institutions of self-governance*

- KVs and sickness funds implement state measures through agreements or collective bargaining; state reserves right to suspend this mechanism in case of no compliance
- 

### Problems of the Sector in the Early 1990s

The development of German statutory health insurance seems to be a continuous story of inevitably rising costs and political efforts to contain them. Since the mid-1970s, policy-makers have seen the aim of cost containment in the SHI as their most important endeavour, irrespective of the composition of the governing coalition (Gerlinger 2003: 6). Exploding costs of medical treatments and pharmaceuticals soon caused sickness funds' contribution rates to rise and, in turn, increased payroll contributions of employees and non-wage labour costs of employers. The last reform before the period considered (1992-1998), the 1988 Health Care Reform Act (GRG) enacted under Minister Norbert Blüm, was the first to take up the goal of stabilizing contribution rates (*Beitragssatzstabilität*). Imposing this principle as a condition for all contracts in the health care system was a novelty, adding to the already existing goal of cost containment (Schneider 1991 in Giaimo 2002: 107). However, the measures adopted in this originally ambitious, but later on substantially watered-down law (Webber 1989), did not offer relief for long. Although contribution rates had decreased initially in 1990, by the end of 1992, they were up again at over 13 per cent (from 12.2 per cent in early 1991), as health expenditures of all sorts had increased considerably. Sickness funds were forced to adjust contribution rates in order to balance their budgets. These increases in expenditures and contributions were related to the structural characteristics and incentives built into the system existing before the 1990s. These were designed in a way to keep the volume

of health care provision expanding or, at least, not to encourage actors to restrict the supply, financing, or effective use of services (Gerlinger 2003). In this sense, the traditional policy of containing health care costs was faced with a trade-off: on the one hand, it set the goal of stabilizing contribution rates and controlling expenditure; on the other, it offered various financial incentives for providers to increase their expenditure and thus their health care costs.<sup>3</sup> Therefore, the problem of rising costs was intertwined with the existing structures governing the care provision and financing of health care, and any substantial reform effort had to tackle the two problems together. While the concerns about exploding costs were in themselves a sufficient reason for the government to start thinking about another reform, other economic and political considerations also troubled the newly re-elected Kohl Government. In the wake of reunification, extra burdens on employees were already high with the income tax surcharge (*Solidaritätszuschlag*) on incomes; thus, another increase in health insurance contributions was not particularly welcome. Employers, an important CDU constituency, were already complaining of competitiveness problems due to rising non-wage labour costs. Equally, pensioners, also an important clientele for the ruling CDU, would particularly suffer from further increases, since a recent pension reform had actually lowered pension levels. The concerns of these two groups were taken seriously by policy-makers, not least because in 1994, a series of elections were on the agenda. Faced with a total of fourteen elections, including local, *Länder* and European ones, and a federal election in the autumn, the government decided that controlling non-wage labour costs, and thus social expenditure, should take priority, as part of a programme to improve the economic situation, in order to avoid electoral losses (Giaino 2002: 112). In turn, this choice made it necessary, amongst other measures, to take rapid steps in order to curb health care costs.

#### **4.2 The 1992 Structural Health Care Reform Act**

##### Reform Goals and Measures

Seehofer's first major legislative project consisted of a whole package of provisions that clearly aimed at cutting costs and stabilising contribution rates to the SHI. The goals cited in the bill were directly linked to the cost explosion in the health care sector:

The dramatic cost development in all areas of the statutory health insurance necessitates short-term cost containment and structural reforms, which are to be effective in the long term. This Structural Health Care Act and the Law Amending the 5<sup>th</sup> Social Law Code are supposed to effect instant cost-savings and contribute, through structural measures, to a stabilization of contribution rates. As a result, the financial viability of the statutory health insurance will be ensured beyond the year 2000. Both bills distribute the burdens fairly over all parties involved.<sup>4</sup>

These goals were to be achieved through a range of short-term measures designed to tighten control over the budgets of several health care stakeholders. These measures were aimed at providers, insurers and patients alike, with care providers bearing the bulk of the desired cost savings. Hospitals faced strict budgets for the period 1993-1995 as well as new reimbursement arrangements; physicians working for the statutory insurance became subject to global prescription drug budgets for the same period; and dentists' medical fees were to be decreased by 20 per cent. Moreover, medicine expenditure paid by SHI would be subject to annual budgets and the pharmaceutical industry had to accept a price freeze for certain categories of medicines. Patients also had to contribute their share, as co-payments for medicine and stays in hospital were increased moderately, continuing in line with the 1988 GRG, but avoiding undue hardship for weaker groups in society.

Most remarkably, the rules on sickness fund membership were to be relaxed from 1996 onwards, resulting in a virtually free choice of sickness fund for the insured. As a complementary measure, a financial risk-adjustment scheme was introduced, obliging funds with wealthier and healthier members to make transfers to poorer funds in order to introduce more equity into the heterogeneous sickness fund landscape (Arbeitnehmerkammer Bremen 2005; Giaimo 2002: 114-117). From a regulation perspective, the reform meant a 'particular mix of state intervention, market innovation, and continued corporatist self-governance', as it stood for state intrusion in sectoral self-governance; controlling the cost of medicine; extending joint tasks under corporatism; hospital reform; market mechanisms to enhance solidarity and efficiency; and an increase in patients' co-payments (Giaimo 2002: 114-117).

The crucial strength of the GSG was that, in the short term, it did indeed achieve a reduction of health expenditures and it spread the burdens of such cost containment equally among service providers (interview with BMG official, 27 January 2006). In addition, the idea to change the role of

sickness funds from being mere administrators into more pro-active and competitive organizations and to create a redistributive mechanism (in accordance with a redistributive health care system), were politically convincing and came at a time when sickness funds themselves were thinking about organizational changes (interview with health care policy expert, 9 February 2006).

### The Reform Process

Horst Seehofer entered office on 6 May 1992, taking over from Gerda Hasselfeldt, who had resigned at the end of April. She was generally seen as a weak minister who was not up to her task. Minister Seehofer did not wait long before he embarked on his first reform project, making use of initiatives that had been developed within the Ministry and by the CDU parliamentary group (Perschke-Hartmann 1994: 258). In mid-May, he assembled the coalition's social policy experts and some Ministry officials, retreating for extended consultations lasting several weeks. From there, things proceeded quickly and the Ministry draft bill (*Referentenentwurf*) was approved by the Cabinet in August (ibid: 259). After that, Seehofer explored ways of winning the SPD parliamentary group for a 'Grand Coalition' on the issue of health care reform. After he had received signs that the SPD was willing to compromise, he sought and received approval for his approach from the relevant chairmen of the coalition parties (Kohl and Waigel for the CDU/CSU, Kinkel for the FDP). Then, he convened talks between the governing coalition and a negotiating commission consisting of representatives of the *Länder* and the SPD parliamentary group in the town of Bad Lahnstein. In order to put extra pressure on those participating, the starting date was 1 October and the end date 4 October, leaving the negotiators only three full days to find the contours of an agreement (interview former SPD MP, 24 January 2006). During the Lahnstein talks, Seehofer's initial concept was complemented by new elements, such as the organizational reform of sickness funds leading to a risk compensation scheme (*Risikostrukturausgleich*). This occurred by way of a compromise with the SPD's negotiation leader and vice-chairman of the parliamentary party, Rudolf Dressler. While Seehofer had tried to involve interest groups in the main round of the negotiations, the SPD had blocked this endeavour. As a consequence, Seehofer only met with representatives of health care stakeholders before and during breaks between the main negotiation rounds (Perschke-Hartmann 1994: 260). At the end of the Lahnstein talks, both parties presented core points for the reform,

and continued to discuss remaining contentious points, in a meeting with the personal participation of the Minister. In this fashion, a new draft bill was produced and presented to the *Bundestag* in November, where the parliamentary proceedings went relatively smoothly.<sup>5</sup> With regard to the public expert hearings in parliament, the view of the pharmaceutical industry was exemplary for the way the Ministry dealt with interest groups in this process. Hardly any viewpoints suggested in the hearings, either by experts, or by physicians or pharmacists, entered the draft bill, which, according to these groups, questioned the value of such hearings (interview representative VfA, 15 November 2005). Indeed, the public hearings in the *Bundestag* of experts and interest groups brought few changes to the draft bill (Reiners 1993: 27). All in all, the GSG was concluded with great speed, as Table 4.2 illustrates:

**Table 4.2** Chronology of the GSG (BT= Bundestag, BR= Bundesrat)

Date	Event
2 June 1992	Announcement results from Ministry talks
14 July	Ministry draft bill
12 August	Cabinet decision on bill
1 – 4 October	Lahnstein talks with SPD
5 November	New draft bill in BT
9 December	2 <sup>nd</sup> reading bill in BT and adoption
18 December	BR approves bill
1 January 1993	GSG comes into effect

### The Politics of the GSG

The literature describes the process leading up to the GSG as well as the outcome as ‘exceptional’ compared to earlier reforms (Hinrichs 1994; Giaimo and Manow 1999; Brandhorst 2003). The GSG has been associated with ‘a break from the politics of inclusion’, referring to the successful strategy of excluding health care stakeholders from the process of policy formulation (Giaimo 2002: 111 ff.). Furthermore, it has been described as effecting a re-direction of policy (*Weichenstellung*), although this did not mean the end of reforms in the health care sector (Reiners 1993: 43). If one recognizes that the GSG indeed broke with the past in many respects, it is instructive to investigate the reasons for this. The secondary literature on the GSG, as well as evidence from interview accounts, suggests three factors.

First of all, the extra-parliamentary agreement between the coalition and the SPD is considered to be the main reason why the GSG could eventually succeed. Although the pact between the two sides was officially justified by the need to muster a *Länder* majority in the *Bundesrat*, there was also another reason, as Perschke-Hartmann (1994) has noted. The cross-party agreement offered a unique possibility for balancing contrary positions: measures for the organizational reform of sickness funds could be adopted – thanks to SPD backing – across coalitional party lines. As a SPD participant of the Lahnstein talks confirmed, Seehofer knew that he needed to get the SPD-led *Länder* on board in order to secure both agreement in the *Bundesrat*, and to convince the CDU/CSU and FDP parliamentary parties to participate (interview former SPD MP, 24 January 2006). As a matter of fact, Seehofer himself took the opportunity to invite the opposition to join in consensus talks with the coalition, referring to earlier pacts:

Ladies and Gentlemen, since we need approval for this law, and since we are dealing with a complex and serious issue, I would like to invite the SPD and the *Länder* – on behalf of the coalition. I also ask you not to misinterpret this offer. Neither are there coalition-specific tactical motivations behind it nor do we have the intention of pitting partners against each other. I think if one needs approval, it is wise to seek talks as early as possible, but not only because of the need for approval. Since other reforms (labour promotion statute, pension reform and extension of pensions to the new *Länder*) have been concluded in a cross-party agreement, it would be good if we could replicate this in the difficult area of health care and statutory health care insurance. I invite everyone involved to do so.<sup>6</sup>

Cross-party cooperation also gave the Minister a strong weapon against interest group protest, especially with a view to the fierce resistance of physicians and dentists. Seehofer could, in the face of their demands to change the reform concept, refer to even more radical SPD concepts concerning measures for care providers (Perschke-Hartmann 1994). From the Ministry's perspective, the overall criticism of interest groups could be borne much more easily, as a result of the cross-party agreement, than without it (interview with BMG official, 27 January 2006). In theoretical terms, this factor can be seen as a consequence of Seehofer's willingness to engage in consensus-building efforts with a view to bringing his reform plans to a successful conclusion: this is one aspect of ideational leadership which justifies Seehofer's selection as presumed ideational leader. We will

return to this in the context of the Minister's political style and personal characteristics below.

The GSG also owed its adoption to a new approach in the Ministry's dealings with health care stakeholders (apart from the possibilities offered by cross-party cooperation just mentioned), coupled with certain procedural choices. In fact, the reform broke with a tradition of dealing with interest groups that dated back to Chancellor Konrad Adenauer (interview policy analyst, 10 November 2005). From Seehofer's perspective, this change of approach was absolutely vital in avoiding the mistakes made in previous reform processes, as can be seen from the experience of his predecessor, Minister Blüm, in working out the 1988 GRG (Webber 1989). That reform had seriously been watered down in the process, because the Ministry allowed interest groups to influence crucially both the concept and the process of implementation. In the run-up to the GSG, however, Seehofer distanced himself from interest groups, especially towards doctors' and dentists' associations, allowing them at best a role on the sideline. With the cross-party agreement in place, the traditional representative of the professions, the FDP, had been forced into the defensive, which meant that this channel of influence was effectively blocked for interest groups. Traditionally being the voice of the self-employed and the professions, FDP parliamentarians had openly been referred to as the '46 helpers in times of need' by physicians (interview DKG representative, 22 November 2005). In 1992, the situation had changed, as the former KBV chair phrased it: 'Reform critics thus had no partner left in the political arena, not even the FDP. We were powerless; no longer having political allies' (interview former KBV chair, 16 November 2005). The pharmaceutical industry also found itself in a defensive position. More specifically, at the time it was portrayed as the perfect 'cash cow', while its influence on health policy formulation tended to be grossly overstated (interview representative VfA, 15 November 2005). Finally, the dealings of Seehofer with the German Hospital Association (DKG) were symptomatic of the new approach towards interest groups. At a biannual meeting of the advisory group *Konzertierte Aktion für das Gesundheitswesen*, he took the opportunity to criticize the DKG heavily for the extreme expenditure growth of its members (interview DKG representative, 22 November 2005). Furthermore, this new approach also meant a new form of negotiation with interest groups, as the room for negotiation was now defined by the government unilaterally and not by both sides together, as had previously been the case (Perschke-Hartmann 1994: 263).

Besides distancing himself from interest groups and closing off their lobbying efforts, some procedural factors helped Seehofer to achieve a

breakthrough: among them were the choice for a rapid drafting of the bill, and the choice to enter into extra-parliamentary negotiations with the SPD, even though the legislative process had already started. After July 1992, when parliamentary proceedings and parallel negotiations with the opposition were taking place, interest groups found it hard to follow the details under discussion and also to intervene. Possibly, this parallel process was even set up intentionally to confuse and keep health care stakeholders at bay (Reiners 1993:26). With regard to the course and the openness of the reform process, it seemed that policy-makers were anxious to avoid all errors committed during the reform process of the GRG. When interpreted in this manner, a different course of action, based on learning processes, contributed to the conclusion of the GSG.

Furthermore, an increase in pressures from financial and economic problems certainly contributed to the conclusion of the reform. The main sources of this pressure were, first, an increasing political intolerance to rising contribution rates, which, in turn, increased non-wage labour costs with adverse effects for the competitiveness of business and the economy as a whole. Second, the financial burdens of reunification, and the effects of competition expected after the finalization of the Single Market within the EU, exacerbated fears of an economic downturn. Finally, there were spill-over effects from other policy areas: the threat of increasing contribution rates for pensions would bring extra burdens on pensioners (and was considered an electoral risk), and an additional increase in health contributions was seen as unacceptable (Giaino 2002: 111). While these developments worried policy-makers, on the other hand, they strengthened the political determination of the partners in the informal coalition, decreasing their sensitivity to interest groups' demands and their readiness to make substantive concessions (Perschke-Hartmann 1994: 261-262). In addition, and turning to the reasons for including organizational aspects of sickness funds in the GSG, Seehofer understood the urgent need to reform the sickness fund sector. At the time, it included over 1200 individual funds with sometimes considerable differences (up to 10 per cent) in contribution rates (interview former SPD MP, 24 January 2006). This fragmentation created an overhead of administrative costs and implied substantial inequalities for the insured.

The fact that pressure was mounting from different sources provided a sufficient motive to begin without delay the drafting of a reform bill (interviews with policy analysts, 10 November 2005 and 11 November 2005). In addition, from the Minister's perspective, the fact that the political success of Ministers of Health is linked to their ability to stabilize contribution rates was also a

crucial incentive to act (interview with BMG official, 27 January 2006). This view was reinforced by Seehofer himself who, on different occasions, took the opportunity of presenting several indicators of economic and financial pressure as sufficient motivation to tackle reforms immediately:

The situation is not only serious. I say this deliberately: the situation is dramatic. We booked a deficit of 5.5 billion marks in 1991 and this year we expect a deficit of at least 10 billion marks. The expenditure rises which were 10 per cent in 1991 and twice as high as the rises in contributions, have been gaining momentum in the first quarter of 1992 (...) Ladies and gentlemen, this is a dramatic situation. Not to engage with it and failing to act would be simply irresponsible.<sup>7</sup>

Record-breaking contribution rates in the old *Länder*, record-breaking deficits in the history of social insurance in the health care sector and deficits in the new *Länder* – there can only be one answer to this: we cannot allow this to continue. In this situation we do not need red cards, colourful posters or noisy conferences. What we need is the willingness to act. This coalition has the courage to do so.<sup>8</sup>

Seehofer's personal concern about such pressures, which he saw as an incentive to improve on the status quo situation, may be interpreted as an indication of another aspect of IL, the concern with exposing policy failure. At the same time, the Minister never pleaded for the abolishment of the SHI, but rather for its adaptation, guarding the principle of solidarity but introducing a principle of contribution stability or expenditure-centred policy (assuming that SHI expenditures need to be covered by its income from contributions). Finally, the fact that there had been a change at the top of the Ministry, leading to a change in political style, was a last but crucial factor in influencing the adoption of the GSG.

### **4.3 Seehofer's Role: A Minister 'Taking on the Sharks'<sup>9</sup>**

From the previous discussion we saw that Seehofer contributed personally to each factor that facilitated the reform process. In what follows, we argue that at least two of the factors identified above were intertwined with his personal determination and commitment: the new approach towards interest groups and the cross-party agreement. The fact that the Minister was determined to shape the reform process in crucial ways did

not only depend on his personal qualities, but was also due to a political learning process related to his previous experience as Parliamentary State Secretary under Minister Blüm (interview with policy analyst, 11 November 2005). Blüm had been notorious for his conflictual but permissive relationship with interest groups, which contributed to the failure of his proclaimed 'reform of the century', the 1988 GRG. Seehofer represented a break from his predecessor's political style and practices, as he seemed determined at all costs to avoid a repetition of the errors made. At the first reading of the GSG in parliament, Seehofer referred to a remark of a representative of physicians, who had allegedly proclaimed 'we physicians want our Norbert Blüm back'. By this, the Minister implied that from the perspective of physicians (who had just begun to protest against the GSG), Blüm, in retrospect, appeared to be the lesser of the two evils.<sup>10</sup>

The first aspect of his role relates to how Seehofer dealt with interest groups. As one policy expert noted:

Initially, I was surprised at how Seehofer freed himself from the pressure of interest groups. He literally stood there as a rock, presented his reform concept and made it clear that this reform was a task for the whole of society and especially those making money in the system.(...) For someone with a CSU background – who can be expected to be care provider-friendly – this was very remarkable (interview health policy expert, 9 February 2006).

Seehofer's boldness in dealing with interest groups, and particularly with representatives of care providers, was both infamous and effective, as two examples will illustrate. Apparently, the Minister publicly stated that physicians had agreed to new budgeting rules while he had merely consulted a leading KBV representative on various options of implementing these budgets (interview former KBV chair, 16 November 2005). Another interest group, the representative of hospitals DKG, found itself confronted with Seehofer's 'carrot and stick' methods: they had the choice either to implement the proposed changes to hospital remuneration voluntarily, or their association would be converted into a body of public law, which would effectively oblige them to implement whatever the legislature required (interview DKG representative, 22 November 2005).

One of Seehofer's personal characteristics that became relevant in dealing with interest groups was that he never seemed to be afraid of confrontation, but he wanted it to be fair, observing rules of mutual respect and decency. He 'kept appearing at events of interest groups, not shying

away from confronting his critics' (interview policy analyst, 11 November 2005). For instance, when he was faced with a large dentists' strike in the Rhineland region, the Minister did not seem to be impressed. Reportedly, his reaction was to turn up the pressure on care providers to save money: 'I am going to make them all carry out their duties.' Exactly the same statement he had made shortly after his inauguration as Minister in June 1992, underlining his determination from the start.<sup>11</sup> In addition, he was well informed about his opponents' arguments and knew how to enter into a dialogue with those affected by the reform. In this way, they would feel taken seriously, even if Seehofer finally did not accept their arguments (interview CDU/CSU parliamentary party employee, 23 January 2006). From the opposition's perspective, he 'displayed a tendency towards populism that certainly earned him the admiration of journalists' but, at the same time, 'he possessed what politicians need and what earns them respect: competence and courage to confront political opponents' (interview former SPD MP, 23 January 2006). Notwithstanding his sometimes confrontational style, 'he kept justifying his plans, showing interest groups where their limits were, often under loud disapproval of those present' (interview policy analyst, 23 November 2005). That he had acquired the nickname 'most-hated minister' did not stop him from patiently making his case for the proposals over and over again. Furthermore, he resorted to the practice of 'naming and shaming': in reaction to the exaggerated campaigns of doctors and pharmacists against the GSG's provisions, he urged health care stakeholders participating in the process to stick to the truth and to stop defaming political actors in the course of a democratic process of opinion-forming. He also reminded these actors of their special responsibility to those in need of medical attention:

Notwithstanding the need to confront each other with arguments, and despite our ongoing dispute, which will continue in the weeks to come, I am calling upon doctors: beware of getting patients involved in the confrontation! (...) I want to appeal to your sense of responsibility. Think of the fears you are spreading amongst patients if you circulate such information [about supposed restrictions on necessary treatments due to the reform], despite knowing better or because of ignorance (Seehofer, 9 December 1992, 10947).<sup>12</sup>

From the way in which Seehofer approached lobbyists and health care stakeholders, we can deduce both a determination to change the policy

status quo, at least as far as the relationship with interest representatives was concerned, and to engage with the resistance of reform opponents.

The Minister combined this open but firm approach towards health care stakeholders with other personal qualities that were useful for keeping the reform out of trouble, and which underscored his ability to promote and legitimize reforms. His personal credentials include a reputation of expert knowledge coupled with self-confidence and an ability to persuade people and to create public acceptance for policy proposals. The mix of professional competence, charm and openness in dealing with interest groups contributed to his good reputation in health care circles, and helped him to continue working as social policy specialist for the CDU/CSU parliamentary party after leaving office in 1998 (interview with CDU/CSU parliamentary party employee, 23 January 2006). His professional competence also owed much to his closest aides in the Ministry, in particular those heading the relevant departments, who strongly supported him (interview with health policy expert, 9 February 2006). The Minister's knowledge and competence surely helped him in coming up with a coherent pattern of argumentation to legitimize the GSG, as is to be expected from a politician who exhibits IL. Seehofer indeed made clear the overall goal of the health care system, defined goals of the reform (and explained its connections with the contents of the reform), and explained why the reform was also acceptable in normative terms:

I stick to my argument: we Germans can count on a qualitatively high-grade health care system; I even think the best one in the world (...) Ladies and gentlemen, I want to maintain the quality of our statutory health insurance and health care sector for everyone. This is what this reform intends to do, by securing the functioning, the quality, and the financial sustainability of the SHI.<sup>13</sup>

The Minister also argued that 'it is possible to reduce an undesirable quantitative extension of health care provision, that is, inefficiencies in health care policy, without harming the necessary and high quality health care provision for German citizens'. In order to ensure the goal of maintaining high-quality health care, avoiding the future rationing of services, a necessary precondition was to make sure that 'the SHI is also capable of financing the protection it promises to those it insures. This is why we do not take anything away from it, but secure the financial basis of the scheme. This is the underlying political goal'.<sup>14</sup> In addition, this meant to tackle its underlying structures:

Since in these days we see attempts to confuse parliamentarians on questions of detail in order to create confusion and insecurity, I would rather stress again the two main elements of the reform (...). Ladies and gentlemen, it is now of utmost importance that politicians find the strength not only to stop expenditure rises but also to change structures. Politicians must go directly to the root of the problems.<sup>15</sup>

As for the first cornerstone of the GSG, immediate curbs on expenditure rises in order to stop contribution rates increasing even further, Seehofer made a threefold argument against contribution rises, labelling them as ‘wrong in terms of health policy’ (inviting inefficiency and wastefulness), ‘economically dangerous’ (raising non-wage labour costs and endangering jobs) and ‘socially unjust’ (burdening contribution payers).<sup>16</sup> By adding this last aspect, Seehofer also linked normative considerations to the goal of achieving immediate savings, which he explained as follows:

I consider a health care system as unjust if we, on the one hand, spend billions on inefficiencies and an undesirable expansion of health care services, and on the other hand lack the necessary funds for great social policy challenges. I think politicians have an ethical obligation to redirect funds from the sources of wastefulness towards other tasks, where these funds are necessary for people in need, e.g. those dependent on long-term care.<sup>17</sup>

Another important normative argument in justifying the shape of the final reform concerned a fair distribution of the burdens implied by the reform:

I think that in the present political situation we have a common political obligation (extending beyond the SHI), to do our best to share as far as possible the burdens of unavoidable savings programmes. I think we have succeeded here in doing so, as care providers bear three-quarters and patients and insured one quarter of the savings.<sup>18</sup>

The previous selection from Seehofer’s argumentation in favour of the GSG makes it clear that he was able to come up with a discourse explaining why the reform was necessary, and to what extent it was also acceptable in normative terms.

With respect to the gathering of necessary support for his reform proposal, another personal quality became important: Seehofer surely had the ability to perceive and exploit chances that were presented along the

way. Although being faced with substantial pressure, he knew how to capitalize on it, enabling him to open up and use a window of opportunity, namely to embark on the reform with the opposition on board. One interviewee put it this way:

He had the ability to sense what had to be done in the SHI and took up proposals from critically thinking institutions, which was a courageous step forward. Then, he succeeded in convincing people that these proposals were correct in the sense of improving the sustainability and future position of the SHI (interview health policy expert, 9 February 2006).

Most importantly, it was his recognizing the chances for concluding a cross-party agreement that made him approach the SPD, and in SPD social policy expert Rudolf Dressler he found a like-minded partner: 'Seehofer knew how to keep party-political divisions open for consensus in negotiations – and keep them committed to common problem-solving, the task at hand' (Perschke-Hartmann 1994: 264). Prior to the Lahnstein meeting, both Seehofer and Dressler capitalized on the constructive political climate, making use of the power of persuasion (associated with professional competence), and the chemistry between them as chief negotiators was right. More generally, the role of a Minister in achieving such a cross-party consensus is a crucial one, and such consensus is only possible with a Minister who succeeds in selling one's reform proposal politically, which seemed to apply to Seehofer (interview BMG official, 27 January 2006). This observation was confirmed by a source who argued that 'the chief negotiators treated each other with personal respect and knew each other's limits in terms of negotiating positions' (interview CDU/CSU parliamentary party official, 23 January 2006). Reflecting on the results of the strategy, he chose for a cross-party agreement and a compromise was reached, which Seehofer characterized as follows:

We policy-makers have, with this reform, taken up and used a unique chance in the last weeks and months (...). Against all claims to the contrary, this compromise has not yielded a minimal solution, but in my opinion, an optimal one (...). There has been a fair balancing of interests between four parties with each one giving and taking (...). I have experienced the talks and have tried to contribute as a broker to this compromise, so that everyone could return to their clientele, looking them straight in the eye.<sup>19</sup>

Apart from the value of the compromise in terms of settling the details of reform, he saw its greatest benefit in more abstract terms, since it 'demonstrates the capacity of parliamentary democracy to act, which, in turn, increases public confidence in the system.'<sup>20</sup> This last aspect of Seehofer's role in the reform process, his capacity to take chances in order to gather reform support is reminiscent of the fourth aspect of IL, which concerns making efforts to build consensus for a reform.

To conclude, we have presented numerous examples of Seehofer's communication and behaviour to explicate his role in concluding the GSG. Specifically, we highlighted his particular way of dealing with interest groups, influenced by political learning and informed by his characteristic of engaging in tough but fair debate with critics; his other qualities, such as self-assurance and professional competence, that fed into his ability to promote and legitimize reforms; and his capacity to create and take chances in order to gather necessary support. Each of these facets can be re-interpreted in terms of the characteristics of IL. With the exception of the policy-orientation aspect, which has proven difficult to demonstrate, all other aspects of IL (turning away from the status quo, legitimizing new policy, engaging with reform critics, efforts at consensus-building) were shown to be part and parcel of Seehofer's way of acting.

#### Was the GSG a Structural Reform?

In order to judge the character of the GSG, we will both review the literature on this question and apply our criteria for structural reform (shifts in the three dimensions of the policy structure: financing, care provision and regulation). As observed earlier, the GSG introduced a mix of budgeting instruments, particularly aimed at care providers; an organizational reform of sickness funds concerning whom they could insure (freedom of choice for patients regardless of their occupational status); and a redistributive financial risk-adjustment scheme. To what extent were these changes structural shifts?

To begin with, analysts of health care policy somewhat disagree on the extent of its significance. Brandhorst (2003: 212), for instance, notes a 'paradigmatic change' from corporative coordination to a different system of incentives, in which actors adapt their behaviour, on the basis of their own financial interests, to the goals of limiting both expenditure and the quantity of care services.<sup>21</sup> Likewise, and taking a long-term perspective, Rosenbrock and Gerlinger (2004: 249) state that the GSG 'marked the beginning of a process of drastic change, which the legislature pur-

sued with the 'third stage' of health care reform and the 2000 SHI reform, and which continues to characterize health care policy at the beginning of the 21<sup>st</sup> century.<sup>22</sup> In contrast, others locate the GSG somewhere between a paradigmatic change and an adjustment of existing policy instruments: 'the GSG does not represent a fundamental paradigmatic change, but it extends the instruments of the cost containment strategy [...] In addition, the GSG contained various elements, which were more aimed at efficiency and competition in the health sector' (Bandelow 2006: 5). Others argue that against a background of two decades of incremental reform, the GSG 'stands out as exceptional,' introducing 'a multiplicity of structural reforms to the health sector' (Giaimo and Manow 1999: 977).<sup>23</sup> Finally, the GSG has been characterized as an 'emergency brake operation to control the hike of health expenditure' but also as symptomatic for a 'reorientation of health care policy, which almost 'imperatively' brings about more far-reaching steps of reform'(Hinrichs 1994: 132-133).<sup>24</sup> These judgments confirm that the GSG was an outstanding reform in the context of the early 1990s, i.e. compared to the immediate past, although they differ on exactly how far-ranging it was.<sup>25</sup> Would it pass the test of our criteria for structural reform?

Beginning with the financing structure, the GSG introduced measures which affected, but did not change this aspect of the system. The increase in patients' co-payments can be seen as a slight shift from contribution financing to private financing of care and service provision but, importantly, it did not change its contribution-centeredness: on the whole, the financing structure of the system thus remained untouched. With regard to the structure of care provision, the diagnosis is similar: the extensive introduction of budgeting did create new rules which care providers had to respect, but they did not change the existing division of work between the different care providers in the ambulant or the stationary (hospital) sector.

By contrast, the regulation structure of the sector did undergo notable changes through the organizational reform of sickness funds. Sickness funds form an intermediary between the regulating state and the care providers in a more narrow sense: in their role as insurers they receive, administer and spend insurance contributions for the services of care providers, on behalf of patients. The introduction of freedom of choice between sickness funds for the insured aimed to make funds on the whole more competitive, and the financial risk-adjustment scheme was designed to put them on a fair financial base. This meant a huge shift from a strictly state-regulated and fragmented system towards a more market-like constellation.<sup>26</sup> In addition, the regulation structure saw another, although temporary, shift from self-governance to state regulation. Self-govern-

ance of care providers was restricted by the Ministry's introduction of budgets and, in the case of pharmaceuticals, a price stop. The latter two measures managed to rein in price rises and, in the case of the pharmaceutical industry, caused double-digit losses in turnover (interview VfA representative, 15 November 2005). More specifically, the state as part of the management structure made use of its competence to rule by decree, in case self-governing bodies failed to carry out their work, which was the case in the wake of GRG (Giaino 2002: 114).

To conclude, while the GSG transformed the sector's regulation structure, it did not impact in the same way on the sector's finance and care provision structures. By changing the role of the state and the organization of sickness funds, the regulation of health care was notably affected by the provisions: through the GSG, the state, on the one hand, reaffirmed and strengthened its regulatory role, even though some elements, such as the budget ceilings, were only meant to be a temporary step; on the other hand, it introduced market-oriented elements, i.e. the patients' right to choose sickness funds freely, and therefore competition between funds. While finance and care provision structures were hardly affected, there was a strengthening of the state in regulatory matters and a greater role for the market, through the introduction of competition between funds. The latter was the actual innovation of this reform, which was successfully adopted under Seehofer's auspices.

#### **4.4 The 1997 Health Care Reorganization Acts <sup>27</sup>**

##### Reform Goals and Measures

In 1995, Seehofer and his Ministry initiated consensus talks involving the 'essential partners in the health care system' to draw up legislation to develop a 'concept for a quality-oriented and financially viable future of our health care system that one can consent to in its essential elements'. With regard to the instruments needed to achieve this, an internal CDU/CSU memorandum stressed in March 1995 that 'taking out services, increasing co-payments or improving the financing base of the SHI are not the main focus of the health care reform', but rather 'creating new structures which enable self-governing bodies to confront flexibly the dynamics of the health care system'.<sup>28</sup> However, the plan to reform self-governance without putting new burdens on patients did not materialize, and by the end of 1996, the government's turnaround on equal burden-sharing would be complete. In a message to CDU/CSU and FDP parliamentarians, it was argued that

The opposition parties (SPD and B90/Greens) want to abolish co-payments: this is a populist proposal that would lead to the financial collapse of the SHI; [on the contrary] we need to strengthen the self-responsibility of individuals, co-payments are an indispensable component of finance health care services.<sup>29</sup>

By spring 1996, the Ministry of Health had prepared an emergency law, the Contribution Relief Act.<sup>30</sup> Its measures were clearly designed to contain costs in the short term and included: a forced reduction in statutory health insurance contributions; creating more space in hospitals by applying long-term care provisions; considerable increases of co-payments for medication; abolishment of sickness fund subsidies for eyeglass frames and dental replacements; a reduction of statutory sickness pay by 10 per cent and the reduction of funding for sickness prevention. The aim of these measures was to keep contribution rates stable in the year 1996 and reduce them by 0.4 per cent in January 1997, which would amount to lowering the average rate from 13.4 to 13.0 per cent.<sup>31</sup>

At the same time as the Contribution Relief Act was drawn up, the coalition had launched two other bills in its further pursuit of the 'third step' of health care reform, the GKV-WEG (*GKV-Weiterentwicklungsgesetz*) and a reform of hospital financing (*Krankenhausfinanzierungsreform*). Both laws needed *Bundesrat* approval, but had been rejected on 12 September 1996. After that date, Seehofer invited delegates of the SPD and Greens parliamentary party and the SPD-led *Länder* (essentially following the approach taken at Lahnstein in 1992) to explore whether there were possibilities for a renewed cross-party agreement. However, it soon became clear that this was out of the question. The SPD's Rudolf Dressler defended – in retrospect – the party's unwillingness to cooperate:

The offer of the government and the coalition to our party faction implied that we lend our support to the anti-social elements of the legislation which will be voted upon today. That is legitimate. But [...] it is equally legitimate for us to decline this offer categorically.<sup>32</sup>

Since the opposition refused to cooperate, work on the GKV-WEG was terminated and the government had to choose another course of action, which eventually led to the proposal of (as an alternative) the two SHI Reorganization Acts or NOGs (interview BMG official, 27 January 2006). In October 1996, a bill for the first NOG was presented with its overarching goals of reducing unemployment and ensuring the competitiveness of

Germany's economy: keeping contribution rates stable should both help to control non-wage labour costs and ensure the competitiveness of German business. Remarkably, only months after the Contribution Relief Act had been presented in Parliament, the drafters of the NOGs had to admit that that Act would not succeed in reducing contribution rates by 0.4 per cent as of January 1997. Additional measures were deemed necessary in order to strengthen the financial responsibility of sickness funds and make contribution hikes more difficult. As a result, the first NOG included instruments that would make contribution rate increases more difficult by linking them to automatic increases of patients' co-payments, and it introduced the possibility for patients to switch between sickness funds, in the case of contribution rate rises. Moreover, measures were announced that would 'strengthen the self-responsibility of patients, improve possibilities for self-administration bodies to regulate matters, and increase financial responsibility of sickness funds'. The character of the bill was urgent, stressing the 'need for short-term implementation of measures, as otherwise sickness funds would not be able to implement them effectively before 1997'.<sup>33</sup>

Its complement, the second NOG of November 1996, contained measures that were to make 'self-governance bodies take responsibility, both carefully and cost-consciously, for handling health care contributions'.<sup>34</sup> These aims were to be reached through the following measures: strengthening the rights of the insured; giving new possibilities to self-governance for dealing with providers; incorporating the hospital sector in financial stability provisions; financing hospital maintenance with support by patients' co-payments; and new regulations regarding the provision of dental replacements, including fixed subsidies instead of subsidies based on a certain percentage of the total costs.<sup>35</sup>

Both legislative drafts triggered fierce political and public discussion about the desirability of their provisions. In particular, there were two contentious issues. First, the new limitations for sickness funds to raise contribution rates (linked to rising co-payments for the insured) raised questions about consequences for ensuring adequate care and services for patients. Second, it was feared that giving sickness funds more possibilities for redesigning individual contracts would enable them in the long run to exclude certain types of services from the benefit catalogue, and encourage selection of the insured on the basis of expected risks. In response to the debate on both issues, the Health Ministry sensed that it was necessary to communicate to coalition parliamentarians the need for these measures, providing them with the justification for the reform in their constituencies.<sup>36</sup>

## The Reform Process

In order to provide a quick overview of the legislative processes, we summarize key events in the making of the three acts in Tables 4.3 and 4.4.

**Table 4.3** Summary of the legislative process of the *Contribution Relief Act of 1996* (BT = Bundestag; BR = Bundesrat)

Date	Event
24 May 1996	1 <sup>st</sup> reading in BT
28 June	2 <sup>nd</sup> /3 <sup>rd</sup> reading in BT, adoption with amendments
19 July	Rejection by BR
26 August	Compromise decision Mediation Committee
29 August	BT rejects compromise decision
12 September	BR vetoes rejection
13 September	BT overrules veto by absolute majority vote
1 January 1997	Contribution Relief Act comes into effect

**Table 4.4** Summary of events in the legislative process of the GKV-NOGs (BT = Bundestag; BR = Bundesrat)

1 GKV-NOG		2 GKV-NOG	
Date	Event	Date	Event
10 October 1996	1 <sup>st</sup> reading BT	15 November 1996	1 <sup>st</sup> reading BT
15 November	2 <sup>nd</sup> /3 <sup>rd</sup> reading and adoption by BT	19 November	BR rejects bill
19 December	BR rejects bill	20 March 1997	2 <sup>nd</sup> /3 <sup>rd</sup> reading BT and adoption
12 March 1997	Compromise decision Mediation Committee	25 April	BR rejects bill for the 2 <sup>nd</sup> time
	BT rejects committee decision	14 May	Recommendation by Mediation Committee
20 March	BR vetoes rejection	15 May	BT rejects committee decision + reaffirms adoption of the bill;
25 April	BT overrules veto (absolute majority)		BR restates veto
12 June	1.GKV-NOG comes into effect	12 June	BT rejects veto
1 July		1 July/1 January 1998	2. GKV-NOG comes (phased) into effect

All three processes were overshadowed by an antagonistic attitude between the two chambers of parliament, both of which used their constitutional power to either push through (*Bundestag*) or block (*Bundesrat*) the respective pieces of legislation. Part of this was due to the fact that the CDU/CSU-FDP coalition had a slight majority in the *Bundestag*, while the *Bundesrat* was dominated by the SPD-governed *Länder*. We now turn to the reasons for this institutional conflict.

### The Politics of the GKV-NOG Laws

In the eyes of one close observer, the NOGs represented ‘a huge step backward’ and a ‘failure of health care policy’ (interview former SPD MP, 23 January 2006). More precisely, they were perceived as a break with the Lahnstein consensus between government and opposition.<sup>37</sup> The NOGs introduced measures to keep a lid on contribution rates and health care costs, especially regarding the employers’ share; they stood for a restoration of corporatist self-governance, as well as its extension to other sub-sectors; and they tightened the grip of the market by increasing patient cost-sharing and extending market experiments (Giaimo 2002: 124-126). As such, they reflected a thorough change in the approach of Seehofer and his Ministry to policy-making by 1996. We will highlight three factors that made the process leading up to the NOGs both drawn out and controversial, arguing that the factors that had expedited the adoption of the GSG were now largely absent. The ways in which Minister Seehofer impacted on the process will be considered in the next sub-section.

To begin with, the chances of reaching another cross-party agreement between the coalition and the SPD in 1996/97 were bleak. For a host of reasons the political climate had changed, which also made a similar agreement a remote possibility. First of all, the 1994 elections had produced a different power balance within the ruling CDU/CSU-FDP coalition. The FDP had gained parliamentary seats and had been revitalized vis-à-vis its larger coalition partner. It was determined to put a more neo-liberal stamp on policies than had been possible before, and it did not agree to more deals with the SPD over health care (Giaimo 2002: 129). Apparently, the party’s memories of how they were treated at Lahnstein still had an impact. As one source recalled, ‘For the FDP, Lahnstein represented a Waterloo, which they never wanted to repeat. To speak with FDP MP Thomae: “There won’t be a second Lahnstein with us”’ (interview with former SPD MP, 23 January 2006). The new balance of power between the coalition parties once again favoured physicians, as the Government

pushed for more 'individual responsibility', taking away the cost-saving pressure on providers. Equally, employers gained more influence in health policy matters in the process leading up to the NOGs, by fuelling the debate on mass unemployment and non-wage labour costs that influenced the CDU's position. As a consequence, its business wing gained a greater say in social policy matters (Giaino 2002: 128).

In addition, the SPD was now led by Oskar Lafontaine who, in contrast to his predecessor Rudolf Scharping, seemed determined to lead a strong course of opposition to the increasingly neo-liberal policy approach of the coalition, and effectively ruled out any cross-party agreements (interview policy analyst, 10 November 2005). Moreover, it has been argued that CDU and SPD followed, at least since 1995, two different approaches to health care policy (Brandhorst 2003: 213). The government then tried to avoid additional sacrifices by care providers (apart from the budgets), an approach fostered by the parties' relationship with business and the professions, and its recognition of the importance of the health sector for the economy and labour market opportunities. Instead, the coalition advocated more responsibility for patients, giving them incentives to economize on health care services ('demand-centred steering'). The SPD, on the other hand, demanded more competition between care providers. They believed that the demand for medical services depended upon how doctors prescribed treatments and services and on whether it was in their financial interest to expand provision ('supply-induced demand') (ibid: 212-214). Moreover, in 1996/1997 the forthcoming federal elections of 1998 already cast their shadow. This meant that the measures taken in the NOGs reflected that the economic situation had to improve and that high non-wage labour costs needed to be dealt with quickly for electoral reasons.<sup>38</sup>

Moreover, procedural choices resulting from this increase in political antagonism contributed to the long-drawn-out character of the process. As we have seen, the legislative processes began in late 1996 and took until mid-1997 to be completed. One reason for this was certainly the battle of the *Bundesrat* to assert its right of approval to the second NOG, an undertaking that eventually failed. The splitting of the draft bill into two parts was seen as an instrument for speeding up the legislative process (interviews with policy analysts, 10 November 2005 and 23 November 2005). Other sources stressed that the splitting of the law may have been counterproductive, fuelling the opposition's motivation to block the proposal.<sup>39</sup> Once it had chosen this procedure, the government could do little more than wait and see what the legislative process would produce

(interview with sickness fund analyst, 22 November 2005). Eventually, both NOGs would be adopted after making several concessions to those who had campaigned against them, including some CDU/CSU-governed *Länder*: sickness funds were not allowed to drop the voluntary services from their benefit packages in case of financial problems, and the new co-payment regulations included income-based ceilings for the chronically ill and socially weak.

A second important factor was the change in the relationship between health policy-makers in the government and interest groups. While this relationship had grown distant and was dominated by the Ministry at the time of the GSG, it now returned to the pre-1992 pattern. That pattern, which became most noticeable in the formulation and implementation of the 1988 GRG, may be characterized as a give-and-take relationship between the government and interest groups, with the latter trying to avert any damage to the interests of their clientele (interview policy analyst, 23 November 2005). For instance, the representatives of the ambulant and stationary sectors, the KBV for physicians and the DKG for the hospital sector, were reported to have regained access to the policy formulation process. Seehofer allegedly sought the support of the DKG, with which he was involved in intensive discussions (interview representative DKG, 22 November 2005). Equally, the KBV thought that the Minister was again trying to make policy 'with' them, and not, as in Lahnstein, 'against' them (interview former KBV chair, 16 November 2005). Those broad consultations in the policy process, which included the KBV, secured preferential treatment for doctors in the reform's provisions. Since 1995, the coalition had revived its motto 'priority for self-governance' (*Vorfahrt für die Selbstverwaltung*), which entailed a rapprochement with interest groups. As a result, expenditure ceilings on medication, medical services and doctors' remuneration were partially reversed and partially reformed. Only the ceilings on expenditures in the hospital sector remained in force, while more steering competence was given to self-governance bodies, and the insured became the focus of health policy steering efforts. This new focus on patients evoked the anger of trade unions, sickness funds and the SPD opposition, all of whom campaigned against higher burdens for patients, bringing the Ministry into an uncomfortable position.<sup>40</sup> In the words of a Ministry source:

There was a complete phalanx of resistance of relevant public bodies and organizations in the policy field against the governing coalition, which had to explain itself in Parliament and create acceptance among

the public. However, because the elections were approaching fast, the concept behind the reform could not be successfully explained (interview with BMG official, 27 January 2006).

Not only had the political climate changed in 1996/1997, but also the challenges to be confronted were different, which gave rise to a third factor. In contrast to 1992, when the troubles of the health care sector dominated the concern of policy-makers, by the mid-1990s, they began to realize how serious the general economic situation actually was: only then did the magnitude of the financial burden, as a result of German reunification, become apparent. Finance Minister Waigel struggled to present proposals for viable public budgets, while European monetary integration was about to be concluded: the new Maastricht criteria on budget deficits and public debts would shortly take effect, posing additional restrictions on policy. In addition, the new EU requirements on public budgets were not often acknowledged publicly at the time, but only slowly found their way into politicians' arguments for enacting austerity measures (interview policy analyst, 11 November 2005). In this growing climate of austerity, the government decided to launch a comprehensive 'Programme for Growth and Stability', which led to cost-saving efforts across all programmes of social insurance; health care would not be an exception. The cornerstone of this undertaking was containing the burden of social contributions, which were to be controlled at all costs. As a consequence, Minister Seehofer had little choice but to find ways of contributing to this austerity course in his own portfolio, even more so because many of the budget provisions of the GSG were about to expire and health care costs were expected to skyrocket again.

#### **4.5 The Role of Minister Seehofer: Fighting Against the Tide**

There was no longer a strategy, it was all about muddling through: there was a lack of enthusiasm to shape changes (...). My impression was that during the years 1995-1997, a clear concept was lacking and policy-making was merely reactive (...). To me, it seems that Seehofer gave away a lot of his achievements during his last two years in office (interview health policy expert, 9 February 2006).

This citation summarizes aptly the disillusion felt by an observer of German health care politics commenting on Seehofer's later years. There were strong signs that the political fortune of the Minister had reversed

in 1996/97. As we have just seen, a more hostile political climate, rapprochement with the stakeholders of the health care sector (especially physicians, dentists and hospitals), and a reappearance of economic and financial pressure made policy-making (and thus the adoption of reforms) in this period more difficult. We argue that these factors had negative repercussions on how much of a steering role Seehofer could play in the process, and in turn, this reduction in the Minister's political leeway lessened his chances to act as an ideational leader.

To begin with, his determination to tackle health care reforms was still there, but the message he tried to promote was more difficult to sell. Seehofer had to show once more, like in 1992, personal commitment to the goal of containing costs, but he added an additional focus: personal responsibility. The Minister justified the reform proposals by pointing to a number of challenges that impacted on the SHI and the sustainability of its financial base, including rising life expectancy, medical and medical-technical progress, and increased expectations towards the health care sector's capabilities. The latter necessitated a higher degree of individual responsibility, which meant a change in attitude towards medical provision (more focus on what is medically necessary instead on what is desirable), and to have patients contribute more towards costs (via co-payments or cost sharing).<sup>41</sup> The fact that the Minister chose to take up this stance was linked to the realization that the health care sector was now seen as a potential generator of growth and employment, but whose potential to expand was limited by the principle of stable contribution rates. This stance was in turn influenced by a specially commissioned report of the health expert advisory council (*Sachverständigenrat zur Begutachtung der Entwicklung im Gesundheitswesen*) presented in 1997.<sup>42</sup> As a consequence, policy-makers decided that care providers could no longer be burdened with additional cost savings (interview CDU/CSU parliamentary party employee, 12 January 2006). Instead, this time around it was the patients and the insured who were to provide an additional financial contribution through higher co-payments for medication and services.<sup>43</sup> This new approach was reinforced by a FDP-borne focus on strengthening the personal responsibility of patients, leading to the privatization of parts of the SHI provisions and allowing sickness funds to introduce elements of private health insurance in their insurance contracts (in the second NOG) to add an equivalent for the missing price mechanism.<sup>44</sup> Furthermore, co-payments were extended (through periodic increases), and the provision of dental prostheses for those insured and under 18 years of age was privatized.

Although Seehofer tried to come up with a discourse legitimizing the NOG laws, his ability to promote and legitimize the change in policy focus ran into obstacles that had not been there in 1992. This was possibly due to the fact that the NOGs clearly produced new burdens for patients, while leaving other stakeholders in relative peace. Undoubtedly, the Minister again used his rhetorical abilities to explain and justify the measures in the NOGs, both to political opponents and to the public, but it proved much more difficult to sell a reform that put most of the burdens on the insured (and those in need of treatment), unlike the GSG, which could be legitimized by reference to equal burden-sharing among those affected. Seehofer tried to deal with this dilemma by defending his preference for co-payments as a choice of the ‘lesser evil’:

Regarding the difficult question whether to keep up the level of SHI coverage by excluding services or by realizing greater cost-sharing through more personal responsibility, I am undoubtedly in favour of greater cost-sharing. The exclusion of services does not know exemption clauses nor social considerateness, it means a hundred per cent cost-sharing for those who are ill.<sup>45</sup>

Seehofer thus legitimized the increase in co-payments in the first NOG by arguing that citizens needed to spend more of their income on health care in order to avoid a further increase in non-wage costs and to maintain the current coverage catalogue of the SHI. In order to limit the negative consequences this would cause to the insured, extra co-payments were designed in a socially acceptable manner: the chronically ill and low-income households could profit from exemption clauses and income-related ceilings for such payments (*Härtefallregelung*). With regard to the new automatic mechanism for the prevention of contribution rate rises, the Minister stressed that in this fashion, higher contributions, as a result of inefficient budgeting practices, could be ruled out and yet no one would be excluded from the safety net of the SHI.<sup>46</sup> As Seehofer explained, the new mechanism would be a disciplining measure, forcing sickness funds to use efficiency reserves before raising contribution rates, whilst allowing contribution rises, when needed, to cover the costs of medical progress or meet the challenges of demographic developments. A failure to accommodate the latter two trends would again, as Seehofer warned, raise the spectre of budgeting or rationing health care services.<sup>47</sup> Until his final speech, at the vote on the two laws, he made it clear that personal responsibility was there to stay in the SHI:

We want to carry the SHI's solidarity principle into the next century, that is, a high-quality health care provision for everyone without applying criteria of income, age or origin (...) But if we sustain the SHI at a high level (...) we also need to say truthfully that we cannot go along the path of increasing labour costs, but we need to tell the public: we need more personal responsibility where it is reasonable. Solidarity and personal responsibility are twin concepts.<sup>48</sup>

Despite these efforts to defend the NOG measure in the new context of reform, defined by austerity plus personal responsibility, one observer concluded that

Seehofer no longer managed to come up with convincing chains of argumentation but tried to reach a consensus on the lowest common denominator (...). He could no longer create acceptance for the reforms he wished to adopt, if he indeed wished it. If one tried to find what remains of his own ideas, these were no longer visions of policy but rather definitions of what was still possible (interview health policy expert, 9 February 2006).

Allegedly, the Minister also had a hard time convincing the public of the need for the measures. The general public is, by definition, a more diffuse audience to address than a particular stakeholder group, and patients' associations, which nowadays represent the interests of the insured, hardly existed at the time. The existence of such associations would have given him a more defined audience to debate with, just as he engaged with doctors and dentists during the GSG process. Instead, the sickness funds claimed to speak on the patients' behalf and had decided to campaign against the reforms, which made his task increasingly difficult (interview CDU/CSU parliamentary party employee, 12 January 2006; interview former SPD MP, 24 January 2006). Seehofer did publicly underwrite the goals and instruments of the NOGs, but, as a CDU/CSU source speculates, by doing so, he may well have compromised his own beliefs with regard to the reform needs (CDU/CSU parliamentary party employee, 12 January 2006).

Turning to another facet of his role, the Minister's approach to organizing the necessary political majorities for reform, by including the opposition, did not come to fruition in 1996/1997. This meant that the Minister was clearly not successful in building political consensus, despite an attempt to integrate the SPD's standpoint into the NOG predecessor laws. Another question is which motives (political or procedural) led the

Minister to divide the legislation in two parts and to read it at two different time slots in parliament, since both laws did not require *Bundesrat* approval, according to the Government.<sup>49</sup>

The Minister was also restricted by Chancellor Kohl in his freedom to move politically (and, ultimately, by mounting economic and financial pressure). Clearly, overcoming reform resistance by a cross-party agreement would have required Seehofer to have the freedom to conclude such an agreement. This discretion, however, apparently no longer existed. Kohl's unequivocal message to Seehofer had been to cut non-wage labour costs (interview policy analyst, 11 November 2005), and his limited political options now excluded the option of putting most of the burden on care providers, as had been the case with the GSG five years earlier (interview policy analyst, 10 November 2005). The Chancellor had also made it clear that conflicts about health care reform had to be avoided in the run-up to the 1998 elections; therefore, Seehofer needed to keep the SHI up and running, but had to stay clear of yet more reforms that would invoke the wrath of stakeholders (interview health policy expert, 9 February 2006). At the time, his commitment to efficiency goals even earned him the nickname 'Minister of Austerity' (interview policy analyst, 11 November 2005), which, in German politics, mostly tends to be reserved for the Minister of Finance.<sup>50</sup>

Finally, the Minister's reputation as an eager reformer had suffered. Seehofer's ill-fated attempts at concluding more reforms such as the GSG had not gone unnoticed in public; and he himself had been expressing his disillusionment with the situation. As a consequence, the almost glorious image surrounding his person and his determination to change the status quo had been fading, and he had become more vulnerable politically (interviews with policy analysts, 10 November and 11 November 2005). Another observer expressed Seehofer's decline in more drastic terms:

He started like a tiger, but ended as a 'fur carpet': he began with an impressive dose of determination and then fell down deeply (...). This is reflected in the legislation he got adopted, which does not show a consistent line, but features an abrupt break. He was one of the strongest personalities we have ever had in this office, but towards the end he lost it (interview health policy expert, 9 February 2006).

At the beginning of 1997, an article in *DER SPIEGEL* stressed that the days were over when Seehofer was referred to as a 'shooting star' and a 'dragon killer' by members of the governing coalition. When asked to draw up a balance of his first five years in office, he replied:

Firstly, egoism in Germany is more widespread and more brutal than I could ever have imagined. Secondly, our social insurance programmes are financed in a fashion showing solidarity, but are taken advantage of in ways that are far removed from such solidarity. Finally, everything revolves primarily around money, this is horrible and repugnant.<sup>51</sup>

To conclude, Seehofer's role in the process of adopting the NOGs was one of a politician still determined to improve the system, but whose options for shaping the goals and means of the legislation had been severely curtailed. No doubt some of these developments were of Seehofer's own making, as was the change in approach to part of the stakeholders (doctors, pharmaceutical industry), which added to the political opposition he faced. Others, however, like the mounting pressures of an economic and financial kind, and the changed political climate, were factors out of his control. By the time Seehofer left office, he was convinced that the unpopular measures of the NOGs had been in part responsible for the electoral defeat of the Kohl Government (interview CDU/CSU parliamentary party employee, 12 January 2006).

#### Were the NOG Laws a Structural Reform?

As the discussion above has shown, the process leading up to the Contribution Relief Act and the NOGs was drawn-out, full of conflicts, and constituted, in some respects, a return to pre-1992 health politics. However, what did these laws bring in terms of substance, and to what extent did they introduce changes that implied structural shifts?

Although our interview sources offered somewhat contradictory judgments in this respect,<sup>52</sup> on the whole, the reforms of 1996/1997 pale into insignificance compared to the GSG. Does the application of our criteria for structural change provide a clearer answer? First of all, the sector's finance structure, which the GSG had already adjusted towards more private financing, was again affected by the NOGs. More adjustments followed, starting with the extension of co-payments through the Contribution Relief Act. However, this did not amount to a structural shift, as the principle of contribution financing was kept intact. The way in which co-payment increases were introduced (including provisions to exempt the socially weak and chronically ill), tapped into an additional financing resource, but left the existing financing scheme in place. The same applied to the provisions that 'privatized' parts of the SHI catalogue, mostly with regard to dental care. However, it is true that the reforms contributed to a

hollowing out of the principle of parity financing (shared health care costs between employers and employees), forcing patients to pay more out of their own pockets, on top of their payroll contributions (interview policy expert, 9 February 2006).

Secondly, with regard to the care provision structure (corresponding to the benefit structure in other social policy sectors), the laws merely made a cautious attempt at overcoming the division of care provision into ambulant and stationary care by allowing for experiments with integrated care provision (Rosenbrock and Gerlinger 2004: 228). However, this hardly constitutes a structural shift, since its implementation depended on the will of care providers. Essentially, this structure thus remained the same.

Finally, with regard to the sector's regulation structure, the reforms contained some measures that could be characterized as potential structural shifts but only one of which materialized, bringing more delegation of tasks to self-governing bodies than was previously the case, i.e. a shift from state regulation to more self-governance. The measure in question extended the competences of doctors and insurers in the Federal Committee of Physicians and Sickness Funds by obliging them to draw up guidelines for most areas of the health care system. Furthermore, corporatist bargaining was extended to control matters such as medicine prices and guidelines for other practitioners (Giaino 2002: 133-135). Similarly, the existing market-oriented and state-led control instruments were supplemented by corporatist steering instruments: state-prescribed expenditure controls (to be worked out in agreement between the sickness funds and the KVs), and new provisions for hospital remuneration (which required collective agreements between sickness funds and hospitals (Brandhorst 2003: 214).

In contrast, the other two salient provisions of the NOGs did not constitute shifts in the regulation structure in the sense that the state gained more competences. The automatic link between contribution rate rises and increases of co-payments, essentially a cost-containment element, was never used. Indeed, many of the NOG provisions were short-lived and failed to make a long-term impact, since they were overturned by the new Red-Green coalition in 1998.<sup>53</sup> The other feature, a state-prescribed transformation of certain care services into voluntary items of the insurers' statutory provision package, was largely abandoned in the course of the legislative process: eventually sickness funds and care providers were encouraged to come to 'rational' solutions on their own.

It is tempting to characterize the 1996/1997 laws as an exercise in pure cost containment, just as other social insurance reforms in the areas of pensions, unemployment insurance and social assistance adopted at the

same time. By any means, the Contribution Relief Act and the NOGs surely did not continue the path of structural reform, which seems to have opened up with the GSG, i.e. facilitating further competition among sickness funds. It is fair to say that these reforms left the care provision structure relatively untouched. In the financing sphere, they introduced measures intended to contain contribution rates, continuing down the path of privatizing health care costs. While opening up an additional source of income for the SHI, however, health care contributions still dominated the financing structure of the SHI. Finally, the reforms did affect the regulation structure by transferring more competences from the state to self-governance bodies: therein lies a structural shift that may be compared with the GSG. The 1996/97 reforms reflect a different approach towards regulation in the health sector, signalling a trend towards a more market-oriented SHI via demand-side measures. The shifting balance of power between sectoral actors and political parties contributed to a change in the debate, and eventually, in the contents of the reform, which put more burdens on patients and insurers and less on providers, in particular the medical profession (Giaimo 2003: 127).<sup>54</sup> While the GSG had set the tone for a more market-oriented SHI, after 1996, this orientation was only pursued further for the demand-side, i.e. patients and sickness funds, and not for the supply side, i.e. care providers (Brandhorst 2003: 214). In this sense, it may be argued that the structural shift in the regulation sphere associated with the GSG (towards more market competition), was perceived as more far-reaching, and therefore more important to observers of the sector, than the structural shift contained in the NOGs (towards more self-governance). Two reasons may account for this: first, the latter shift was much more 'hidden' behind a bundle of unpopular and one-sided cost-containment measures, second, the laws also stood for a return to the pre-1992 situation (surely regarding the collective bargaining between KVs and sickness funds).

#### **4.6 Conclusion**

Our case study has looked in depth at the most prominent reform projects of former Minister of Health Horst Seehofer. By comparing the 1992 Structural Health Reform Act (GSG), and the 1997 Health Care Reorganization Acts (1. and 2.GKV-NOG), we found striking differences between the reform outcomes, the political conditions under which the reforms were passed, and, most remarkably, the role played by the Minister.

The GSG had a number of aims: it was designed to control health care costs (introducing several budgeting instruments aimed at the various types of care providers); and it contained an organizational reform that affected the regulation of sickness fund membership (freedom of choice for patients regardless of occupational status), and intra-insurer relations (by establishing a redistributive risk-adjustment scheme). We found the GSG to be a structural reform due to its changes in the regulation sphere of health care policy: the state reaffirmed its regulatory power vis-à-vis the self-administration bodies and interest groups; and sickness fund reform introduced an element of market competition into a formerly static and state-regulated insurance system. These changes, implemented as early as 1992, marked the beginning of a development in the health care sector that subsequent Ministers of Health have pursued until today, greater market orientation (see further Chapter 7 for the transformation of policy principles in the health care sector).

Seehofer played a truly crucial role in the adoption of the GSG. The rapid drafting and adoption of the reform owed much to the Minister's strategy of preparing a reform concept together with the SPD opposition. His new approach regarding the dealings with health care stakeholders, and his fast and determined way of acting, brought the reform project to a successful conclusion. Moreover, his distinctive political style, which relied on persuasion in legitimizing the GSG's aims of cost containment and structural reform, coupled with a display of determination, proved effective. Seehofer's dual goal of stabilizing the SHI and opening it up to competition, embedded in a reform concept that divided the burdens equally amongst all stakeholders, proved to be acceptable, and survived the protest by care providers, especially doctors. The resulting reform has received notable attention of health policy analysts due to its far-reaching character, compared to earlier or later reforms, although its precise significance remains debatable. In short, the GSG reflected the Minister's determination and commitment to see through legislation that would end the existing policy situation, his ability to promote and legitimize a bold reform concept, and the will and skill to overcome reform resistance by engaging in political consensus building with the opposition. The process of the GSG provides evidence in favour of the IL hypothesis: Seehofer's ideational leadership was manifest and the ensuing reform was structural.

Five years later, the first NOG law introduced measures to curb health insurance rate rises by linking them to increases of patients' co-payments, making it easier for the insured to switch funds. It also considerably increased co-payments, strengthened the financial liability of sickness funds

and extended the possibilities of self-governance bodies for the regulation of particular issues. The second part of the law strengthened patients' rights vis-à-vis sickness funds; gave new competences to self-governing bodies for concluding agreements with providers; incorporated the hospital sector into financial stability provisions (allowing it to co-finance maintenance with patients' co-payments), and introduced new remuneration regulations for dentists. The NOG laws were less far-reaching in scope than the GSG had been, and were perceived as one-sided and unpopular, as they strengthened the personal responsibility of patients and the liability of insurers to contain costs. By doing so, they set the tone for a new logic that began to take root in health care and has been pursued ever since, that is, a trend toward greater self-responsibility of patients (see further Chapter 7). Overall, the reforms brought about a shift in the regulation structure of the SHI, but this concerned a backward shift, such as restoring some former responsibilities of self-governing bodies. Therefore, they can hardly be seen as an innovative structural reform. This assessment illustrates that it may be helpful to take policy legacies (especially previous reforms) into account when evaluating a reform in terms of structural shifts. If structural change is simply the reversal of an earlier reform or if we know that a structural shift was reversed by a later reform (as was the case with the NOG), can it still be called 'structural'?

The political context of the policy-making process was rather different compared to the GSG, which directly impacted on the Minister's role. Seehofer had to operate in an unfavourable political climate, which made the adoption of these two laws a conflict-ridden and lengthy process. After restoring closer relations with interest groups, and following a failed attempt to involve the opposition in his plans, the Minister tried to push the reform through, against the wishes of the SPD opposition and the *Länder*. Due to changed political circumstances and clear instructions by Chancellor Kohl to control health care costs and contribution rates, his leeway to continue with structural reforms was clearly more restricted, compared to four years earlier. In the end, Seehofer did not manage to organize the necessary support for a more far-reaching reform and did not succeed in selling the resulting reform proposal as a politically consistent and balanced plan. Although Seehofer displayed characteristics of IL, its effects were rather limited. The contrast with his self-conscious appearance of earlier years to them seemed to involve a complete turn-around. Moreover, the NOG laws can hardly be described in terms of true structural shifts: therefore, there is no compelling evidence for either a structural reform or effective IL. Surely, the Minister tried to defend his efforts

at changing the status quo, legitimized the proposals and attempted to reach a consensus with the opposition. However, his initial ambitious reform plans had been frustrated early on and the Minister had to settle for the NOG reform as a second-best solution. Seehofer's ability to promote and legitimize these reforms was cancelled out by the rather unbalanced design of the reform that burdened patients more than care providers. Moreover, his attempts at consensus-building ran aground and were restricted in their scope as he lacked political backing by the Chancellor.

To conclude, Seehofer's record as a presumed ideational leader has been mixed. His legacy includes the success of an acclaimed and clearly structural reform at the beginning of his term and a rather controversial and ambiguous reform towards its end. Although the NOG laws contained an element of structural change, they also stood for a reversal to earlier practices rather than innovation. What does this mean for the IL hypothesis? Most importantly, policy-makers may act in accordance with the characteristics of IL in one set of circumstances but not necessarily in another. Therefore, IL should not be seen as a constant characteristic, but as contingent on the specific circumstances of each reform, to which analysts need to pay special attention.

## 5 Transforming Public Pensions: the Riester Pension Reform

‘My goal was clear: to pass a pension reform that deserves that name. For much too long, policy-makers have evaded political solutions by asserting that they were not politically feasible. The problems of old-age pension provision had been deferred for a long time and the whole social fabric was on the verge of collapsing.’

(RIESTER 2004: 135)

From this citation, one can sense a good measure of resolve to change an undesirable situation. Ultimately, that resolve was rewarded as it was translated into a remarkable reform of German pension provisions in 2001. As the main achievement of Walter Riester, Minister of Labour in Chancellor Schröder’s first Red-Green cabinet, it presents us with an interesting case for several reasons. To begin with, Riester’s pension reform was one of the most important innovations of the first Schröder Government. As such, it attracted notable attention, not only in the German media but also in the welfare state literature for its supposedly ‘path-breaking’ character (Hinrichs 2003; Hinrichs and Kangas 2003; Lamping and Rüb 2004). Second, and most relevant for our study of how the German welfare state has been transformed, it entailed genuine structural shifts in line with our criteria for structural reform. Despite the numerous changes made to the initial proposal, the reform changed all three structures of German pension arrangements: the financing, benefit and regulatory structures.

In terms of pension financing, the new legislation widened the financing base to include several sources of funding. Those insured in the statutory scheme would, if they opted for the new scheme, contribute from now on to two schemes: to the private one, with the help of state-financed tax subsidies, in addition to their existing wage-based statutory contribution (shared equally by employees and employers). As a result, their total contribution towards old-age provision would increase as well

as their personal responsibility for ensuring the financing of old-age pensions. The reform also introduced changes to the benefit structure of pensions. In the new situation, it included multiple benefits from a two- or even three-pillar pension structure. Future pensioners from now on were to rely on pensions consisting not only of a statutory scheme benefit, but also of payments from privately administered schemes and, if applicable, of an occupational pension scheme. Finally, Riester's plan provided for a diversification of the regulatory structure in pension arrangements, which had hitherto been administered by bodies subject to public law. Private schemes were to be administered by banks and insurance companies, although their pension products were subject to state regulation. In addition, through the strengthening of occupational pensions, which are set up and administered according to collective agreements between employers and trade unions, another change in regulation was introduced.

Analytically, in this chapter we trace ideational leadership (IL), and examine if and how such leadership played a role in the adoption of this remarkable reform package. We do so in three steps: first, by recounting the reform process and sketching the political context of the subsequent analysis, including the main policy actors and their positions on reform. Then, we explore whether IL was present by examining arguments used by Minister Riester, and, finally, we reconstruct in what ways IL had an effect on reform adoption. Numerous quotes from documents and original interview material provide evidence of the different aspects of IL and how it shaped the final reform outcome.

### Main Reform Provisions

The Riester reform was adopted after a process that lasted nearly two years, and during which the provisions contained in the reform proposal frequently changed. It caused extensive discussions between the Government and the opposition on the one hand, and between the coalition parties and interest groups (especially trade unions) on the other. The actual parliamentary process took half a year to be completed for the most controversial one of in total three draft bills that carried the core of the reform and required approval of the *Bundesrat*. Two main pieces of legislation emerged from this period, the Old-Age Provision Act (*Altersvermögensgesetz*, AVmG), and the Old-Age Provision Extension Act (*Altersvermögensergänzungsgesetz*, AVmEG).<sup>1</sup> The first act, which established the new private pension tier that supplemented the existing statutory scheme, was

passed in May 2001 after lengthy discussions in the Mediation Committee and approval by the *Bundesrat*. The second act, which included the legal provisions for changing the pension formula and cutbacks of pension levels in the public pension scheme, had already been passed in January 2001 by the *Bundestag*; it did not require *Bundesrat* approval.

The most important innovation was the creation of a new private pension pillar, designed as a voluntary and tax-subsidized scheme. In addition, in this newly created and privately administered scheme, occupational pensions came to play a greater role than in the past. This was achieved by granting employees the right to convert part of their salary into contributions for occupational pension plans (*Entgeltumwandlung*). The introduction of a private pension scheme was combined with cutbacks of replacement rates in the statutory scheme, which were substantial, but not radical. In order to achieve this, an ‘indexation factor’ was introduced into the pension calculation formula. That factor would ensure a gradual reduction of replacement rates from 70 per cent before 2001 to 67 per cent of net wages by 2020 and to a minimum of 64 per cent in 2030.

The final design of the two core provisions, the private pension tier and the adjustments of the statutory scheme, reflects a series of concessions by the Government, since the initial reform proposals had gone further. While the reform process illustrates how the Ministry had to drop some ambitious elements of the proposal during a lengthy political process, it also shows that new ambitious provisions may be added at the same time. In this fashion, four major corrections were made to the proposal, before and during the parliamentary phase; these concerned the obligatory element of the private scheme, the size of the contributions, the extent of public subsidization, and the role played by occupational pensions in the new pension system.

## **5.1 The Reform Process: Chronology, Actors and Policy Positions**

Before sketching the political setting for the analysis, we summarize the main events of the reform process from the initial proposals until the final legislative acts in Table 5.1 below.<sup>2</sup> Notably, the reform took considerable time to materialize: almost two years passed between Riester’s announcement of its core provisions in 1999, and the passing of the last bill in May 2001.

**Table 5.1 Important events in the reform process 1999-2001**

Date	Event
17 June 1999	Presentation of cabinet decision on reform concept by Ministry of Labour and Social Affairs
21 June 1999	Obligatory character of private pensions is withdrawn
30 May 2000	Presentation of draft ( <i>Eckpunktepapier</i> ) by coalitional working group
June 2000	Government announces return to net wage indexation for 2001 and presents pension reform plans
October 2000	Break-down of extra-parliamentary compromise talks SPD-CDU, FDP continues to work with the coalition
14 November 2000	1 <sup>st</sup> reading of legislative drafts
11-13 December 2000	Changes to drafts after parliamentary hearings, concession on occupational pensions
26 January 2001	2 <sup>nd</sup> reading of legislative drafts and approval of changes, <i>Bundestag</i> adopts bill
February 2001	<i>Bundesrat</i> invokes Mediation Committee
May 2001	Further changes to the bill, <i>Bundesrat</i> approves bill on 11 May

The gradual transformation of the initial proposals was not least due to the controversy about several provisions in Riester's first reform draft. The story of their amendment illustrates very well how far-reaching reform initiatives may be modified through processes of public debate and parliamentary decision-making. To be sure, the long time span gave plenty of opportunities to plead for amendments for those disagreeing with the initial plan. That there was enough potential for disagreement can be seen from the diverging positions of main actors in Table 5.2 below.

#### Steps towards a Reform Proposal

Before the 1998 federal elections, the CDU/CSU-FDP Government had passed the 1999 Pension Reform Act, which included a substantial reduction of pension levels (from 70 per cent to 64 per cent of net wages), to be realized via the 'demographic factor'. However, due to pre-election pledges in a campaign that had stressed the issue of pension reform, the incoming Schröder Government quickly reversed this measure with an eye to sustaining current pension levels. Thereafter, it was faced with the dilemma how to tackle the strained public pension budget without making significant cuts which, as Martin Schludi put it, 'would violate voter as well as

**Table 5.2 Main actors and policy positions**

<b>Actors</b>	<b>Position on pension reform</b>
<i>Minister Riester, Ministry of Labour</i>	Advocated major changes in pension arrangements: lowering pension levels, introducing an obligatory second private tier
<i>Governing coalition: SPD and Green parliamentary groups</i>	SPD-left wing opposed privately financed pensions, SPD 'modernizers' backed Riester; Green party backed the plans on most features
<i>CDU/CSU parliamentary group</i>	Favoured a comprehensive reform including cuts in statutory pensions; critical of size of the private pension tier and regulations concerning investments within the scheme, substantive interests tied up with tactical (electoral) motives
<i>FDP parliamentary group</i>	Favoured privatization of pensions; supported cuts in pension levels if that would lead to lower contribution levels/taxation; resisted basic pensions
<i>Trade unions: peak organization DGB and constituent members</i>	Favoured preservation of the statutory scheme and guarantee of minimum pension levels; very critical of private schemes, favoured greater role for occupational pensions in overall pension provision and regulation through collective agreements; individual unions split on approach: from more conservative (e.g. <i>IG Metall</i> ) to more reform-minded (e.g. <i>IG BCE</i> )
<i>VDR (German Association of Public Pension Insurers)</i>	Supported preservation of existing pension scheme; rejected compensation factor to lower pension levels

union expectations for the less painful reform that the SPD had announced in its election campaign' (2005: 146). As an intermediate step, in the summer of 1999 the Government resorted to other measures that would temporarily relieve the pension budget, announcing the end of net wage indexation of pensions. At the same time, Minister Riester presented his ideas on a major pension reform to the public for the first time. At this point, his initial plan included a supplementary and mandatory pension pillar financed by workers and employees with a contribution of 2.5 per cent of gross earnings; a new tax-financed and means-tested minimum pension to complement the existing statutory insurance; independent pension claims for married women; and a reform of disability pensions. This early catalogue of reform ideas was complemented in May 2000 with a plan to control rising pension expenditures in the statutory scheme. The curbing of expenditures was to be achieved by a change in the pension formula, which

introduced an ‘adjustment factor’ (*Ausgleichsfaktor*). The implementation of this factor ensured that younger age-cohorts received a much lower pension level within 50 years of its enactment, amounting to 54 per cent of average wages in 2050 as compared to 70 per cent at the time of the reform.

### Early Objections

Most of these plans did not make the final version of the draft bill, as they were subject to massive criticism on several fronts. To begin with, the mandatory character of the private pillar was dropped shortly after its announcement in response to considerable criticism. Minister Riester had designed the private pension tier as mandatory, so as to achieve a specific goal: obliging Germans to invest in private pension plans was meant to take some of the financial and demographic pressures off the statutory pension scheme in order to make it viable for the future. Financial pressure (and related economic pressure) stemmed from the fact that the revenue bases of public pension schemes had been shrinking since the economic crisis of the mid-1970s, and additionally, pensions had been used frequently by governments to offer an early exit for older employees and the unemployed. The latter became especially relevant after reunification, when the Kohl Government used this instrument to ease the burden after reunification, following the collapse of the economy in the Eastern *Länder*. Furthermore, the number of regular jobs had been decreasing, with a concomitant rise of atypical employment that was exempted from social insurance contributions. These developments furthered the gap between revenues and expenditures in statutory pension insurances (Schludi 2002: 10-11). As for demographic pressures, the dual threat of increasing life expectancy and declining fertility rates increased the share of elderly persons relative to the working population. For social insurance, and pension schemes in particular, this meant, with a projected age dependency ratio increase in the EU from 24 per cent to 49 per cent in 2045 (ibid: 11), that transfers to the elderly would have to double in the coming decades, putting enormous pressure on governments, which were looking for ways to lessen this burden. Notwithstanding these pressures, Minister Riester felt impelled to withdraw the mandatory element of the plan, given the stance of the Christian Democrats, the trade unions, and the SPD’s junior coalition partner, the Greens. In addition, the plans provoked angry reactions from the media, interest groups and the general public in June 1999, at a very early stage in the reform process. Shortly after the largest German tabloid, *BILD*, had run the headline ‘wave of anger rolls towards Bonn’,

the Ministry changed this core element of the reform, replacing it with voluntary participation (Riester 2004).

Yet, even this voluntary scheme still faced considerable opposition, both by leftist hardliners in the Minister's party, the Social Democrats, and by some trade unions, who opposed it on ideological and distributional grounds. On the one hand, they distrusted investments in capital markets as a basis for pension provision, and feared too-high financial obligations for low-wage earners. On the other hand, they opposed the privatization of pension provisions, because they saw it as a violation of the parity principle, which stipulated that employers and employees should each pay half of the total contribution sum.

Another bone of contention was the reduction of pension levels by introducing an 'adjustment factor' in the pension formula. According to Riester's draft bill, this factor would be initially applied in 2011 and increased to a maximum of 6 per cent in 2030. The effect was a gradual decrease of replacement rates to 64 per cent while keeping contribution rates under the level of 22 per cent until 2030.<sup>3</sup> Protest against this measure was heard by the left wing of the SPD, trade unions, the pension fund umbrella association VDR, and even by parts of the CDU. They feared that the statutory system would degenerate into a system that, over time, would offer not much more than a social-assistance-level pension.

Finally, the plans for a means-tested minimum pension, although not a central element of the reform, also met with political resistance, this time by both CDU and FDP, the VDR and employers' associations. Their main argument was that this novel measure, which would in fact replace the entitlement of the elderly to social assistance, resulted in the clear-cut distinction between contribution-based social insurance (such as statutory pensions) and means-tested social assistance being lost. As a result, employers in particular feared further increases in pension expenditure and thus non-wage labour costs as a whole. In turn, critics maintained that this would give an additional boost to employment in the black economy, further undermining the contribution base of the statutory pension scheme. Minister Riester felt unable to ignore these points of criticism and made a number of concessions.

### Ministerial Concessions

These concessions were aimed at appeasing the critics in Riester's SPD, the Green party, the CDU, and the trade unions.<sup>4</sup> The CDU, whose support was critical in securing *Bundesrat* approval for the reforms, did very

well, as they gained concessions in most areas. As outlined earlier, the mandatory element of the private pension scheme and the plan for a minimum pension protection disappeared, largely due to the insistence of the opposition. In addition, the Government restored the indexation of pensions to net wages (as opposed to gross wages) and adapted the provisions concerning survivors' pensions. It also met and even went beyond CDU demands for state subsidies and tax credits to those participating in the private pillar: this caused another major change to the initial proposals. During the course of the extra-parliamentary talks between the government and the opposition, and several rounds of 'bidding', the extent to which the state would help individuals finance the new private pension contributions was extended. While Riester originally envisaged modest support for citizens with low incomes only, he changed it to include tax credits applicable to middle and higher incomes and earmarked an amount of € 10 billion annually, to be extended to € 20 billion in 2008.

Furthermore, the size of the private pension tier turned out to be larger than originally planned in response to demands by the CDU/CSU, but also by the FDP and the Green coalition partner (Schulze and Jochem 2007). While contributions were first set at 2.5 per cent of gross wages and to be gradually phased in by 2007, the law included the provision of 4 per cent of gross wages as its target for 2008. The greatest driving force behind this increase was the decision of the government to agree on cut-backs in the pension replacement rates, mainly under pressure from the CDU. As mentioned above, the Red-Green coalition had reversed the last pension reform of their predecessors for electoral reasons, but the CDU/CSU had since been pleading for these measures to be re-instituted, which Riester did by introducing the 'adjustment factor'. Moreover, the gradual reduction of pension levels, which it implied, was to be compensated by corresponding increases in private provision, given the previous commitment of the Social Democrats to keep an overall pension level (composed of statutory and private pensions) of 70 per cent. Eventually, the initially much criticized 'adjustment factor' was modified by the parliamentary committee and replaced by a VDR-sponsored 'indexation factor', which was to reduce gross-wage increases of replacement rates by changes in contribution rates.<sup>5</sup> The net effect of all this was that replacement rates would not drop below 64 per cent after 2030.

In contrast to the CDU, which had taken a rather confrontational stance towards the government, the smaller liberal opposition party, the FDP, continued cross-party negotiations with the coalition (even after the CDU had abandoned them in October 2000) in an attempt to shape the

reform plans more to their own liking. However, after a number of substantial concessions from the government to the trade unions had materialized that were out of line with the FDP's idea of lowering pension levels in exchange for lower contribution rates (see below), an agreement with the government's line of policy became almost impossible.

The Ministry also saw the need to appease its own reform critics, i.e. the left wing within the SPD parliamentary party and the trade unions, who tried to wield as much influence as possible via its channels with SPD parliamentarians. Minister Riester felt pressed to accommodate their key demands out of necessity to gain their support for the *Bundestag* vote (not least because it looked as if the CDU would deny its approval). Concessions made on this count included the scaling down of the effects of the 'adjustment factor', which was changed into an 'indexation factor', implying a smaller reduction in replacement rates in the long term. This new factor also had different effects: it affected both current and future pensioners in similar ways, while the adjustment factor would have introduced a de facto differentiation in replacement rates to the detriment of current pensioners, which was very controversial (Schludi 2005: 149). Furthermore, the role of collectively negotiated occupational pension schemes was strengthened vis-à-vis individual pension plans. This increased the influence of trade unions in the regulation of that particular part of the new pension system. As a result of trade union pressure for a contribution by employers to employees' private pension savings, a compromise was reached, which stipulated that collectively negotiated occupational pensions should take precedence over individual pension plans. In the process leading up to the 2000/2001 reforms, the trade unions had been changing their attitude towards the role of collective retirement provision and the overall viability of the statutory system. They had realised that they could not oppose decreasing benefit levels in the public scheme indefinitely, and that their organizational self-interest would be served by participating in the regulation of occupational pensions with the collective framework agreement (Schludi 2002: 170-171). The change in attitude towards lower pension benefits had been a particularly long and conflictive process, in which Riester, who, interestingly, was at that time the chairman of the metal workers' union (*IG Metall*) also played a role. In 1997, Riester and the former trade union umbrella organisation DGB (*Deutscher Gewerkschaftsbund*) chairman Schulte and former DGB vice-chair Engelen-Kefer were quarrelling in public about whether cuts in pension benefit levels were inevitable or not (Trampusch 2005: 19). Finally, an intervention from the highest ranks of the DGB prompted

the government to add a provision to the bill that amended the statutory pension scheme, ensuring that the standard pension level would not fall below 67 per cent (*Niveausicherungsklausel*).<sup>6</sup> Eventually, the DGB was happy to have achieved those changes, as well as others, such as fairly generous state subsidization of supplementary pensions, and improvements in survivors' pensions.<sup>7</sup>

### Securing Final Approval

During the latter stages of the parliamentary process, the CDU, despite their demands being accommodated by Minister Riester, continued to oppose the reform on what seemed to be tactical grounds. Therefore, the government could still not count on their support for the vote on the reform plan in the *Bundestag* and, more importantly, in the *Bundesrat*, which eventually had to approve the Old-Age Provision Extension Act, covering both the private pension pillar and the basic pension for the disabled and elderly. Getting the latter to approve that Act was not easy given the combination of continued CDU resistance, the lack of a Red-Green majority in the *Bundesrat*, and some skeptical *Länder* governments, including some ruled by the SPD. In January 2001, on the advice of the coalition parties in the parliamentary committee discussing the draft bill, the whole reform package was divided into a part containing the cuts in the statutory insurance, which could proceed without *Bundesrat* approval, i.e. the Old-Age Provision Extension Act, and another part involving financial matters of concern to the *Länder*, and as such, dependent on *Bundesrat* approval, i.e. the Old-Age Provision Act (Dünn and Fasshauer 2001: 271).

Possibly, the Ministry also anticipated problems in gaining the consent of the *Bundesrat* and urged this strategy. However, only after protracted negotiations with the CDU and the *Länder* co-governed by the SPD, in the Mediation Committee a deal was struck and the law approved by the *Bundesrat* in May 2001 (albeit by the smallest majority possible for the governing coalition). Again, the Government had to accommodate demands, such as the inclusion of real-estate as a form of retirement savings under the private scheme and the establishment of a federal agency responsible for administering government allowances. Other concessions to the *Länder* included an extension of the range of products to be included (and funded) under the private scheme, and more generous financial compensation. Even the provisions of the Old-Age Provision Act (passed in January 2001) were again amended during the mediation procedure to include a reduction of cutbacks in survivors' pensions at the request of the

CDU (Schulze and Jochem 2007). The final agreement was reached only after Schröder and Riester had persuaded the *Länder* Berlin and Brandenburg to vote in favour of the bill: in return for their approval, the new agency administering private pension subsidies was going to be located in their area.

## 5.2 Tracing Ideational Leadership

We will now investigate whether IL was present in the reform process in one or several of its aspects: denouncing the policy status quo; introducing and defending new policy principles; appealing to reform opponents to reconsider their resistance; and political orientation.<sup>8</sup> Assuming that Minister Riester was the key political actor to bear final responsibility for the introduction of the reform plan, he is the focus of the analysis. Since the analysis also aims to establish whether IL was the crucial factor in the process, we will explore three possible strategies of reform adoption by the Government: IL and two alternative explanations for dealing with reform resistance, making substantial content-based concessions for reform critics, and ignoring or outmanoeuvring reform critics. In order to trace how IL mattered in the final adoption of the reform, the views of close observers of the reform process will play a central role.

### Turning Away from Single-Pillar Pension Provision

Chancellor Schröder's choice for Walter Riester as Minister of Labour was motivated by at least two considerations. Firstly, Riester agreed with Schröder about the need for a structural pension reform and how to tackle it: by creating an additional capital-funded pillar of pension provision. Secondly, a more symbolic motive also played a role in the choice for Riester. According to the Minister, 'on the one hand, it was a positive signal towards the unions to choose "one of them"; on the other hand, he set a signal by taking aboard a union man who did not have the reputation of being traditionalist' (Riester 2004:70). The lack of traditionalist thinking on Riester's part referred to his ideas and perceptions of what action needed to be taken in the labour market and in social policy, which, in his opinion, had to undergo far-reaching reforms, not merely corrective adjustments which would have left the policy status quo largely intact. Furthermore, the pension issue was of central importance to him:

Led by the idea of opening up a perspective for people's future, developing a reform of pension provision became the key question to me (...). To find answers to this question, while departing from a process of discussion and debate, was for me the biggest incentive to accept the Ministerial office when it was offered to me (ibid: 126).

Indeed, Riester had been thinking about this issue even before he became Minister, especially during the last years of the Kohl Government. He came up with the idea of creating a 'collective agreement fund' (*Tariffonds*) to ease the problems with early retirees burdening the statutory pension scheme and discussed it with the social partners. During this period, he also voiced his ideas by publicly advocating (in interviews with, for instance, *Die Zeit* and *Süddeutsche Zeitung*), radical reform of social security schemes in reaction to long-term societal developments, which were affecting the workings of the post-war labour market. In doing so, he adhered to a sort of 'holistic' view on policy-making when arguing that:

Given the existing distributional systems through tax, finance, and social policy, as well as collective bargaining policy, I saw a comprehensive recalibration as essential. The Kohl Government had looked at each of these systems in isolation, to me it made more sense to see them as a connected whole and ask what each of them could contribute to a common solution (ibid: 133).

This illustrates that Riester, by virtue of his previous career and earlier thoughts and initiatives on pension issues, had acquired the profile of a reformist and a modernizer within one of the largest German trade unions. However, in what ways would he actually tackle the status quo during his period in office?

The policy status quo, and whether it could still be considered viable, was closely linked to the perception of the statutory scheme at the time when Riester took his first steps towards a reform proposal. Riester addressed the question of how reliable the statutory pension scheme was in his own writings with due care. One article written by the Minister, at a point in the process when he was still engaged in 'consensus talks' with the CDU and FDP opposition (which broke down in the fall of 2000), illustrates the point.<sup>9</sup> Therein, Riester explained the rationale behind conducting a far-reaching reform, and claimed that in the upcoming pension reform, a fundamental choice had to be made about the future position of the statutory scheme. He referred to 'political forces arguing that the statutory pension

scheme would not be able to resist demographic change in the future and plead instead for a tax-financed basic pension.' In the light of this challenge, to him 'a fundamental decision needed to be taken on whether this first pillar should continue to ensure pensioners' living standards or whether it should merely serve to avoid the decline into poverty'. For an answer to this problem, he left no doubt about the Government's position, which saw a tax-financed basic pension as no alternative to the current PAYGO system, and he predicted that the latter would 'continue to form the main pillar of old-age provision'. In the Minister's eyes, reform had to be conducted carefully in the sense that it did not burn all bridges with the past:

The contribution-based statutory pension scheme will continue to form the backbone of old-age provision. My aim is to create an affordable system of pension insurance which continues to guarantee a reasonable standard of living to retired people. But it is also true that the statutory scheme has to respond to societal changes if it is supposed to still exist in the future.

The fact that the statutory pension system was no longer viable in its present form, according to Riester, was linked to a number of challenges: demographic pressures, technological progress and resulting changes in working conditions and a change of values in society. The threat to its viability lay in the combined consequences of these changes for the scheme's financial sustainability, which Riester explained in detail. In other words, the Minister's attitude towards the status quo in pension policy was one of caution and respect for policy legacies, but he also clearly communicated and explained the reasons why, in its present state, it was not sustainable for much longer.

During the phase of policy formulation, and thus before the formal legislative process, Riester kept reiterating the need for his reform ideas by stressing the main problems that had beset current pension arrangements. With this, he usually combined an outline of proposed goals and instruments needed to reach these goals. Notwithstanding earlier reforms of the pension scheme, the Minister pleaded for further reform solutions within the next decade, in order to anticipate the failure of the current system of pension provision. He linked this plea to a systematic diagnosis of the rationale for structural reform: once again, reasons relating to demographic trends were named but there was also some concern about high levels of non-wage labour costs and the system's general economic and budgetary significance.<sup>10</sup>

In one extensive interview,<sup>11</sup> the Minister reiterated why it was necessary to react to the worrisome state of the pension system. Riester also hinted at 'false promises' made in the past by the state-administered system about 'securing the standard of living' and he determined today's requirements in terms of how long, in order to receive a full, 'at best fictive' pension, contributions must be paid for. Neither did he miss the opportunity to stress that, in his eyes, no other government before had reached this prudent conclusion:

We are the first ones to bring about generational justice, which means that we do not leave the problems to be resolved by the next generation. We are making sure that a long-term stabilization of the pension contribution level at an acceptable level of pension provision is guaranteed.

At the beginning of the legislative process, in an article directed to a trade union audience, he added a twist to the communicative pattern of rejecting the policy status quo.<sup>12</sup> Rather than pointing outright to the failure of the state-administered system, the Minister observed a growing lack of confidence in that system due to a long period of 'an attitude of procrastination and belittlement of emerging problems'. Here, Riester was clearly referring to the recurring statement of his CDU predecessor, Norbert Blüm, who had not ceased to assert, up until the late 1990s, that 'pensions are secure' (*Die Renten sind sicher*). This instance of Riester's thinking shows that he sometimes (and possibly adapting his wording to the audience) added nuances to his attacks on the status quo, which suggest that rather than blaming the system for its failure, complacent and idle policymakers should be the ones to blame.

During the later stage of the parliamentary process,<sup>13</sup> Riester kept reiterating the fundamental demographic challenge to the statutory system (as well as summarizing its goals and repeating its key elements). At that time, after a tedious, drawn-out parliamentary process that often dwelled on small details of the legislative proposals, he had to endure a lot of criticism for his proposals. Nevertheless, he still tried to remind the audience of the fundamental reasons behind his reform project:

No pension scheme, however well it may function, can cope permanently with the fact that people have longer life expectancies, that they receive their pension for a longer period of time and that they face lower childbirth rates. With these developments, fewer contributors will have to finance the pensions of more retired people for longer time periods.

The previous examples of Riester's pleas for changing the pension policy status quo illustrate that he – throughout the reform process – clearly linked the necessity for structural reform to the shortcomings of the current state of the statutory pension scheme. The array of statements made in public and in writing, both before and during the legislative process of the reform, therefore illustrates that Riester fulfils the criteria for the first aspect of IL about rejecting the status quo.

#### Legitimizing the Reform: Modernizing and Stabilizing Pension Provision

Similarly, Minister Riester undertook various efforts in legitimizing his reform plans in various communication contexts and by addressing different audiences. An example of his early calls for substantial reform can be found in his address to the SPD party congress on the future of social security in November 1999.<sup>14</sup> In a rather programmatic statement, he looked back on those social policy changes already implemented during the first year of the Schröder Government, and listed a number of reforms that were still on the Minister's agenda. Among the upcoming projects, he announced a structural pension reform as the 'the largest social policy project ahead in the next months'. His explanation and justification of such a far-reaching reform included core goals of the reform proposal, such as the 'generational contract', 'security of the pension system', 'stable contribution rates', 'stable pension levels' and the innovation of 'additional private pension provision'. In addition, he considered this large reform project to be well in line with programmatic innovation within the SPD, as he stressed the close connection between those reform goals and the programmatic statement on which delegates were to vote during the party congress. That statement highlighted the need for 'a balance between individual responsibility and state benefits' and the upcoming pension reform was in Riester's eyes one important example of putting this balance into practice.

In 2000, the Minister continued his efforts in promoting the provisions of the proposed reform, explaining what it was about and how it should help to address the growing weaknesses of the statutory system. On one occasion, for instance, he set the reform proposals in the larger context of earlier decisions on pension policy,<sup>15</sup> and gave an overview of its goals and instruments. Appealing to 'a sense of pragmatism' in German society, which was needed to support his reform plans, he presented the totality of the past and envisaged reform measures as one cohesive programme. In this bid to muster early support for his plans (before they were formally

decided upon by the cabinet and the beginning of the legislative process) Riester kept clarifying why the proposed measures were necessary. He did this by typically presenting the proposed goals and attached policy instruments as answers to the problems with the current system. With this approach, he also explicitly related new policy instruments and their underlying ideas to their expected effects. To give an example, he outlined the effects of a new pension calculation formula and the new adjustment factor, which would decrease pension levels slightly to accommodate the impact of demographic effects:

If the younger generation has to spend more money from now on to secure a comfortable life for when they will retire, then it is legitimate to ask an extra contribution of those who are now receiving their pensions. It is not possible to have everyone benefit. The same is true for the new adjustment factor. It is introduced to realize a slight decrease in pension claims for those who will retire in the future (starting with 0.3 per cent in 2011 rising up to 6 per cent in 2030). Without this decrease, contribution rates and demographic developments would be no longer manageable.<sup>16</sup>

Alongside this effort to legitimize his reform proposals, Riester also presented the reform's goals and principles, which have cognitive (problem-solving) and normative (relating to society's norms and values) elements to them. For instance, these included 'fair and just burden-sharing across different generations', 'long-term stabilization of old-age provision in order to reassure the retired', 'modernization of old-age pension provision by constructing a fully funded pillar of private pensions', the 'prevention of old-age poverty', and several innovations improving the situation concerning widowers' pensions and the pension rights of women raising children.<sup>17</sup> On another occasion, the Minister restated that the reform's main goals addressed the statutory scheme's financing problems by saying 'we are making sure that a long-term stabilization of the pension contribution level at an acceptable level of pension provision is guaranteed'.<sup>18</sup> Indeed, this reasoning proved to be at the core of the reform: getting everyone to accept that the aim of and need for lowering pension levels in the long run had to be combined with the competing goal of keeping contribution rates (as well as the state subsidy to the pension budget) under control.

Apart from frequently referring to its goals and principles, Riester also legitimized the reform by outlining its expected positive effects on various groups of the population: the young generation, older employees

about to retire, and employers.<sup>19</sup> For instance, he combined his promise of a genuine structural pension reform with improvements in welfare for these three groups, as his concept was designed to provide not only a suitable, but also 'a just answer to many future questions about old-age provision.'<sup>20</sup>

To recapitulate, it is evident that even before the legislative phase of the reform process, the Minister had been legitimizing his reform proposal by explaining both the cognitive and normative implications of its provisions, as well as its supposed benefits to the population. Did he also continue these efforts in the later phase of the reform process? Once the parliamentary process had begun, Riester could be expected to take the opportunity of his appearance in Parliament in order to continue legitimizing his proposals. A comparison of his three speeches during the readings of the bills, and before the final vote on the most controversial part of the reform, concerning the establishment of the additional private pillar, confirms this. The Minister spent most of his speaking time outlining and explaining the goals and main elements of the proposals. At the first reading of the two bills, he began by returning to the reform's underlying principle of generational justice.

Concerning solutions, we are first of all concerned with finding a fair balance between the different generations. We have put forward a solution that lives up to this goal. In our pension reform, the young and the old are both winners. We create generational justice; we put emphasis on solidarity with gains, as well as on security and affordability.<sup>21</sup>

Then, he once again went on to explain at length the goals of the reform, the creation of an additional private pension pillar and the stabilization of contribution levels, as well as control of the growth of non-wage labour costs. Other goals pertaining to other elements of the reform were to help people (especially women) with interrupted pension contribution trajectories, and combating old-age poverty. When concluding his talk, the Minister optimistically went back to the point of the 'many winners' of the reform proposals, repeating the gains of each group. Referring again to the normative legitimization of the plans, he finally alleged that 'this reform is more than an overdue and necessary repair of the system and one of the most forward-looking reforms for many decades, combining the principle of solidarity with individual responsibility'.

At the second reading of the bill in January 2001,<sup>22</sup> the Minister reiterated his commitment to the four initially formulated goals (increased

funding for pension provision, stabilized contribution rates, equal treatment of parents, prevention of old-age poverty), despite the numerous revisions made to the draft bill. After repeating these goals and their justification, as well as presenting the reform as the logical continuation of earlier pension reform measures by the Schröder Government, he concluded, with a certain sense of pride, that ‘all four goals have been realized with this reform, which makes it the most important social policy reform in post-WWII history’. The belief in making an historic step towards the sustainability of pension arrangements that were to result in restored public trust in the system can also be found elsewhere in Riester’s writings. In the spring of 2001, when the parliamentary process approached its climax in the mediation procedure, he stated:

The goal of our pension reform is to make the statutory system sustainable, adapting it to foreseeable demographic change. We want to secure the level of pension provision for current and future pensioners, make for predictability and regain confidence in the statutory scheme.<sup>23</sup>

With regard to sustainability, he highlighted the tax-credit scheme whose effect was to lead to a situation in which future pensioners would reach a level of provision that is ‘permanently higher than the current level of provision in the state-run system’. With considerable confidence, Riester also claimed that ‘we have started our task of dissolving the reform backlog in this country and with this pension reform we live up to this expectation’. All in all, the reform was supposed to reduce the backlog of reforms (*Reformstau*) in the country by making pensions sustainable for the older generation and affordable for the younger generation.

The Minister’s final appearance at the last reading of the bill for the Old-Age Extension Act in May 2001 may be seen as an attempt to legitimize the essence of what had begun with a handful of core ideas almost two years earlier. Riester listed the improvements that had been adopted in the final version of the bill (concerning the status of women, people with ill health and disabilities), particularly stressing the generosity of subsidies for the private pension plans:

We are not only talking about a quantum leap in old-age provision, but we carry it out because the capital-covered additional pension as second pension will be subsidized for everyone. This means solidarity with a gain!<sup>24</sup>

Using a legitimizing pattern, which he had used before on various occasions, Riester ended his final speech in Parliament by again pointing out the supposed winners of the pension innovations:

These are the future retirees who know that they will receive a higher pension than according to the present situation; the younger generation who knows that their contributions will stay affordable and that they will receive two sorts of pensions later on; and, everyone in this country raising children who knows that their pension claims will be adjusted accordingly.

In addition, he remarked, underlining his satisfaction with the reform, that ‘by concluding this reform we make clear that the term “reform” also implies that people are better off afterwards compared to the pre-reform situation.’<sup>25</sup>

To conclude, this compilation of the Minister’s written and public spoken statements shows a variety of examples in which he explained and/or legitimized the 2001 pension reform by referring to its goals and principles. He did so by either linking these goals to the problems the reform was supposed to address, making cognitive arguments, or by showing that the normative principles underlying the reform indeed relate to socially desirable norms and values. Riester also legitimized the reform measures with references to the expected benefits for the main groups of the population that were to benefit from the changes. All in all, the Minister fulfils the criteria for the second aspect of IL about legitimizing a reform in cognitive and normative terms.

### Appeals against Reform Resistance

When Riester, the former IG Metall deputy chairman, entered the political arena, it soon became clear that the way towards comprehensive recalibration of socio-economic policies would be more difficult than expected. Early on in his period in office, he succeeded in defending his ideas on pension reform against more traditional thinkers within the SPD in the process of drawing up the coalition agreement. At that time, the Minister realized that it was ‘decisive to take on the challenge of achieving a forward-looking pension reform.’ For him, this first instance of internal party confrontation was clearly a learning experience, which possibly influenced his later style in dealing with the opposition and led him to pledge not to allow others to restrict him even before embarking on his work as Minister of Labour (Riester 2004: 85).

Later on, the Minister took the opportunity on various occasions to voice his disillusionment with reform critics. In 1999, at a fairly early phase in the reform process,<sup>26</sup> he sharply attacked the approach of the CDU/FDP opposition towards social policy issues as ‘populist, lacking concepts and untrustworthy’. Admittedly, the choice of such a tone was probably related to the context of the party congress, which tends to invite a more confrontational rhetoric and can be seen as distinct from Riester’s other public reactions to criticism.

Looking at some examples, it appears that the Minister’s attacks on criticism in other contexts, such as interviews and parliamentary speeches, were qualitatively different. They often struck up a more serious and warning tone, especially when directed at the opposition, on whose cooperation in the CDU-dominated *Bundesrat* the Minister ultimately depended for part of the proposals. When asked about how he would deal with the resistance of the parliamentary opposition, he pointed out (in an interview) that the CDU would have a severe credibility problem if they dared to veto the tax credits to citizens for private pension provision.<sup>27</sup> The background behind this assessment was that the government’s funding plans exceeded by far the amount of funding the CDU had requested, indicating that a veto would contradict their earlier arguments and subsequently be counterproductive to them and to the progress of the reform. This statement may be taken as an example of an appeal to the opposition to rethink their attitude.

Furthermore, at the second and final reading of the Old-Age Provision Act in January 2001,<sup>28</sup> the Minister accused the CDU of party-political tactics in their continued resistance to elements of the reform. In addition, he severely criticized the way in which the CDU had pretended for some time to cooperate with the government. One subject of the Minister’s frustrated remarks was the offer of the Christian Democrats to enter into consensus talks to work constructively towards solutions and their subsequent switch to blocking behaviour. Against the background of a controversial CDU advertising campaign to mobilize society against the Government’s pension plans, Riester also attacked the opposition for their agitating behaviour and for using populist arguments: instead of using reasoned argumentation, he alleged, they were rather keen on defaming the Government, and particularly his own person. The Minister also took advantage of his final appearance in parliament, before the *Bundesrat* vote on the reform, to criticize the opposition’s non-cooperative attitude:

As always in life, there cannot only be winners. Ladies and Gentlemen of the opposition, you have not come a long way. Today, you stand at exactly the same point where you departed from. I regret this since I have wished for the opposition to cooperate constructively.<sup>29</sup>

As on the previous occasion, he addressed the issue of the opposition's behaviour while making a careful distinction between what he saw as 'constructive cooperation' by the liberal FDP and the 'blockade, procrastination and defamation' on the part of the Christian Democrats. In both cases, he directly referred to parliamentarians whose behaviour he saw as exemplary for both parties. Apart from underscoring that his appeals to reform critics became remarkably direct towards the end of the reform process, such rhetoric also highlighted the end of policy-making under the condition of cross-party consensus, which had dominated German pension policy-making for many decades (Schludi 2002).

In conclusion, the examples presented above support the idea that Minister Riester did confront the hurdle of reform resistance. His way of communicating provided sufficient evidence for the aspect of IL that deals with appealing to give up reform resistance. Not surprisingly, most examples of this were found in the later stages of the reform process, when the bills had entered the parliamentary process: at that stage, it had become obvious that the opposition was not cooperating with the Government, resulting in ever more pronounced efforts to derail the reform.

### The Importance of Political Consensus Building

The events during the reform process demonstrated that as regards political consensus building, Riester did show some weaknesses. Why was that? Admittedly, the Minister preferred to keep away from 'political games' and was inclined towards preserving personal integrity in political disputes (Riester 2004: 94-95). However, this does not mean that he did not sense the importance of winning over political opponents to support his proposals: at some points in the reform process, his actions demonstrated that he saw the need to engage in political consensus building in order to bring his reform project to completion. During the difficult period in the autumn of 2000, when the reform was still at its drafting stage and Riester saw himself faced with day-to-day complaints from societal associations (including the trade unions) backed by the CDU opposition, he sensed that

This moment was critical for the reform. Our plan could only be saved if we could take away the Union's (i.e. the Christian Democrats) 'sounding board' of societal associations in order to end the public discussion on possible details of the reform. This, in turn, meant to quickly present a legislative draft and to persuade the trade unions to support its provisions (ibid: 154).

At that moment, Riester thus thought actively about accommodating the trade unions' demands in order to increase overall support for the proposals. He also tried to convince the speaker for social policy issues in the SPD parliamentary group, Ulla Schmidt, that only after getting the trade unions on board a viable agreement could be reached. However, renewed union demands and lobbying efforts of the VDR to scrap the unpopular 'adjustment factor' escalated the situation and thwarted Riester's plans. To make matters worse, the SPD parliamentary party had decided to offer the unions a compromise without consulting him beforehand.

This course of events has shown how important political consensus-seeking attempts can be in achieving a final result on reform, and that the lack of success of such a strategy can at least hinder or delay such a result. In Riester's case, he seems to have underestimated the amount of support he would need to speedily conclude the reform process. While Riester did pursue an agreement with the trade unions (after attempting to find a basis for early consensus with the opposition), he apparently neglected to build bridges within the parliamentary parties of the Red-Green coalition, whose support he seemingly took for granted. Thus, his efforts at consensus-seeking remained in this respect deficient.

#### A Policy-Seeking Politician

To come to a judgment about Riester's orientation as a politician, it is worthwhile considering the Minister's own ideas about his aspirations as a politician and his attitude towards political power. When Riester himself reflected upon his political style and his understanding of holding a political office with considerable authority, he made clear that his intention was not to adapt too much to the rules of the political arena and to participate in political rituals. At the same time, he was well aware that this pledge to keep his integrity and to remain true to his personal beliefs might be interpreted by political observers as a lack of political flexibility and thus as a potential weakness. He also speculated that his political opponents would see this 'weakness' magnified by the lack of connections

to the SPD parliamentary group: the Minister had no previous experience as a member of Parliament because of his direct transfer to politics from the trade union movement. Riester compared his entry into politics with making an entrance into a closed system that consisted of an inner political circle and an attached media-driven environment. He also admitted to having difficulties with that system, being ‘someone to whom the principle “give and take” did not matter and who could not accept it as political leadership style’ (Riester 2004: 95). These thoughts point to a politician who intended to set out and follow his own path, and engage as little as possible with established political circles, but who also was self-conscious of the drawbacks of this choice.

Related to Riester’s attitude towards ‘doing politics’ was his personal interpretation of power, which, according to him, ‘is no end in itself (...) but one that only shows in social relations [...]. It is not a negative term by definition, but one that implies the shaping and changing of social realities’ (Riester 2004:96). About his approach to power and policy-making, he declared that:

It is important to me to link my concerns to societal realities and developments. I am not interested in – as it is done frequently – developing my ideas while depending on plotting and underhand doings. On the other hand, I want to do justice to societal complexity and integrate different needs of different groups in society, also beyond what seems to be necessary (ibid: 96-97).

At the same time, he recognized that his efforts to remain ‘authentic’ may have their price:

Of course the question arises whether I would have made things easier for myself if I had adapted more, if I had participated more fully in the political game, or if I had been on the spot more clearly. All of this may have been correct, but it was not my style of doing things (ibid: 98).

Riester’s self-characterization reveals that he hardly saw his mission in politics as one of achieving political results in order to gain power and personal prestige, but rather as informed by idealism and personal integrity, which can be associated with a policy-seeking motivation. His own idea of leadership seemed to be clearly directed towards effecting policy change in a way that does not depend on political ‘give and take’ as he puts it, but rather relying on the power of ideas and arguments. How did these

intentions fare in the realities of the process of pension reform? Did Riester's behaviour also have a steering role in the reform process?

The analysis so far backs the supposition that Minister Riester acted as an ideational leader. Our findings reveal a recurrent argumentative pattern that links the necessity of reform to existing and expected policy problems, and a coherent presentation of the reform concept, including its goals, its instruments and their expected effects. The 'modernizer' Riester exposed the disadvantages of the old statutory pension scheme while trying to justify the core of his reform proposal, which rested on the principle of generational justice. His answer to the old system's troubles was to adapt the financing of the statutory system while at the same time introducing a second pillar of privately funded pensions. This innovation was defended by reference to both reform necessity and appropriateness. Riester's speeches in Parliament disclosed numerous attempts to condemn the blocking tactics of the Christian Democrats, and his accusations directed at the opposition and their destructive attitude can be seen as indicative of the third aspect of IL. The analysis also underscored the importance of the fourth aspect of IL, the need for undertaking political consensus building. In this respect, however, Riester's performance was found to be lacking and it is plausible to suggest that a systematic focus on activities to build political consensus would have aided reform adoption. Finally, the Minister's policy-orientation could be verified with the help of his biographical writings. In short, our findings support the argument that Minister Riester was an ideational leader during the process leading up to the 2001 pension reform. However, we need to bear in mind that the assessment of communication content does not tell us much about the effectiveness of the message. In other words, the question whether such purposeful communication – even if in agreement with the aspects of IL – also had an influence on the achievement of the reform cannot be ascertained from texts alone.

### **5.3 Assessing the Role of Ideational Leadership**

At this stage, we turn to the question of *why* the reform eventually materialized and to what extent Riester, whom we have identified as ideational leader, was crucial to its adoption. For providing an answer, we will draw on the views of observers about why the process eventually led to parliamentary approval as well as on Riester's own account. Additionally, we will consider which strategies the Government used to push through their reform concept, and how Riester's role related to these.

## The Government's Strategies to Adopt the Reform

In the analysis, we considered three possible strategies of the Government to enable reform adoption: argumentation by means of persuasion; making concessions, and ignoring or outmanoeuvring reform opponents. It is assumed here that finding considerable evidence for the argumentation strategy, as opposed to the other two, would provide extra support for the role of the ideational leader Riester.

To begin with, observers clearly recognized that the first strategy, legitimizing reform proposals by way of argumentation and persuasion, was employed by the Government, and explicitly stressed Minister Riester's share in it. However, while some respondents recognized that there had been efforts to legitimize the reform in public, towards interest groups and to persuade the SPD's parliamentary group (interviews with policy expert, 22 April 2004, Green party official, 16 July 2004, and former SPD MP, 15 June 2004), it was also pointed out that this communication strategy was found to be lacking in one way or another. More specifically, it was alleged that communication on the reform drafts between the Ministry and the SPD party faction began too late in the process, had a flavour of 'there is no alternative' about it (interview SPD official, 28 June 2004), was too limited in the beginning of the process (interview BMGS official, 16 June 2004), or too open towards the diverging positions of other policy stakeholders (interview Green party official, 29 June 2004). On the other hand, from the perspective of interest groups (and trade unions in particular), the Government's communication was qualified as resolute and as 'leaving no alternative' as far as the 'if' of the reform was concerned. Concerning the details of the reform draft, reformers tried to be persuasive by using economic arguments and sophisticated calculations in order to underline the need to adjust the statutory scheme. However, this approach was seen to be too one-sided as it stressed the technical details of policy instruments rather than the design of the reform in its entirety (interviews DGB official, 14 June 2004 and former DGB official, 28 June 2004).

Following on from this, the use of the second strategy, making concessions to reform critics, was also widely acknowledged. In particular, it was the trade unions which saw their demands accommodated by the Government, but also social welfare associations (who are lobbying for the interests of recipients of social security benefits), and critics within the SPD were mentioned as being successful in achieving concessions. At the same time, respondents rarely reflected on the importance of these

concessions for the final result from the Government's perspective, but when they did, opinions diverged on whether granting them had been positive or negative for the overall outcome of the reform. For instance, it was argued that the Minister's agreement to make concessions to the SPD parliamentary party came too late to avoid damage to his reputation based on his performance in the reform process (interview former SPD MP, 15 June 2004). However, it is unclear whether this unfortunate course of events delayed the adoption of the reform. In contrast, the view from the perspective of the Minister's staff on concession-making was different. A ministry source saw the concessions concerning the status of occupational pensions in particular as a crucial instrument in winning the approval of trade unions for the new minimum pension levels that were a core provision of the reform (interview senior official BMGS, 16 June 2004). As far as the opposition was concerned (and apart from the question as to whether concessions had contributed to the final result), the Minister's concessions illustrated the remarkable influence trade unions had on the Red-Green coalition (interview CDU MP, 17 June 2004), and eventually, on the reach of the reform.

In contrast to the other two strategies, the presence and significance of ignoring or outmanoeuvring reform opponents, was more contested. A SPD source found it to be characteristic of the agenda-setting and policy formulation phase (until 2000) of the reform process (interview SPD party official, 28 June 2004). The choice not to take the criticism of 'traditionalists' within the SPD during the drafting phase of the legislation seriously was an example of the Government ignoring opponents in the early stage of the reform process (interview senior official BMGS, 16 June 2004). Another obvious example was even mentioned several times: the attempt by Minister Riester to encourage the CDU opposition in separate talks to agree to a cross-party consensus on the pension plans (interviews with policy expert, 22 April 2004, Green party official, 29 June 2004, and SPD party official, 28 June 2004). While the Minister wanted these talks to bring the opposition 'on board', they were at the same time an attempt to outmanoeuvre intra-party opponents, that is, to neutralize critical voices within the SPD with the 'threat' of CDU parliamentary approval (interviews with policy expert, 22 April 2004 and Green party official, 29 June 2004). However, as the talks broke down before the start of the legislative process (despite the fact that the government had accommodated and even over-fulfilled CDU demands on funding private pension provision), it is questionable whether this strategy ultimately paid off. Only after it became clear that the CDU was no longer prepared to

engage in consensus building, the Minister started to look for support for his proposal elsewhere, i.e. within his own party and with the trade unions (interview SPD party official, 18 June 2004). Conversely, from the perspective of trade union officials, there was little question of being ignored or outmanoeuvred during the later legislative stage of the process, as the Ministry had responded actively to their most important points of criticism (interview former DGB official, 28 June 2004). Finally, the decision to split the reform package into two parts, one of which did not require *Bundesrat* approval - in order to avoid prolonged negotiations on provisions that could be adopted by a single majority in the *Bundestag* - can also be seen as an example of this strategy.

On the basis of the evidence just presented, and keeping the course of the reform process in mind, we may conclude that the first strategy, legitimizing reforms by way of consistent communication and persuasion, was present in the efforts of the reformists, and was associated with the Minister in particular.<sup>30</sup> However, the argumentation in favour of reform was found to be more elaborate vis-à-vis the general public and interest groups (especially trade unions) than vis-à-vis the SPD party faction in parliament, which apparently alienated some of its left-wing parliamentarians and formed a hindrance in the process. The second strategy, making concessions to reform opponents, was found to be equally important. Indeed, given the numerous moments in the process when the reform provisions were modified, it is hard to neglect the role of concessions, including those made for the final compromise between the coalition and some of the *Länder* in the Mediation Committee. In this respect, the accounts of respondents reaffirm what we stressed earlier in the summary of the reform process. Notwithstanding the Ministry's efforts to 'sell' its reform proposals, many of its measures were seen as unacceptable to key actors such as the CDU, the trade unions and their allies within the left wing of the SPD. Despite the Government's effort to legitimize the proposals, it was inevitable that this resistance necessitated a number of concessions in order to bring the reform to a close. By contrast, evading criticism was apparently not a viable option. The observations on the role of the third strategy, ignoring or outmanoeuvring reform opponents, made it appear less important relative to the other two strategies. The practice of excluding interest groups from the debate prior to the legislative phase; Riester's attempt to involve the CDU in a cross-party consensus in order to strengthen his stance vis-à-vis the objectors in his own party; and the division of the proposals into two separate draft bills to avoid the *Bundesrat* having to approve of all provisions all fell into this category.

With the knowledge that the argumentation strategy, notwithstanding its procedural weaknesses, and concession-making were prominently present in the reform process, let us take a closer look at Minister Riester's leadership qualities.

### Riester's Role in the Reform Process

What can be said about the role of Minister Riester himself? Given the evidence of his IL, was this also the crucial factor which concluded the reform? The Minister reportedly displayed certain leadership abilities during the process. One source from the Ministry of Labour praised the Minister for 'his achievement of paradigmatic change in the face of fierce resistance' (interview BMGS senior official, 16 June 2004). His sound knowledge of facts and thorough conviction that the changes he advocated were truly necessary made him a credible reformer. His reformist attitude was also supported by his professional background, his determination to innovate, and by a certain level of political support:

Riester has shown stamina, and he did so in a special kind of way. He was an outsider to the political arena [...] he had no mandate in Parliament and could only influence the parliamentary group in his quality as a Minister (...). Yet I think we would not have come that far if we had not had a Minister recruited from outside the political landscape who was willing to explore new paths [...]. In addition, his political backing by the Chancellor was of central importance, and so was the loyalty of the coalition's parliamentary groups that was needed for the eventual success' (interview BMSG senior official, 16 June 2004).

Riester's own observation of the reform process reinforces this appraisal: he described himself as willing to persevere as long as his mandate was politically endorsed. This became visible at what was possibly the most precarious moment in the reform process, in December 2000. While travelling abroad during the parliamentary expert hearings on the draft bills, he prematurely returned to Berlin due to heavy criticism of the draft bills. In addition, trade unions demanded the controversial 'adjustment factor' to be dropped, claiming an alleged promise to do so by the SPD parliamentary party without the Minister's knowledge. Despite the delicate situation and speculations of the media about Riester's resignation, the Minister, after reassuring himself of the continued backing of Chancellor Schröder and the SPD parliamentary party, decided to continue in office

although the reform would not include the 'adjustment factor'. After the crisis was defused, he recalled that 'I quickly returned to work and was determined to push through the pension reform despite everything that had happened' (Riester 2004: 159).

The views on Riester's leadership orientation held by other observers were diverse and stressed different aspects of how leadership may express itself. For instance, the Minister's party colleagues were more critical of the Minister's abilities in this respect. Allegedly, he was good at handling the communication and persuasion aspects of his job, but at the same time, he made mistakes when it came to process management. For instance, he underestimated the power resources of his opponents and made unfortunate choices, such as his deliberate absence during a key parliamentary hearing (interview former SPD MP, 15 June 2004). Another SPD source found but little evidence for Riester's leadership, judging him 'too sensitive to influences from within the Ministry and neglectful in terms of building support within the party' (interview SPD party official, 18 June 2004). Other coalition sources confirmed the latter view, but still attested to the Minister's leadership. At the same time, they found him to be lacking in sensibility to political processes and actors, as well as being too responsive to outside suggestions (interview Green party official, 29 June 2004). However, it was also suggested that the Minister clearly deserved credits for the adoption of the reform, despite deficiencies in dealing with the process, including his tendency for making concessions too easily (interview Green party official, 16 July 2004). As regards the views of policy stakeholders, trade union representatives were divided on Riester's leadership credentials. On the one hand, he was seen above all as a policy-oriented politician, who was 'consistently arguing for his plans and giving others the impression he was strongly convinced of their importance and their quality' (interview DGB official, 16 June 2004). On the other hand, it was stated that 'the many amendments to the proposals do not attest to a strong leadership style' (interview former DGB official, 28 June 2004).

The picture emerging from this survey of Riester's leadership is diverse: while he surely exercised leadership, it was at the same time continuously put to a challenge. The Minister started out with clear aspirations to change policy in accordance with his principles. Eventually, he steered his reform proposals towards adoption, despite serious ups and downs in the intermediate process that made him agree to concessions and legislative adjustments. Although the media contributed to foster a picture of a tarnished politician who had to water down his reform plans as the process

went along, Riester, with the backing of Chancellor Schröder, managed to hold on to the core points of the reform until its adoption in May 2001. In this sense, his idealism and focus on substantive policy issues paid off, although the way to the finish line had been far from smooth, and personally disappointing: his initial belief in the willingness to cooperate with several prominent CDU politicians (Riester 2004: 170) had been frustrated, and the lack of learning potential of his former working environment, the trade unions had become obvious (ibid: 144).

### Decisive Factors in Getting the Reform Accepted

After assessing the strategies followed by the Government and the role of the Minister's leadership, it is worth considering if there were any other factors that had been crucial in the eventual adoption of the reform, perhaps by increasing its acceptance among its critics. Doing so also provides a check on whether interview accounts support or disconfirm earlier findings on this count.

First, the favourable economic situation provided support for the acceptance of the new private pension scheme. Stock exchanges at the time were flourishing (the 'New Economy boom'), which was said to influence positively the debate about the potentials and possibilities of capital-funded pension provision at a time when the reform process unfolded (interviews with policy expert, 22 April 2004, Green party official, 29 June 2004, SPD party official, 15 June 2004, and former DGB official, 28 June 2004). In connection, the financial industry, that is, banks and insurance companies hoping to profit from the business possibilities offered by the new scheme, reportedly employed lobbying activities in the process, so as to have the reform designed to the best of their interests (interviews with policy expert, 22 April 2004, and BMGS senior official, 16 June 2004). A second factor mentioned in this context was 'reform fatigue', in the sense that actors became more conciliatory as they wished to see the conclusion of a long-drawn-out process on debating pension reforms (interview SPD official, 28 June 2004). Sources from a trade union background mentioned that a sort of 'resignation to the facts' had helped reform adoption, while denying that the trade unions' decrease of resistance to the proposals had to do with an increase of acceptance, but rather with accepting the inevitability of the reform (interview former DGB official, 28 June 2004). This acceptance, however, was 'without real conviction, due to serious doubts about the long-term viability of the reform' (interview DGB official, 14 June 2004).

Furthermore, the role of concessions and the accommodation of a series of demands by the Government in the course of the process were also stressed (interviews former SPD MP, 15 June 2004, SPD official, 28 June 2004, and policy expert, 22 April 2004). In particular, the massive increase of tax subsidies for the private scheme, announced by Chancellor Schröder after the core of the reform had been made public, was said to have influenced the conclusion of the process (interview policy expert, 22 April 2004). These statements do sustain the importance of the alternative strategy of concession-making mentioned above.

Subsequently, it was acknowledged that the demands of policy advisors and pension experts (both nationally and internationally, e.g. by the OECD) had helped in creating awareness of Germany's pension problems and advanced progress towards a concrete reform proposal and its adoption (interview BMGS senior official, 26 June 2004). In a similar vein, policy-makers' awareness of the state of the pension scheme – when seen in international perspective – was also furthered by its reporting obligations under the European Union's open method of coordination (interview former DGB official, 28 June 2004). As a parallel process, there had been a notable change in the debate on pension provision. There was a shift from a closed debate between a small group of experts and policymakers towards a more open and broader societal discussion on what the future of pensions should be, taking into account the problems posed by demographic trends and so forth (interviews with Green party official, 29 June 2004, CDU MP, 17 June 2004, and SPD party official, 15 June 2004). This opening up was assisted by a different style of media reporting, perhaps due to a generational change, which no longer saw a reform of statutory pensions as undesirable or unnecessary (interview CDU MP, 17 June 2004). These two factors in particular, when taken together, shaped an environment in which Minister Riester's ideas about an additional pension pillar and adjustments to the statutory scheme fell on fertile ground. Notwithstanding the many voices that disagreed about the fine-tuning of the reform's goals and the desirable instruments to reach these, as the reform process went on, the 'if' of the reform seemed increasingly indisputable.

Finally, an important factor in concluding the reform was that the actors involved, after some reflection on the issue, had understood that the reform did not represent a radical and complete policy turnaround, as a Ministry source reported:

I think that after a phase of uncertainty about whether the passage of the law would be blocked (this would have meant to avoid systemic

change altogether) or whether - by passing the law - a path could be opened up to win back confidence for the statutory pension scheme, those forces willing to carry out the reform won. All actors involved realized after all that the reform proposal did not carry the risk of a total systemic change (interview BMGS senior official, 16 June 2004).

The last point underscores that Riester's nuanced reform strategy, complementing the pension system with new pillars while preserving the existing statutory pillar, had finally been seen as an opportunity rather than a threat by policy stakeholders, and this realization facilitated eventual agreement. If this interpretation is correct, it provided additional support to our earlier findings about the argumentation strategy and the effectiveness of Riester's leadership capabilities.

### Combining the Findings: the Impact of IL

How plausible is it that IL by Minister Riester led to reform adoption? We argue that both IL and concession-making had their share in concluding the reform. Regarding the choice of strategies to conclude the reform, the Government, and most prominently, the Minister himself, carried out an argumentation strategy. However, it was directed more at policy stakeholders and the general public than at the SPD party faction, which did not contribute to a smooth dialogue between the ministry and the coalition parties. The evidence for this strategy backs up the findings about Riester being an ideational leader in terms of the first two aspects of the IL concept.

The evaluation of the Minister's political orientation and role suggests that he brought a policy-oriented approach to political office, hoping to make a difference by staying true to his own principles and, by extension, policy ideas. At the same time, despite a fair amount of criticism about his style of handling the reform process and assured of the Chancellor's backing, he carried on with his plans, determined to bring the project to a conclusion, which testified to his leadership capabilities. The impression his role made on others was one of leadership in terms of steadily defending the core of his proposals, while being forced to accommodate demands by way of concessions to the trade unions, the opposition, and last, but not least, to the coalition's parliamentary parties.

As this limitation on Riester's leadership indicates, concession-making was important to calm the demands of critics in the pre-legislative and the legislative phase up to the final compromise reached by the Mediation

Committee in May 2001. The relevance of those concessions also emerged from our review of decisive factors contributing to the finalization of the reform. At the same time, the fact that reform critics realized that the reform was not a complete make-over of German pension arrangements, but an attempt to make state pensions more sustainable in the future, confirms that the message Riester had been spreading from the outset was effective to some extent. Putting all of these pieces together, it is fair to conclude that IL and concession-making were both important factors in finalizing the reform. The Minister was certainly forward-looking and idea driven as he defended his reform proposals with personal conviction and stamina. In this sense, the choice of the Chancellor for the trade union modernizer was probably a sensible one. Nevertheless, Riester's personal attitude towards the practice of political power may have eventually caused him to clash with established political circles, complicating his task of steering the reform through the legislative process and gathering support for its adoption; instead, he watched his plan being watered down despite his attempts to keep it intact. To the extent that he had to make ever more concessions to critics as the process went along, his authority weakened somewhat, inviting additional demands. That loss of authority was surely also related to his decision to prepare the draft bill in the relative secrecy of the Ministry before going public, and to some miscalculations with respect to the scope of opposition his proposals would meet. Conceding these weaknesses, Riester sought to compensate for them by putting a lot of energy into persuading critics of the merits of his policy ideas and by showing remarkable stamina in the face of criticism.

#### **5.4 Conclusion**

This chapter has examined the genesis of the 2001 pension reform, a piece of legislation that became inseparably linked to Minister of Labour Walter Riester. This remarkable reform ended the one-pillar structure of German pension arrangements, introduced a second, privately financed and state-subsidized element, and strengthened the third, company-based element of pension provision. As a true structural reform, it brought shifts in all three structural policy dimensions: financing, benefits, and regulation. Our outline of the political process revealed that considerable opposition – both inside and outside Parliament – had gathered in response to Minister Riester's initial reform proposal, and needed to be addressed by the Minister and his reform advocates. Despite several changes to the

proposal, and various concessions on the part of the Ministry towards resisting actors (opponents within the SPD, the CDU and trade unions), Riester nevertheless managed to preserve the innovative features of the reform when it was finally adopted in the spring of 2001. The significance of the reform's innovative character cannot be stressed enough. Also, it nicely demonstrates how key policy-makers may innovate by advocating new policy elements that deal with pressing problems, while at the same time preserving more traditional and still appreciated elements of existing policy. The Riester reform marked the first step towards a multi-pillar pension provision in the German welfare state and set the pace for a diversification of pension arrangements for generations to come. At the same time, the partial privatization of pensions, along with the lowering of statutory pension levels, ushered in the gradual weakening of the principle of status maintenance, which had been a central feature of Bismarckian welfare provision. We will return to this theme in Chapter 7. In terms of our analytical goal, the examination of the case revealed that Minister Riester qualified as an ideational leader, with one restriction: he failed to pay due attention to the need for consensus-building with all relevant critics including his opponents in the SPD. This neglect made the reform process, from his perspective, more difficult, but, more importantly, could not derail it completely. At the same time, although Riester had the credentials of an ideational leader, he needed to make considerable concessions to reform critics: ignoring their demands completely would not have resulted in the desired adoption of the reform. The analysis underwrites the empirical value of the IL hypothesis. We found evidence for the first three aspects associated with IL, and, in addition, for Riester's political motivation. However, in the face of compelling political-institutional obstacles, the Minister – with the consent and backing of Chancellor Schröder – also had to make concessions in order to accomplish a final breakthrough.

## 6 Transforming Unemployment Policy: The Hartz IV Reform

‘The idea of merging the two systems is not new, but it is revolutionary, one of the largest reforms in German social policy ever. This is why we first had to muster the necessary courage to bear the resulting conflict; we did not dare to tackle the issue immediately.’

(Interview with SPD MP, 25 January 2005)

The above quote highlights the magnitude of a controversial reform in a third area of the German welfare state: labour market policy with a focus on unemployment insurance. Next to health care and pension policy, it is perhaps best indicative of the transformation of German social policy arrangements. In what follows, we examine the events resulting in the *4<sup>th</sup> Law on Modern Services on the Labour Market*, better known as ‘Hartz IV’.<sup>1</sup> This much-discussed reform was adopted by the second Schröder Government (2002-2005), under the responsibility of Wolfgang Clement, Minister of Economics and Labour. Clement, the former Minister-President of North-Rhine-Westphalia and known as a modernizer within the SPD, had followed Schröder’s call to Berlin to head a newly created ‘superministry’. Combining economic policy and labour market issues in a single portfolio had a special purpose: putting into practice the Chancellor’s commitment to reform the German labour market and fight unemployment that approximated a dramatic number of 4 million at the time. Therefore, Clement’s most pressing task became the timely implementation of the recommendations made by the Hartz Commission. Why was Hartz IV considered such a radical break with the past? In the post-war German welfare state, unemployment protection was provided

within a two-pillar system consisting of unemployment insurance (*Arbeitslosengeld*) and unemployment assistance (*Arbeitslosenhilfe*). From the 1960s onwards, the system was complemented by the social assistance scheme (*Sozialhilfe*), which provided a guaranteed minimum income available to anyone in need, no matter whether someone was available (as a registered unemployed person) to the labour market, or not. This created a de facto three-pillar system, as the social assistance scheme was increasingly being used by the unemployed, while it was originally intended as a last resort for those in need and unable to work (Reissert 1998; Gemeindefinanzreformkommission 2003).<sup>2</sup>

**Table 6.1** Comparison of the three benefits before the Hartz IV reform (source: Reissert 2005)

<b>Benefit</b>	<b>Unemployment Insurance</b>	<b>Unemployment assistance</b>	<b>Social assistance</b>
<i>Entitlement</i>	After 12 months of insured employment during previous 3 years	After exhausting entitlement to unemployment insurance when still unemployed	All persons in need irrespective of status on labour market (if household income including benefits is below minimum level, gap is paid by social assistance)
<i>Financing</i>	Insurance contributions	Taxes (federal government budget)	Taxes (local government budgets, but regulated by federal law)
<i>Level</i>	Percentage of previous net earnings, not taxed	Related to previous net earnings + means tested	Flat-rate amount for each member in household + cost of housing
<i>Character</i>	Earnings related	Earnings related + means tested	Flat rate
<i>Maximum duration</i>	Dependent on length of previous employment and age	Initially granted for one year; in principle indefinitely as long as qualifying conditions persist	Indefinitely as long as individual need persists

## Main reform provisions

The basic idea behind Hartz IV was to merge the unemployment and social assistance schemes to create a new meanstested benefit (*Arbeitslosengeld II*, or ALG II), for those registered unemployed who do not qualify for unemployment insurance benefits. The benefit level equals the level of ordinary social assistance and provides a guaranteed minimum income including a flat-rate amount plus the cost of housing.<sup>3</sup> The new benefit is granted indefinitely, as long as claimants fulfil the qualifying conditions of unemployment and individual need. Hartz IV also tightened requirements for the unemployed with respect to their obligation to accept suitable job offers. Those eligible for the new benefit must in principle accept any job offer (with exceptions): a job offer cannot be refused on the grounds of being incommensurate with former employment and training, longer travelling time or more unfavourable conditions of employment.<sup>4</sup> In addition, while the Hartz I law had already reversed the burden of proof for the acceptability of job offers for unemployment insurance benefits,<sup>5</sup> Hartz IV introduced even tighter sanctions for those who refuse job or training offers, especially for the young.<sup>6</sup> ALG II is financed from the budget of the federal government and administered jointly by the FEA's local labour offices and local authorities' social assistance offices under the FEA's general responsibility (*Trägerschaft*).

The Hartz IV reform radically broke with the existing foundations of unemployment provision.<sup>7</sup> First of all, the reform constituted a major change in the benefit structure. It created a clear two-pillar benefit structure in the system of unemployment insurance (based on unemployment benefit and the new benefit ALG II), ending the de facto three pillar system. Hartz IV also brought about a change in eligibility rules: the new benefit is meanstested, in contrast to unemployment assistance, which was both insurance-based and meanstested. Secondly, although on the face of it the source of financing remained the same, important changes have been made: the new ALG II benefit is mainly tax-financed (from the federal budget), as was the former unemployment assistance benefit. However, local authorities are responsible for the financing of supplements for housing and heating.<sup>8</sup> In fact, the new benefit is co-financed by the federal Government and local authorities. Finally, the management structure of the new scheme clearly differs from the previous situation. The final version of the legislation provides for a complex cooperation between local FEA offices (*Arbeitsagenturen*) and local authorities in the form of consortia (*Arbeitsgemeinschaften*). An exception to this are sixty-

nine municipalities (*Optionskommunen*), which administer and support the recipients of the new benefit without any FEA involvement.

We begin the analysis with a summary of the legislative process, including actors' political positions and important events. Subsequently, we take a closer look at the responsible minister, Wolfgang Clement, to see whether he showed characteristics of IL and how his role related to other reform-promoting actors. In a third step, we explore to what extent IL influenced the process by which the Hartz IV proposal eventually became law.<sup>9</sup> We illustrate our argument about IL and its role in shaping the reform with quotes from policy documents and interviews with reform observers.

## **6.1 The Reform Process: Chronology, Actors and Policy Positions**

### The Chronology of a Merger Project

It is impossible to recount the story of the Hartz IV reform without considering why it appeared on the agenda of the Schröder Government in the first place. The first Red-Green coalition agreement of 1998 included a declaration of intent to improve cooperation between the local FEA offices and social assistance offices. This approach led to the initiation of an experiment with thirty pilot cooperation projects at local level under the acronym 'Mozart', which was considered reasonably successful.<sup>10</sup> In the spring of 2002, a scandal surrounding the FEA's job placement statistics came to light and prompted the Schröder Government to rethink the agency's internal organization. The political answer resulted in the appointment of a commission, chaired by Peter Hartz, with a mandate to work out a blueprint for organizational reform of FEA, as well as other instruments of labour market policy. The mandate included developing the organizational aspects (excluding finances) of a future merger of unemployment assistance and social assistance (Jantz 2004: 39). The commission's report was released in August 2002, just before the federal elections scheduled for September, and it drew massive attention from the media and the public. Chancellor Schröder earned much political credit by committing himself, in case of re-election, to implement the proposals of the Hartz report 'on a one-by-one basis' (*Eins-zu-Eins Umsetzung*). In this fashion, the merger of unemployment assistance and social assistance was firmly put on the Government's political agenda, yet, as Table 6.2 indicates, it still took another year (until August 2003) before the Cabinet approved and presented a draft bill to parliament.

**Table 6.2 Important events in the Hartz IV reform process**

Date	Event
October 1998	1 <sup>st</sup> Red-Green coalition agreement envisages 'cooperation between employment agencies and social assistant offices'
February 2002	Scandal surrounding statistical reporting of Federal Employment Agency (FEA)
March 2002	Hartz Commission takes up work
August 2002	Hartz Commission publishes final report; Chancellor Schröder pledges to implement report fully in case of re-election in September 2002
September 2003	Red-Green coalition re-elected, Wolfgang Clement becomes head of newly created Ministry of Economics and Labour
March 2003	Schröder announces government programme <i>Agenda 2010</i> , including the merger of unemployment assistance and social assistance
April 2003	Commission on reform of communal finances presents final report proposing a sub-group on financial implications of merger project)
June 2003	Red-Green coalition working groups presents cornerstones for concept bill
August 2003	Cabinet decides on concept bill
September - October 2003	Readings of the bill, bill agreed upon by the <i>Bundestag</i>
November 2003	<i>Bundesrat</i> adopts rival bill backed by CDU-Länder, Mediation Committee begins work
December 2003	Compromise reached in the Mediation Committee, bill finally adopted by the <i>Bundestag</i>
January - June 2004	2 <sup>nd</sup> parliamentary process ( <i>Kommunales Optionsgesetz</i> ), culminating in another conciliatory process
August 2004	Popular protests (mostly in East Germany) against effects of Hartz IV; some minor changes to the law
January 2005	Hartz IV becomes effective

Between 2002 and 2003, extensive preparations had begun – on different levels – to establish a definite legislative basis for the merger. A special working group of the Commission for the Reform of Communal Finances (*Gemeindefinanzreformkommission*) was instructed to work out suggestions for the financial relationship between the federal, *Länder* and communal level regarding Hartz IV. By early 2003, polls indicated that the SPD was steadily losing popular support, while unemployment continued to rise. Because of these developments, and in reaction to the ac-

cusations by the media of ‘twiddling his thumbs’, Chancellor Schröder sought to renew his image as a reformer by announcing a comprehensive reform programme entitled *Agenda 2010* in March 2003. The merger of unemployment assistance and social assistance formed part of this ambitious and contentious programme, and was backed by an important financial pledge directed at financially weak local authorities. The merger plan appeared promptly in Minister Clement’s implementation schedule of *Agenda 2010*. Subsequently, the process of working out the details of a draft bill was carried out by a coalition working group with the participation of officials from the Ministry of Economics and Labour Affairs (BMWA). Drawing on the proposals from the Hartz Commission and the recommendations made by the respective working group of the Commission for the Reform of Communal Finances, it was to prepare the draft bill in a way to enable a smooth passage by Parliament at a later stage.

The core points of the Government’s draft bill included the following: the new ALG II benefit was to be based on a level similar to social assistance; benefit recipients were to turn to and receive support from local job centres, and the FEA was to bear overall responsibility, both financially and organizationally, for these offices. Concerning the issue of acceptability, recipients had to accept virtually any job offered to them. The citation below from a high-ranking ministry official illustrates the underlying philosophy of the Hartz IV reform, which went further than just merging two systems:

The object of the 4<sup>th</sup> Law for Modern Services on the Labour Market is the merger of unemployment assistance and social assistance with a new, need-oriented and meanstested benefit for people available for work. In doing so, measures that promote reintegration in the labour market have to take preference over benefits enabling reasonable maintenance. Taking up paid employment is going to be promoted by integrative measures and incentives. Those who work will have more money at their disposal than those who do not work despite being available for work.<sup>11</sup>

In September 2003, the parliamentary readings of the draft bill began, and despite the fact that 80 to 90 per cent of the initial text could be found back in the final version (interview BMWA official, 28 January 2005), the remaining contentious points made for very difficult negotiations. In November 2003, the *Bundesrat*, by adopting a rival concept launched by the

CDU-led *Länder*, rejected the Government's draft, which started the proceedings of the Mediation Committee. A month later, just before Christmas, the committee reached a compromise based on a settlement on the acceptability criteria for the unemployed, and the organizational consequences of the Hartz IV reform. The compromise was reached under conditions of considerable media attention, and only after the personal involvement of the main party leaders. In addition, it was the result of behind closed doors horse trading, as a whole range of reforms was included in the same mediation procedure.<sup>12</sup> It specified that the general responsibility for the support and attendance of beneficiaries of ALG II was split between the FEA and local governments (towns and municipal bodies). To realize this solution, local consortia (*Arbeitsgemeinschaften*) were to be established to take over local service provision. The financial responsibility for the benefit and administrative costs was borne by the FEA (thus by the federal budget), while local governments took over costs for housing and heating and some other items paid on top of the flat-rate amount of ALG II. The provisions with regard to the acceptability of job offers were again amended,<sup>13</sup> returning to the original formulation of the Government draft; in principle, the unemployed were now expected to take up any job offer they received in order to avoid being disqualified from the benefit.<sup>14</sup>

However, this settlement did not mean a swift conclusion of the reform. On the contrary, its adoption required a second parliamentary process through which the details of the agreed form of cooperation between FEA and local authorities had to be clarified. What is more, the possibility of an 'opt-out' by local authorities from this cooperation had to be codified. Given that inter-party agreement on these points was far from certain, it took another six months and a second mediation procedure before the *Bundestag* passed the follow-up law to Hartz IV, the *Kommunales Optionsgesetz (KOG)* on 2 July 2004.<sup>15</sup> This final compromise, which settled the details of the implementation of Hartz IV and concluded the reform process, stipulated the inclusion of an experimentation clause, as well as an agreement on splitting costs between the federal Government and local authorities. Concerning the former, sixty-nine local authorities were offered the opportunity (for an initial period of six years) to opt out of the local consortia-model and provide services to the long-term unemployed. In terms of financing the new benefit, the federal Government would cover the ALG II benefit and its administration, while local authorities would bear the costs for housing and heating.<sup>16</sup>

## Further Reactions to Hartz IV

Once parliamentary approval was given, the Ministry still could not prepare quietly for the official introduction date of the new benefit on 1 January 2005. Following the distribution of application forms and increased media coverage of the practical details and possibly negative implications for potential recipients of ALG II, Clement was confronted by a wave of recurring demonstrations (dubbed *Montagsdemonstrationen* by the organizers in an analogy with the famous demonstrations by the East Germans in 1989), which drew most of their support in Eastern Germany. Although the protests, which started in August 2004, died out after several weeks, they had two main effects. Firstly, although Minister Clement repeatedly insisted on carrying out the reform as Parliament had passed it, he reacted with a few minor corrections to the timing of payment of ALG II (which was brought forward), and the rules regarding the amount of assets recipients and their children were allowed to have. Secondly, in reaction to these protests, the Ministry stepped up public communication efforts to combat misinformation, which thrived on the distortion of reform consequences by the media. Consequently, the street protests lost their momentum. As a trade union official remarked:

The public relations and communication deficit became painfully clear: the Monday demonstrations can be explained by a lack of communication by the government and the media in equal measure. Therefore, fears were allowed to build up although not all of them were justified. (Interview DGB official, 3 February 2005)

A SPD parliamentarian who accused the media of a 'merciless and organised campaign against Hartz IV', observed that after the compromise was reached in July 2004, the media changed its attitude and journalists tried to achieve a better balance in reporting on the reform. He suspects that 'the turnaround only happened following the Federal Press Office's launch of a large advertising campaign informing about Hartz IV' (interview, 25 January 2005). Interestingly, Minister Clement himself, though several months later, admitted in an interview that communication deficits played a role in relation to Hartz IV by remarking that 'in terms of communication, this one obviously was not a masterstroke'. Only a day later, Chancellor Schröder made clear in another interview that Clement was the one to bear the responsibility for the recent labour market reform, including Hartz IV.<sup>17</sup> Some press observers were quick to interpret this statement as the Chancellor

distancing himself from his Minister. Despite the rather hasty implementation of the administrative infrastructure needed to implement the compromises of December 2003 and June 2004 (and continued media focus on the expected delays and problems with the implementation), most of the new ALG II recipients did receive their first benefit on time in January 2005.

### Principal Actors and Policy Positions

This section illustrates the political context of the reform, detailing the positions of important actors including the Ministry, the main political parties, local authority associations and trade unions. At the time of political agenda setting, which coincided with the release of the Hartz proposals, the main political parties had agreed on the general need for the reform. In the debate on negative consequences of parallel systems, involving politics and policy experts alike, major arguments towards bringing an end to the coexistence of unemployment assistance and social assistance for the unemployed were (Bäcker 2002):

- the administrative costs due to the coexistence of two bureaucracies: the FEA with its local net of labour offices, on the one hand, and the social assistance offices of local governments, on the other;
- the creation of a separate system of active labour market measures for social assistance recipients at the local level (access to similar measures of the FEA is usually restricted to recipients of unemployment insurance or assistance);
- the fact that the unemployed claiming social assistance and unemployment benefits needed to deal with two different administrations and legal frameworks;
- and the tendency of each of the two systems to shift benefit recipients to the other system, the 'shift-yard' problem (*Verschiebebahnhöfe*), most visible in the case of local governments, which established job creation programmes for social assistance recipients in order to provide them with new entitlements to unemployment insurance.

Nevertheless, agreement on the goals of reform and its underlying necessity did not imply agreement on the means and instruments in reaching these goals. In this respect, Hartz IV caused strong disagreement between the major political parties on the administrative details of implementation.

Minister Clement, with the backing of Chancellor Schröder, championed the merger of the two benefit systems. This specific reform project

was an integral part of Schröder's *Agenda 2010*. While Schröder had endorsed the proposals of the Hartz Commission with his implementation pledge in the run-up to the federal elections, Clement assumed political responsibility for the preparatory work, the legislative process and subsequent implementation of the reform after he had taken up his post in October 2002.

The parliamentary parties of the Red-Green coalition were largely committed to the bill they had prepared in the coalition working group with participation from ministerial officials. Substantively, they wished to see only moderate incentives for the unemployed to take up work (acceptability criteria), and favoured the FEA to take on the responsibility for new beneficiaries, in terms of financing and job placement and support. While the parliamentary party of the Greens rallied behind the coalition proposals, the Social Democrats faced more opposition within their own ranks. This was not surprising, as the party was undergoing a lengthy process of coming to terms with the whole catalogue of measures announced in Chancellor Schröder's *Agenda 2010* in the spring and summer of 2003.

There was a process of polarization, fuelled by the announcement of Agenda 2010 which would cost us, the SPD, a lot of energy. We had started an intra-party dialogue which was risky and which indicated that we had to pay a high price for the reform. (Interview SPD MP, 25 January 2005)

Against this background, left-wing Social Democrats opposed the merger because they feared a spiral of retrenchment of social protection.

The Christian Democratic parties (CDU/CSU) and the Liberals (FDP) formed a conservative-liberal front against the Government's proposal. In terms of the regulation surrounding the benefit, they pushed for stricter demands on the unemployed to take up work (reasonability criteria), and for additional incentives for recipients to earn extra money. Also, from the outset they pleaded for the ALG II benefit to be set at the level of social assistance, a position that was also embraced by employers' associations and economic research institutes, which claimed that the level of social security benefit defines the minimum salary at which unemployed persons are willing to take up work. Both hoped that a lower level of social security in the case of unemployment – combined with the obligation to accept lower-paid work – would lead to an expansion in the low-wage sector (Jantz 2004:42-43). For ideological reasons, both Christian Democrats and Liberals tended to subscribe to those ideas. They were applied

in a CDU draft bill (initiated by the CDU Prime Minister of Hesse, Roland Koch) for the *Existenzgrundlagengesetz* that offered an opposition alternative to the Ministry's bill. The position of conservatives and liberals regarding the organizational and financial design of the reform was a lot more consequential: they squarely opposed the Ministry position by demanding that the competence for support of long-term unemployed should be transferred to local authorities alone. In their view, they were much better suited to carry out the tasks of job placement and support of ALG II recipients. The main arguments given were greater flexibility and proximity as well as familiarity with local conditions of unemployment. In this position, they saw themselves backed by the DLT (*Deutscher Landkreistag*), one of the local authority associations (see paragraph below) and the German Council of Economic Advisers (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*) (Reissert 2003).

As far as societal actors were concerned, local authority peak associations, *Deutscher Städtetag* (DST), *Deutscher Landkreistag* (DLT), *Deutscher Städte- und Gemeindebund* (DSGB) were important in as much as they were directly affected by the administrative-organizational aspect of the reform. The interests of these organisations were quite diverse: while large towns and cities were eager to transfer their responsibility for the long-term unemployed to the FEA, provincial authorities (*Landkreise*) mostly saw Hartz IV as a chance to take over responsibilities from local FEA offices in order to ensure their organizational viability, which had come under pressure from several developments (interview policy expert, FHTW Berlin, 21 March 2005). Accordingly, the peak associations of towns and local governments, DST and DSGB, were pleading to hand over the responsibility for long-term unemployed to the federal Government and the *Länder*:

Labour market policy for the increasing number of long-term unemployed has to be coordinated with economic policy instruments and must not be left to local governments in the form of a new social benefit or social assistance as the last safety-net of social security.<sup>18</sup>

On the other hand, the DLT position stressed that administrative districts (*Landkreise* plus '*kreisfreie Städte*') were well-positioned to carry responsibility for a uniform new system assisting the long-term unemployed. In addition, the DLT reaffirmed the need to have this task financed in a solid way and secured under constitutional law.<sup>19</sup> There is evidence to suggest that these associations lobbied the Government and the opposition par-

ties so as to insure that their respective financial and organizational interests would be protected (interview *DER SPIEGEL* journalist, 3 February 2005).

Finally, trade unions, represented by their peak organization DGB, took an early stance against the Government proposals for Hartz IV. They were in fact opposed to the paradigm change from a salary-based to a necessity-based benefit for the long-term unemployed. In their view, the reform meant a change for the worse for the majority of long-term unemployed, bringing only slight improvements to a group of social assistance recipients and unemployed with very low incomes. In their view, these benefit cuts for many recipients of unemployment assistance (at the beginning of 2003, the means-tested character of this benefit had already been strengthened) meant further cuts for this segment of the population and consequently, a loss of purchasing power in economically weak regions. What is more, the DGB saw the tightening of criteria for accepting work as a possible development towards a low-wage sector, which they rejected. The level of the proposed benefit, corresponding to the level of social assistance after a two-year transition period, was also a point of contention. An earlier statement by the Chancellor (to the DGB federal congress), arguing that the reform was primarily intended to effect savings on bureaucracy and not to lower the level of unemployment assistance, was still well-remembered. In short, in the DGB's view, the reform should be offering integrated support and services to the long-term unemployed instead of achieving cost savings reached at their expense.<sup>20</sup> After *Agenda 2010* had been announced in March 2003, the DGB mobilized its members to protest against what it saw as considerable retrenchments, of which Hartz IV was the most important. A number of demands for the merger project about the benefit level and the acceptability criteria were not taken up. In the view of the DGB, the fears of the trade unions had been all but ignored: although the Minister seemed to be open to talks, he did not deviate from his general reform line, making for an escalating of the situation between trade unions and the government (interview DGB official, 2 February 2005).

The fact that Hartz IV was not discussed in isolation, but was seen by trade unions (and diverse social welfare associations and churches) in the context of a larger debate on the future of social security provision (*Agenda 2010*, health care and pension reform) hindered a pragmatic discussion, which the Government had hoped for. Instead, the arguments of diverse welfare-oriented interest groups against the plans were framed in polemic terms: by earmarking the new benefit as being a direct road to

poverty, they accused the Government of impoverishing the unemployed and consolidating budgets at the cost of socially weak groups. Rather than acknowledging the Ministry's self-declared goal of improving job placement support for the long-term unemployed able to work, their criticism focused on the consequences of Hartz IV for the distributive goals of social policy.

## **6.2 Tracing Ideational Leadership**

In this next step, we examine whether IL has left traces in the reform process in one or several of its aspects: denouncing the policy status quo; introducing and defending new policy principles; appealing to reform opponents to reconsider their resistance; and building political consensus based on subject matter or content, not by tactical games. Considering that Minister Clement was the person accountable for the introduction of Hartz IV, the analysis concentrates on his ways of communicating and acting. To establish whether IL was indeed the crucial factor in the process, we then scrutinize the strategies followed by the Government (argumentation and persuasion; making substantial content-based concessions to reform critics; ignoring or outmanoeuvring reform critics) and ask what role Minister Clement played in the process.

### **Confronting Inefficient Structures and Bottlenecks**

After 2002, the status quo in German labour market policy had been increasingly seen as no longer tenable (interviews Ministry official NRW, 21 January 2005; SPD mayor, 31 January 2005; policy expert IAB, 8 March 2005) and this realization coincided with a background of rising financial and economic problems. Against this general background, there were also specific problems within unemployment protection, recognized by policy-makers and experts alike: the inefficient co-existence of the systems of unemployment assistance and social assistance. A party adviser gave her view on the roots of the problem in the following way:

Just like the proposals for conducting the merger, the problems have grown slowly. The unemployment assistance benefit and the practice of shifting individuals between this benefit and social assistance have not been created for ideological reasons, but in reaction to financial pressures (or incentives). Such systems often do not arise for pragmatic

reasons but grow over time. The problem has long been criticized by policy experts and academics alike. (Interview CDU/CSU party adviser, 1 February 2005)

In short, the inefficiencies and deficiencies in terms of bringing benefit recipients back into paid employment came to be recognized as a major shortcoming of the dual system in assisting the long-term unemployed and those without former employment, but, in principle, able to work. The Hartz Commission expressed its dissatisfaction with the situation like this:

The parallel existence of two social benefit systems leads to considerable administration efforts and lack of transparency in the support of beneficiaries as well as unnecessary obstacles for those affected. [...] A lack of coordination and responsibility concerning the efforts to integrate unemployed persons can slow down the process of placing people into jobs. In addition, there are cost-shifting effects between the funding bodies of the benefit systems. (Hartz Commission 2002: 125-127)

With his pledge to implement the recommendations of the commission in case of re-election in September 2002, the Chancellor endorsed the questioning of the status quo and the proposals of the commission. When Minister Clement entered the newly formed Ministry of Economics and Labour, the whole of the Hartz proposals became part of his portfolio. He quickly identified himself with the reforms, including the merger project that was later to be known as Hartz IV. Rather than leaving his own imprint on his particular area of labour market policy by way of proposing alternative plans, he embraced the Hartz proposals as if they had been of his own making and started working on their legislative implementation (Interview *DER SPIEGEL* journalist, 3 February 2005). Did the Minister, during this process, contribute to the questioning of the status quo in labour market policy?

Concerning the specific proposal on the merger of unemployment and social assistance, evidence exists that he had propagated a change of the status quo prior to the announcement of *Agenda 2010* by Chancellor Schröder. In a speech to the *Bundestag* during the debate of the first and second Hartz laws, he had mentioned the project, presenting it within the totality of labour market reforms that originated in the Hartz proposals:

The third big step has already been announced: before January 2004 we must have overcome the parallel existence of unemployment assistance and social assistance and combined both in a new secondary unemployment benefit, as it is called in the concept of the Hartz Commission.<sup>21</sup>

Asked about his own expectations for the year 2003, following the presentation of a dire economic forecast, Clement had pleaded for an activating employment policy in response, adding that ‘we must achieve structural change in order to have more growth and employment’. Such change, however, could not be accomplished without pain, as the planned merger of unemployment assistance and social assistance would involve the task of bringing 800,000 unemployed social assistance recipients back into employment.<sup>22</sup> On another occasion, in a lengthy interview with the weekly *Die Zeit* in February 2003, Clement stressed that ‘what will be decisive is a fundamental turnaround: we no longer subsidize unemployment but place people into jobs’. This turnaround had to be linked to a different conception of work: as a means through which the self-responsibility of the individual needs to express itself, beginning with young people.<sup>23</sup> When asked at the same occasion whether he was discouraged by recent political reactions to his earlier reform announcements on dismissal protection, he revealed his general attitude towards the policy status quo:

In order to make it clear: there must be no single instrument or policy relevant to the labour market which is exempt from a process of questioning, in the sense of whether it obstructs a positive development or whether it does not.

Following the announcement of *Agenda 2010* in March 2003, the Ministry’s key points on the merger clearly highlight the main deficiency of the status quo and its goal, ending the inefficient co-existence of two benefits and two administrations for people who are threatened or affected by long-term unemployment.<sup>24</sup> One month after the presentation of the Chancellor’s reform programme, in a discussion with journalists on the roots of the German problem, Clement clearly broke with the past in labour market policy:

It is surely more important to know that we had the wrong recipes in labour market policy. We do know that today. We should have made sure, most of all, to place the unemployed into jobs, to enable them to get back to work. Instead, almost everything revolved around rights of

social protection which did not really protect but contributed to the continuation of social distress, namely unemployment.<sup>25</sup>

Later in 2003, while work on the draft bill was making progress, Clement continued to call attention to the errors made in the past, as he stressed in a *Zeit* interview: 'It is neither just nor reasonable to invest enormous sums, about € 30 million per year, to fight unemployment and still lack successes, as it is now. This is why we need to embark on a different path.'<sup>26</sup> Equally, the preamble of the Ministry's bill presented to the *Bundestag* in September 2003 starts with a short summary of why the present state of affairs must not continue, stating that 'the Hartz Commission has made clear that the present parallel existence of two state-run benefit systems – unemployment assistance and social assistance for those able to work – is inefficient, lacking in transparency and hardly citizen-friendly.'<sup>27</sup>

In the Minister's parliamentary speeches during the readings of the draft bill, Clement reiterated his need to reject the policy status quo:

The bills we have now introduced into Parliament – for the third and fourth Hartz laws – open up the opportunity for the future *Bundesagentur für Arbeit* to act effectively and customer-oriented as the modern service provider on the labour market. They end – that is the core of the Hartz IV concept – the inefficient parallel existence of unemployment assistance and social assistance. We must bring an end to these two benefit systems, one on the local level and one on the federal level. We must also end the contradictions that exist between the two systems.<sup>28</sup>

At the bill's second and third reading, at a point in the process where the administrative and financial implications of the reform had gained prominence in the debate, he continued to remind his audience of the basic reason for their work, being that 'we must end the situation that, in Germany, two benefit systems exist next to one another: unemployment assistance as a welfare system of the state, and on the other, social assistance as a welfare system of the local authorities'. Since the two systems have developed in parallel, they are full of contradictions and sometimes work against each other. This in turn, according to Clement, creates an imperative to integrate them in order to work more systematically with one instrument geared towards all job seekers.<sup>29</sup> Even in his later parliamentary appearances, during the readings of the follow-up *Kommunales Optionsgesetz*, Clement would not miss the opportunity to remind his audience that the present situation had become intolerable:

Only by providing integrated support and measures we can avoid that long-term unemployed continue to be pushed back and forth between institutions and between the different social support programmes in Germany, as has happened much too frequently until now. In this matter, we have reached consensus.<sup>30</sup>

Clement's last speech in Parliament during the whole of the Hartz IV process likewise returned to the fundamental reason for the reform, namely that 'the merger of unemployment assistance and social assistance – that is what the *Optionsgesetz* is about – is long overdue'. Again, he emphasized that it was a mistake to sustain two overlapping benefit systems alongside each other and in part against each other for decades (one state-run and one administered locally) and not to coordinate them sufficiently.<sup>31</sup>

The previous examples of the Minister's efforts to reject the status quo illustrate that he consistently related the necessity for reform to the wrongs of the existing situation. A sizeable number of statements made in public, as well as appearing in documents drawn up by the Ministry, both before and during the legislative process of the Hartz IV reform, signal that Clement meets the criteria for the first aspect of IL, 'rejecting the status quo'. Although the Minister was neither the first nor the only politician to criticize the effectiveness of existing policies,<sup>32</sup> he was in the position to argue forcefully the case against the status quo, which he did. Once the governing Red-Green coalition had reached a consensus on the need for merging the two systems, the focus of the reformists might have shifted: from convincing actors of the need to take legislative action to persuading them of the benefits of the particular approach chosen.<sup>33</sup> However, Clement's repeated references to the undesirable status quo served as a consistent reminder of the cross-party consensus on the merger and the Ministry's resolve to finalize the reform, especially in the later stage of the legislative process, when the implementation of Hartz IV was at stake.

#### Propagating 'Fördern und Fordern': Redefining Social Justice

Did Minister Clement, in addition to distancing himself from the status quo, also legitimize the new policy principles underlying the Hartz IV proposals? The philosophy behind Hartz IV is often expressed as the dual principle of '*Fördern und Fordern*' (meaning something similar to the English expression 'carrot and stick'). Allegedly, this concept took up a central position in the Ministry's strategy behind the reform (interview BMWA official, 28 January 2005). It corresponds to the idea that the un-

employed should receive appropriate financial and administrative support in their efforts to return to paid employment (*'Fördern'*). At the same time, they are expected to be more flexible than in the past, accepting jobs which may be inferior, both in terms of necessary qualifications and salary, to their previous job (*'Fordern'*). In line with a general trend of activating labour market policies and a shift towards recommodification of long-term unemployed (interview policy expert IAB, 8 March 2005),<sup>34</sup> this principle was announced by Chancellor Schröder as an important ingredient of *Agenda 2010*:

This is why we need one-stop agencies for benefits and related matters. In this way, we increase the chances of those who are able and willing to work [...]. At the same time, we accommodate those people with whom we will have to be more demanding [...] No one will be allowed in the future to lean back on the cost of society at large. Who refuses to accept reasonable work – we are going to adjust the criteria for this – will face sanctions.<sup>35</sup>

In this context, it is important to realize the qualitative change in the approach towards the (long-term) unemployed, as the following two remarks by reform observers illustrate:

The element of demanding has been institutionalized with Hartz IV and had important consequences for the decommodification of the long-term unemployed [...] The receipt of the new benefit is more strongly linked to the individual's cooperation to take up work [...] Behind this I see the idea that any job (also if less well paid than the previous one) is better than no job at all and this clearly contradicts traditional ways of thinking in Germany. (Interview policy expert IAB, 8 March 2005)

What remained mostly unnoticed was that we got a completely new paradigm concerning the financing of unemployed who are able to work: financing on the basis of need and no longer related to number of years in paid employment or to salary levels. (Interview SPD mayor, 31 January 2005)

In addition to the *'Fördern und Fordern'* maxim, Hartz IV also became associated with a redefinition of the normative principle of social justice, in the sense of placing more responsibility on the individual work-seeker receiving benefits from a community of contribution- and tax-payers.

Social justice forms part and parcel of the social-democratic party programme of the SPD, and is commonly invoked by SPD politicians, both as a programmatic goal and a justification of policy measures. More generally, it also underpins the Red-Green coalition's labour market policy reform programme.

What did Minister Clement do to propagate '*Fördern und Fordern*' and the new notion of social justice? He certainly stressed the underlying principles of the reform and linked them to the envisaged goals of the reform project. In addition, he frequently made a connection to the Government's long-term goal of bringing more unemployed back into work, a goal that supersedes the immediate objective of ending bureaucratic inefficiencies and 'shift yards'.

Clement explicitly legitimized the shift in perspective on the rights and obligations of the unemployed on various occasions in the process. After the March 2003 announcement of *Agenda 2010*, he explained at length the measures belonging to his portfolio, including the merger, in a speech to the SPD parliamentary party. He justified the project as follows:

The creation of a unitary benefit system of unemployment assistance for all who are able to work is a crucial step towards placing people faster in jobs and apprenticeships. And, by the way, it is one of the greatest structural reforms we have resolved to do. We will merge the two systems because their co-existence is inefficient and because they hamper employment [...]. The most important goal of our reform – one cannot stress it often enough – is a faster and more carefully tailored placement of people fit to work.<sup>36</sup>

The goal of getting people back to work with greater speed and a greater focus on targets, as implied in the 'carrot and stick' approach to the unemployed, served here as the main rationale behind the reform, along with the expected efficiency gains. On the same occasion, Clement reminded his SPD audience of the logic behind *Agenda 2010*, which included 'recalibrating the welfare state towards more justice in terms of benefits and needs'.<sup>37</sup> Apart from a renewed interest in the definition of social justice, the question of when a society is considered 'social' is also raised by Hartz IV:

We have to question the assumption that the length of entitlement to unemployment benefit or social assistance is crucial in deciding whether a society can be qualified as 'social'. Much more important is the

question of how entitlements enable citizens to make a living on their own and live their lives completely or at least, as far as possible, in accordance with self-responsibility. This will mean that in the future any reasonable job offer has to be accepted.<sup>38</sup>

Following the controversial SPD special party convention in June 2003 (where Chancellor Schröder called for a mentality change in Germany concerning the principle of self-responsibility), Clement agreed in an interview with the need for a ‘discussion on basic values’, and stressed that, regarding labour market reforms, ‘decisively, any legal work is reasonable in principle.’<sup>39</sup> Asked in a later interview if it made sense to oblige unemployed persons to accept jobs that did not match their previous work experience, the Minister replied by referring to a redefinition of the solidarity principle:

We must make sure that all possibilities to take up work are fully utilized. This also has to do with a change of mentality that we need in Germany. The Chancellor has made this clear and I want to underscore in all clarity: we are dependent on people seeing solidarity as a mutual task and obligation, i.e. society is there for those in need, e.g. for those without jobs. But that those who are able to accept work do accept it, is the crucial point. [...] We have to let go of the idea that the state or the community of contribution-payers could finance any situation.<sup>40</sup>

During the parliamentary process, Clement clearly legitimized the goal of creating a one-stop agency for those seeking work with the ‘carrot and stick’ and the solidarity principle. He stressed that every jobseeker needs one agency where she or he gets advice and support on the way back into the labour market. Far from being a technical aspect, this requirement should be seen as a consequence of the ‘*Fördern und Fordern*’ principle. Furthermore, those who reject reasonable work cannot rely on receiving public funds, and this way of thinking ‘must be brought to bear in Germany’, according to the Minister. At the same time, it is also an expression of solidarity: someone who claims state support also needs to be prepared to lessen the financial burden on society by accepting reasonable work.<sup>41</sup> Asked more broadly why he was convinced that his way of redefining policy was the correct one – in contrast to the demands of his SPD-critics – the Minister responded with a reference to a host of principles:

In any case, I am sure that the comprehensive welfare state we used to have is no longer tenable here or anywhere in the world. We need to think again more in terms of our own capabilities and make use of them. That means self-responsibility, self-initiative and autonomy, solidarity and subsidiarity, justice in terms of education and employment, but also distributive justice. These are only catchwords but perhaps they serve to map out the direction which we have to follow.<sup>42</sup>

Even after the compromise of December 2003, at the two readings of the *Optionsgesetz*, he reiterated the ‘carrot and stick’ principle underlying the merger, stating that ‘our maxim *Fördern und Fordern* is the guiding idea behind the new basic benefit for the unemployed’ and that ‘by implementing this maxim, every unemployed person receives the support she or he needs.’ He linked this to the promise that any ALG II recipient gets qualified support in the true sense of the word, while in return he or she is required to do everything to get out of unemployment.<sup>43</sup> In addition, he reiterated that:

People finally have to be taken out of unemployment and placed back into work. We must not concentrate on financing unemployment. The latter has been demanded by everyone for decades, but, unfortunately, no significant progress has been made. We must apply the principle of ‘*Fördern und Fordern*’. All of this is contained in the legislation that we have brought under way.<sup>44</sup>

The most extensive statement about the elements of the ‘carrot and stick’ principle was made late in the legislative process, just after the conclusion of the parliamentary process in July 2004. In this speech, Clement fleshed out the elements of ‘*Fördern*’ (personal case managers, new benefit, possibilities to keep additional earnings from work etc.) and ‘*Fordern*’ (reasonable work, cutting benefits when rejecting work). He also explained the benefits of the principle in terms of the normative goal of social justice:

The philosophy of ‘*Fördern und Fordern*’ at a one-stop agency is more efficient and more equitable than anything we have achieved in labour market policy so far [...]. And it must be stated clearly that he or she who does not make an effort, should not be sustained by the grace of the public. Social justice is no one-way street. To sum up the question whether Hartz IV confirms to criteria of social justice, I am firmly convinced that the answer is yes.<sup>45</sup>

To conclude, the Minister's public statements contain plenty of examples in which he explained and legitimized the Hartz IV project by reference to its underlying principles. In these statements, he either linked these to the goals of the reform (in cognitive arguments) or he pointed out how the reform relates to socially desirable norms and values. Clement also pointed out the linkage between his endeavour to place people more quickly and efficiently into jobs and the activating 'carrot and stick' approach. Furthermore, he associated the latter with new definitions of social justice and solidarity: this implied continued support to those who need it, but, at the same time, asking for more self-initiative than previously. Taken together, these observations warrant the conclusion that Clement in fact legitimized Hartz IV with cognitive and normative arguments.

### Pleading for a Uniform Solution

On various occasions in Parliament, Minister Clement appealed to those who had opposed his plans to implement the merger. Furthermore, he criticized the style of some of his political opponents. Below, we will present examples of these communicative patterns as empirical evidence for the third aspect of IL.

During the first reading of the draft bill in the *Bundestag*, the Minister spent considerable time explaining why he rejected the rival draft bill of the CDU/CSU. First, he reminded the legislature of two commonly agreed goals of 'bringing the responsibility for the financing and organization of the future job centres together' and 'supplying benefits from one source', and then stated that the opposition's draft did not do anything about the existing parallel structures.<sup>46</sup> At the second reading, he aptly summarized the remaining 'core differences' with the opposition on the division of labour between the FEA and local authorities, and appealed to Parliament not to 'engage in dogmatic discussions' and 'avoid artificial divisions' but 'to unite those actors we need in the fight against unemployment.' Making such statements, he clearly anticipated the opposition's resistance to the Ministry's plan and tried to allay it. When the bill of the follow-up *Optionsgesetz* was presented in parliament, Clement intensified his calls to complete the legislative task, even in the face of resistance:

I take on and bear the responsibility for this project to succeed. I say this notwithstanding those – whom we know – who keep speaking of chaos, of a catastrophe, of certain failure, of sloppiness and what have you. We will leave them behind and realize the reform. It is inescapably necessary.<sup>47</sup>

He also made clear that the controversial character of the bill in the eyes of the opposition could not bring Hartz IV to a halt, saying that the disagreements ‘cannot and must not stop the set-up of the *Arbeitsgemeinschaften* and the merger of unemployment assistance and social assistance.’<sup>48</sup> Between the first and the final reading, the debate on the shortcomings of the organizational design in the *Optionsgesetz* had intensified. Therefore, the Minister opened his speech at the plenary debate with a clear rebuke of those who countered the Government’s effort in bringing Hartz IV to a close:

It is of special importance to give a warning to those who make for pessimism in Germany: those who are defeatist, those who badmouth, those who try to prevent reforms, those who see chaos looming everywhere. They are the ones who want to prevent growth and progress. They must not and they will not stop our reforms.<sup>49</sup>

Reaffirming the resolve of the government to go ahead with Hartz IV, irrespective of whether agreement was to be reached on the *Optionsgesetz* or not, he also warned the opposition that the fate of the bill would not change the Ministry’s planning for the merger of the benefit systems:

I say this loud and clear because I observe that the opposition seemingly cannot keep these two issues apart or perhaps does not want to. Some, however, try to abuse the discussion about the concrete technical and organizational design of this system change on the 1st of January 2005. They abuse it in order to question the solution of a divided responsibility between the FEA and the local authorities we agreed upon in the Mediation Committee.<sup>50</sup>

Before the start of the Mediation Committee deliberations, he used a speech to the *Bundesrat* to clearly express his disapproval of the tone of the debate and the political style of his opponents, stressing that he wanted a pragmatic discussion, just as before the first reading of the bill in Parliament. Then, Clement expressed his dismay about the tone of the debate since then, which had left him ‘shocked’, as ‘those who replace pragmatic arguments with personal defamation does not solve problems but create them’. He voiced his hope that the tone of the debate in the *Bundesrat* would be more factual and asked for the delegates’ cooperation with the problems at hand.<sup>51</sup> While the parliamentary process of the *Optionsgesetz* ended with another government-endorsed compromise, Minister Clement still faced large-scale street protests against Hartz IV in the late sum-

mer of 2004. As the quotes below show, he criticized this particular way of showing disapproval, arguing that the protests only deflected attention from the real problem:

The societal scandal we are faced with is *not* Hartz IV, but long-term unemployment and a certain amount of fatalism that comes with getting used to this phenomenon. I need to tell those who now propagate civil disobedience that this is completely misplaced. I am trying to appeal for civil action for apprenticeship places and jobs, that is what we need today in Germany, and not protests against reforms that can overcome unemployment.<sup>52</sup>

Many people in this country pretend that we have designed these labour market reforms as a way of agonizing people. (...) I do not have a bad conscience. The real catastrophe is not the entitlement to a social basic benefit available to all job-seekers, but continually rising long-term unemployment.<sup>53</sup>

In conclusion, the evidence presented above supports the idea that Minister Clement confronted the hurdles of resistance by reform critics. He engaged with it most fiercely during the later stages of the reform process, when the opposition's efforts to block an agreement on the organizational design of local consortia and the financing of the reform became ever more obvious. During the first part of the parliamentary process, he appealed less against resistance in general but criticized the opposition's plans, which challenged the Ministry's concept on crucial details. His firm attitude towards those who wanted to thwart his reform plans during the legislative process was confirmed by his response to the public protests after the formal conclusion of the reform: he considered them irrelevant as they failed to recognize the real problem.

#### Searching for Political Support While Safeguarding a Final Compromise

To judge the Minister's political orientation, we need to know how he went about organizing the necessary support for the project. Did he try to convince and win the approval of his political opponents for the sake of the reform or did he resort to political tactics in order to get his way?

The media often portrayed Clement as an impatient doer. The variety and sheer number of reform initiatives and ideas he launched – often without prior consultation of his own party – earned him the nickname

‘minister of announcements’.<sup>54</sup> Besides being impulsive and pro-active, he also acquired the reputation of being hard-working and competent in dealing with complex subject matters. In addition, as former editor-in-chief of the daily *Hamburger Morgenpost*, the Minister knew how to present himself and his policies in public. After his start as ‘superminister’, combining the portfolios of Economics and Labour Affairs, he played the role of chief reformer well, trying to give neither the opposition nor his own party the opportunity to attack him. This obviously changed during the Hartz IV process.<sup>55</sup> For many SPD traditionalists, he personalized a growing schism within the party, being seen as a ‘neoliberal modernizer’, who asked more of the ordinary man in the street than of businesses and employers.<sup>56</sup> This image was apparently carried over from his previous position as Minister-President of North-Rhine-Westphalia, and related to his willingness to accommodate business interests on issues such as the loosening of dismissal regulations, and acceptability criteria for jobs. In addition, he was inclined to engage in political confrontations in order to defend his personal convictions on policy issues such as the dispute about industry emissions with Minister of Environmental Affairs Jürgen Trittin, which was decided – in Clements’ favour – by Chancellor Schröder.<sup>57</sup> Equally, his firm rejection of a new tax on business to create additional apprenticeship places – in opposition to the stance of SPD leader Franz Müntefering – brought him in conflict with his party but yielded a new, voluntary initiative targeted at industry and trade, with no additional demands on employers.<sup>58</sup> In any case, Clement seemed conscious of his key role in the Schröder Government and did, at least once (before the final Mediation Committee meeting in June 2004), threaten to ‘draw consequences’ if Hartz IV were to fail.<sup>59</sup>

Sources from political parties did not describe him as someone who preferred tactical games, but, on the contrary, as ‘pragmatic, focused on results, and no political tactician’ (interview adviser B90/Greens, 3 February 2005), as ‘pragmatic, compromise-oriented negotiator, not tactical’ (interview CDU/CSU adviser, 1 February 2005), and as ‘someone who persuades through arguments, no tactical talent’ (interview *DER SPIEGEL* journalist, 3 February 2005). While defending his own convictions fervently, if necessary, even against the majority of his party comrades, he did not seem overly attached to ideals or ideologies.<sup>60</sup> These qualities indicate a straightforward and down-to-earth political style and, as he showed with Hartz IV, a genuine concern about the substance of the reform. Another aspect mentioned was his disposition to engage in the search for compromises, which, at times, was seen as problematic by fellow party members:

He was in the end – through his personal engagement – more ready to compromise than we were, so that we had to watch out that he did not give away too much (...) An individual's capacity to suffer is greater than that of a group. (Interview SPD MP, 25 January 2005)

It seemed as if the Minister cared more about the realization of the project than about whether all provisions proposed by the Ministry would pass the parliamentary hurdles. This hunch is supported by the following observations on how Clement dealt with details:

Clement is someone who stressed the need for and importance of Hartz IV, he is more of a propagandist than someone who negotiates about the details of the compromise (...) Being little involved in the preparatory work and the Mediation Committee negotiations on details, he urged all sides to come to an agreement.' (Interview *DER SPIEGEL* journalist, 3 February 2005)

The Minister did not seem to look for a consensus (with the trade unions, SS), was result-oriented and kept his line of argument at the expense of sacrificing Social Democratic values. From the government's perspective he was surely the right person to accompany the process (interview former Hartz Commission member, 8 February 2005). In other words, the Minister worried less about the exact contents of the reform than about achieving a result: his efforts at persuasion were aimed at concluding the reform rather than at the detailed implementation of the Ministry's proposal. In this way, Clement demonstrated insight into the need for political consensus-building to prevent a last-minute failure of the reform.

What can we deduce about the Minister's political style, that is, his efforts at political coalition-building and the extent of his policy orientation? At this point, the evidence is somewhat contradictory. On the one hand, Clement did make considerable efforts to keep his concept intact, avoiding giving in to the demands of intra-party critics and interest groups. On the other, he was ultimately forced by the realities of a conservative majority in the *Bundesrat* to accommodate some demands from the opposition in order to avoid a last-minute failure. The Hartz IV reform formed part of a larger basket of reforms in the final conciliatory committee negotiations. Thus, due to the inevitable horse trading that occurs in such settings, it is almost impossible to trace how much influence the Minister could exert over the coalition negotiators in order to keep the contents of that particular reform intact.

To conclude, Minister Clement fits the first three criteria of IL about rejecting the policy status quo, legitimizing new policy, and appealing to reform opponents to stop their resistance. Concerning the other criteria, the evidence is less straightforward. While Clement insisted firmly on the Government concept vis-à-vis the demands of interest groups (and later popular protest), his efforts at political consensus-building to secure the opposition's support were not fruitful: the Minister had little choice but to work towards a final compromise with the opposition because of diametrically opposed positions on the issues of administrative responsibility and financing. On the other hand, the evidence suggests that he performed this task with a great deal of pragmatism and personal dedication to reach a solution, which points to his policy orientation. In fact, there is more evidence about Clement adhering to pragmatic (and not ideological) argumentation and persuasion than to suggest tactical behaviour and self-interested motivations. In this sense, we may conclude that Clement complied with the fourth and fifth aspects of IL. Consequently, he meets all criteria for IL fairly well.

Finally, we need to stress that the conditions for such IL were favourable. Other actors had been making efforts to promote the reform before the Minister took on office, and while the Minister was busy advocating Hartz IV. In this context, Chancellor Schröder and the Hartz Commission deserve to be mentioned. The Chancellor contributed to the renouncing of the policy status quo, by establishing the Hartz Commission. He also turned its recommendations into a political pledge, which put the reform squarely on the policy agenda and initiated the policy formulation phase. Six months later, through his *Agenda 2010* speech, he helped Clement by making a case for rejecting present structures and by setting the scene for more self-responsibility among citizens, to legitimize Hartz IV:

We also need to think about our social support systems and ask ourselves whether welfare benefits are really benefiting those who need them. I do not accept that people who are able and willing to work need to turn to the social assistance office while others, who may not be available for work, receive unemployment assistance. Neither do I accept that people, who are comparable in their willingness to work, receive different amounts of financial support. I do not think this is successful labour market integration.<sup>61</sup>

In this sense, the Chancellor contributed to a great extent to Clements' efforts of ideational innovation. With regard to the Hartz Commission,

it contributed to a change in mentality in the debate on the long-term unemployed by giving a clear impulse for the departure from current policies. By doing so, it helped to end a long-drawn period of political hesitation and resistance to fundamental changes in labour market policy. Seen from this angle, the Hartz Commission prepared the ground for Clement's efforts at ideational innovation by creating a climate in which the status quo became debatable, and by making proposals for policy alternatives.

### **6.3 Assessing the Role of IL**

Now the main question becomes why the reform was eventually adopted, and to what extent Clement was the driving force behind its passing. In answering this question, interview accounts served as an important source of information as to why the process eventually led to the passing of reform legislation, which strategies the Government used to push through their reform concept, and by shedding light on Clement's role.

#### **The Government's Strategies to Adopt the Reform**

Interviewees generally agreed that the argumentation strategy was present in the reform process, yet there was disagreement on when it was used, and how important it was relative to the other strategies. Two interviewees pointed out that argumentation mattered most in the phase preceding the legislative process; one of them stressed its role during the proceedings of the coalition working group (interviews NRW Ministry official, 21 January 2005 and B90/Greens adviser, 3 February 2005). Argumentation was also crucial in the attempt to convince critics of a clear competence distribution (the FEA's central responsibility in the draft bill), before the competence issue was again discussed – and substantially altered – by the Mediation Committee (interview SPD mayor, 31 January 2005). Even observers who did not ascribe a prominent role to it acknowledged its use, or pointed out that it was used only to feign openness to the arguments of interest groups, while the official policy stance was not to give in to them (interview DGB official, 2 February 2005). In one interview, it was pointed out that argumentation inevitably goes together with making concessions (interview CDU/CDU adviser, 1 February 2005).

The second strategy, making concessions, was identified as the most prominent strategy. Most concessions were made during the parliamentary process, as adjustments to the draft bill, and, most significantly, in

the final phases of the mediation procedures in December 2003 and June 2004. Key concessions by the Government in reaching the first compromise concerned the acceptability criteria for job offers, which were strengthened to include more types of work, and on the question of administrative competence (interview BMWA official, 28 January 2005). The 2004 compromise included the concession of a fixed number of local governments who could 'opt out' of the local consortia, granting them extra financial compensation. Seen from the perspective of trade unions, few concessions had been made before and during the parliamentary process, except for minor adaptations to the law after the summer of 2004 (interviews with DGB official, 2 February 2005, and VerDi official, 8 February 2005). It was also highlighted that, from the coalition's point of view, granting some concessions was seen as inevitable from the start given the opposition's majority in the *Bundesrat* (interview SPD MP, 25 January 2005), and thus proved crucial in solving the still controversial question of administrative competence (interview IAB policy expert, 8 March 2005).

When it came to the strategy of ignoring or outmaneuvering reform critics, respondents were divided into those who felt that their own organization's critique was ignored in the process, and those who thought there was no serious room to ignore criticism, at least not from the Christian Democratic-governed *Länder*, which had the power to reject the reform in the *Bundesrat*. One interviewee pointed out that some active labour market policy measures first contained in the Hartz IV draft bill had been made into separate laws in order to pass them without *Bundesrat* approval, but these measures did not relate to the core of the merger project (interview NRW Ministry official, 21 January 2005): in this respect, there was no room for an outmanoeuvring strategy. Another confirmed that the criticism by the trade unions, and the public protests in the summer of 2004 (which only led to minor modifications) hardly got the attention of the Government, while the criticism voiced by the opposition could not be ignored (interview B90/Greens adviser, 3 February 2005), due to the danger of derailing the project in the *Bundesrat*.

How do these observations shed light on our initial question? Concessions made by the Ministry, especially during the mediation process at the end of 2003, appeared to have been decisive in agreeing on the shape of the reform as far as the original Hartz IV law was concerned. The importance of concessions in passing the later *Optionsgesetz* was hardly mentioned in this respect. At the same time, the Government's initial argumentative efforts cannot be neglected. Argumentation had an impact

on the initial shape of the reform concept, especially in the early phases of the reform process, when interest groups were involved both through informal consultations and the *Gemeindefinanzreformkommission*, but it was not sufficient to reach a final result. Given the adamant stance of the conservative-liberal opposition, the Government's argumentation was more effective in persuading critics within the coalition (which was nonetheless important) than in the conservative-liberal camp.

Persuasion was thus not absent, but it played a greater role during the preparatory stages of the proposed reform. As far as the strategy of ignoring or outmanoeuvring critics was concerned, the Ministry largely ignored criticism from trade unions and social welfare associations, as it could afford to do so. On the other hand, it could not disregard the criticism of local authority associations, which formed an informal coalition with the opposition, and of opposition parties themselves, which could urge their representatives in the *Bundesrat* to block the proposal. Neither did the Hartz IV reform offer an opportunity to outmanoeuvre this institution, as the reform had implications for the lower levels of government and thus necessitated *Bundesrat* approval. Consequently, in this case, ignoring reform criticism was not a viable option in pushing the reform through. As it were, the evaluation of the strategies indicates that the reform was achieved with a mix of argumentation and (last-minute) concessions, and not by ignoring criticism.

### Clement's Role in the Reform Process

Perhaps surprisingly, all interviewees, regardless of their institutional affiliation, indicated that Minister Clement played a major role throughout the reform process. This was attributed to his personal commitment to the reform and his intense involvement in the negotiations of the first conciliatory process and later in the legislative process of the *Optionsgesetz*. A former high-ranking BMWA official described him as 'very involved and remarkably enthusiastic' and 'intent on motivating his staff and on keeping the process going' (interview former BMWA official, 23 January 2006). Moreover, Clement 'made himself into – and was made into – the symbol of Hartz IV' (interview SPD MP, 25 January 2005), 'took on the responsibility for the reform wholeheartedly' (interview NRW Ministry official, 21 January 2005) and 'turned the reform process into his personal project' (interview SPD mayor, 31 January 2005). With regard to his role in the conciliatory negotiations, he took on the 'role of chief negotiator' (interview adviser B90/Greens, 3 February 2005) and

functioned as a 'moving power' in the working group of the Mediation Committee. Moreover,

Clement's leadership, negotiation skills and use of his political weight as a Minister made a compromise possible, at a time (i.e. December 2003), when it was far from clear whether the *Bundesrat* would vote in favour of the bill. (Interview BMWA official, 28 January 2005)

When enquiring specifically about Clement's leadership during the process, responses were mostly affirmative, even by reform critics, and stressed the connection between such leadership and adhering to the policy plans. The Minister, and along with him his State Secretary, 'massively fought for reform', and 'tried to win acceptance and the trust of the SPD parliamentary party' (interview BA official, 4 October 2005). Furthermore, the Minister was seen to display 'leadership throughout the process and a willingness to go further than his own party in finding compromises' (statement FDP MP, 31 January 2005). Similarly, others judged him as 'being determined to follow the Government's course and to sit out criticism' (interview SPD MP, 25 January 2005). One observer found that both Chancellor Schröder and Minister Clement showed strong leadership and little consideration vis-à-vis their clientele, pushing through their programme against resistance (interview IAB policy expert, 5 March 2005). Another interpretation of leadership was voiced by a respondent impressed by Clement's engagement in the legislative process of the implementation law in the spring of 2004:

He has also shown leadership by including reform critics and main political actors involved. This is (...) when we fought, together with the *Deutscher Städtetag*, about the details of financing. He started a persuasion and negotiation process, I believe unique in German post-war history that led to an increase in acceptance through argumentation. (Interview SPD mayor, 31 January 2005)

#### Decisive Factors in Getting the Reform Accepted

Alongside the Minister's role, which, apparently, was perceived as central to the process, and largely associated with leadership, our interviews also explored what respondents thought to be decisive factors behind the passing of the reform. One person observed that it is unlikely to find a single such factor in a process depending on a lot of tiresome work on de-

tails carried out by a large number of dedicated people in various working groups (interview SPD MP, 25 January 2005). Accordingly, most interview accounts explicitly pointed to a combination of factors that had proven decisive. For instance, the mix of high unemployment, which increasingly set the government under pressure to act, and the stamina of its members in pushing through the project were found to be vital (interview SPD mayor, 31 January 2005). This observation supports the idea that Clement's leadership did matter in bringing about the reform. Other factors mentioned included the consensus on the necessity for reform, and changes in labour-market policy discourse pleaded for by experts. The former relates to an increased urgency to get the unemployed back to work and the absurdity of the co-existence of two systems for the same clientele (statement FDP MP, 31 January 2005), while the latter points to the role of the Hartz Commission, which functioned as a catalyst for the process that followed and also as a reference point for working out concrete legislative proposals (interview VerDi official, 8 February 2005). Finally, the role played by local authority associations was mentioned, both as a factor that broke a major stalemate in the negotiation process, and helped to work out the final compromise on financial compensation (interview *DER SPIEGEL* journalist, 3 February 2005).

Notably, the compromise reached in the Mediation Committee was most frequently seen as a vital factor in the adoption of Hartz IV. It relied on the willingness of the government to agree on such a compromise on the major controversial points of administrative responsibility and acceptability criteria for work. This required a readiness to make financial concessions to the *Länder* and local authorities, and its acceptance of overall financial liability for the new benefit (interviews with DGB official, 2 February 2005, and B90/Greens adviser, 3 February 2005). However, it was also alleged that the compromise was the result of a political 'non-decision', reflecting a conscious choice for leaving the details to be decided by the implementing agencies, as well as the ultimate consequence of the government failing to reach an early stance on the implementation issue (interviews with BMWA official, 19 August 2005, and labour-market policy expert, 21 March 2005). In another interpretation, the compromise was the consequence of the lack of an 'exit strategy' in case the government concept could not be realized (interview BA official, 4 October 2005). Finally, the realization of the necessity to reach a compromise, both by the government and the opposition, with the failure of Hartz IV looming as worst-case scenario, was also regarded as important (interviews with CDU/CSU adviser, 1 February 2005, and *DER SPIEGEL* journalist, 3 Feb-

ruary 2005). While from the Minister's perspective, concerns about his own and the Government's reformer image were central to this realization (interview BMWA official, 19 August 2005), the opposition's approval was owed to the prevailing of the more conciliatory (i.e. opposing a blockade of the reform) wing within the CDU (interview BMWA official, 28 January 2005).

### Combining the Findings: The Impact of IL

To conclude, we argue that both IL by Minister Clement and concession-making played their respective roles in concluding Hartz IV. As regards the various government strategies, argumentation was prominent in the agenda-setting and pre-legislative phases, and until the end of the legislative phases, when argumentation efforts were employed to convince critics: this strategy can be seen as corresponding to the first two aspects of IL. In addition, the evaluation of the Minister's role suggested that he made an important contribution towards completing the reform process, demonstrating leadership in its course. Clement was intensely involved in the process, at least from the moment the mediation procedure began, and he kept pushing for a conclusion to the reform, even when the limits of persuasion became apparent in December 2003. Taken together, these observations suggest that IL did indeed contribute to the concluding of the reform process. At the same time, of the two alternative strategies, only concession-making proved to matter in the decision-making phase on the way to the final compromise in the Mediation Committee. This observation is backed up by witnesses of the process, who suggested several decisive factors that contributed to the finalization of the reform without agreeing on one particular factor. However, it was frequently suggested that the crucial compromise reached in the Mediation Committee was decisive – supporting the evidence in favour of the concession-making strategy – and made a great difference for the final result. Consequently, both IL and concession-making had a bearing on the realization of the reform.

## 6.4 Conclusion

We have analysed the process leading to the Hartz IV reform, a reform that broke with the fragmented status quo of German unemployment protection and modified all of its structural dimensions. It only came about

after a long drawn-out process and within a difficult political context that polarized the Government, opposition parties and interest groups. Hartz IV produced an important shift away from the previously passive character of the unemployment protection scheme towards more activation. It introduced a drastically shorter duration of insurance benefits; the merger of unemployment assistance and social assistance in one benefit; tighter requirements for the unemployed to accept suitable jobs; and more systematic efforts to reintegrate jobseekers, all to be implemented by a partially decentralized administrative structure, either by local consortia involving the Federal Employment Agency or by local municipalities. The motto behind Hartz IV, *‘Fördern und Fordern’*, epitomized the core of the reform, which was activating jobseekers while doing away with inefficient structures for unemployment benefit transfers that had grown alongside each other over decades. Implementing the shift in institutional structures also required changing policy principles. In particular, this meant rethinking the principle of social justice, which Minister Clement redefined in terms of shifting the balance from far too many passive benefit recipients to more incentives for jobseekers to get back into paid employment. This redefinition also implied weakening the principle of status maintenance, a core feature of the Bismarckian welfare state architecture, to which we return in Chapter 7.

Regarding our analytical goal, the investigation of the reform process established that Minister Clement acted in accordance with the criteria of IL. While Clement’s performance as an ideational leader was undoubtedly important, the evidence suggested a combination of argumentation efforts and concessions as the key to the realization of the reform. IL was important to break with traditional ways of thinking about labour market policy and to bring an ambitious reform closer to decision point, yet it could not conclude the reform. Rather, IL in combination with the Ministry’s willingness to achieve a compromise on reform implementation led to its adoption. The compromise provided for a split of administrative competences between local consortia and a number of local authorities, as well as for the division of financing responsibilities with regard to the new benefit. In his task of bringing the reform process closer towards completion, Minister Clement could rely on the Chancellor’s previous political commitment and the conceptual blueprint worked out by the Hartz Commission. Yet, despite all communicative efforts by Clement (and to some extent by Schröder) to achieve a mentality change with regard to the question of how to tackle long-term unemployment, the reform was only concluded after accommodating the criticism of the parliamentary

opposition concerning the role of local governments, and the *Länder* in the *Bundesrat*. The Minister's willingness and ability to achieve a compromise proved to be crucial for the government in ensuring that the core provisions of the reform were adopted and in upholding its reformist image in the eyes of the public.



## 7 Conclusion

Our survey of the German welfare state has almost come almost full circle. The empirical chapters have examined in depth how fundamental reforms of German social policy programmes came about. We found that structural reforms of health care, public pensions and unemployment insurance materialized because of committed and effective ideational leaders such as Seehofer, Riester and Clement. At the same time, concession-making proved to be important. Seehofer knew how to involve the sceptical Social-Democrats in the making of the 1992 GSG reform and succeeded. A decade later, Riester managed to get his private pension scheme adopted because he accommodated concerns about its mandatory character and cuts in the public scheme. Finally, Clement did not allow the opposition's concerns about the administration of the new benefit to derail the Hartz IV project, insisting on a compromise and its correct implementation. These observations back up the hypothesis formulated in Chapter 2. The transformation of the German welfare state through structural reforms has been set into motion by innovation-minded politicians of a particular sort: ideational leaders.

The research approach we chose to identify IL through the communication and political behaviour of key actors proved to be well-suited to our aim. After selecting a number of important reforms (on the criteria for structural reform) for closer scrutiny, we 'observed' the behaviour of key politicians through interviews with witnesses of the foregoing reform processes and combined their impressions with different sorts of textual information such as policy documents and press coverage. This strategy enabled us to reconstruct in considerable detail how fundamental reforms came about and to analyse the role of the assumed IL-type politicians. Therefore, while this study puts a special focus on actors, it clearly differs from approaches such as actor-centred institutionalism (Scharpf 1997) with a game-theoretical focus, approaching actors within their institutional context.

Further research could explore whether ideational leaders also operated in other welfare state contexts, to begin with, in other continental

welfare states. It is likely that we find IL when analysing instances of structural reforms in countries such as France, Italy or Austria, all of which feature Bismarckian welfare states. Since reformers in these countries (for example Raffarin and most recently Sarkozy in France, Dini and Prodi in Italy, Schüssel in Austria) all tend to face high levels of institutional resistance and broadly comparable problem pressures on, for instance, pension systems, they might resort to IL-type behaviour in order to adopt fundamental reforms like in the German context. Beyond these countries, it would also be interesting to explore whether IL has played a role in reforms in social-democratic and liberal regimes. Welfare state institutions in those regimes are considered less resilient than those in continental ones and their political-institutional capacity to adapt in response to reform pressures is deemed greater, which raises the question whether IL-type actors are needed to adopt major reforms at all. Moreover, in areas of public policy other than social policy, agency might be crucial to overcome institutional obstacles to change. IL may play a role in policy areas where instances of significant change have been observed despite the path-dependent effects of strong policy legacies and stakeholders, for instance in agricultural, environmental, energy, or gender equality policy. It might take an innovative leader in agricultural policy to carry out subsidization reform against powerful farmers and bio-industry lobbies who want to keep current subsidy structures. Equally, fundamental reforms in gender policy enhancing women's chances and career possibilities on the labour market typically meet with resistance from ministerial bureaucrats or conservative trade unions who fear legal interventions as attacks on well-established competences.

The remainder of the chapter takes a closer look at another domain of the welfare state that has gained in importance in recent years, family policy (Esping-Andersen et al. 2002), and reflects on the overall nature of the transformation of the German welfare state. Judged by the launch of numerous reform initiatives and its recent salience in German public and political debates, chances are that family policy has also undergone important qualitative changes. We interpret these changes, based on secondary analyses and our own observations of the reforms recently undertaken by the Merkel Government. Then, we turn to the overall implications of changes, including the structural reforms discussed in the previous chapters, and their underlying changes in policy principles for the German welfare state in its totality. What impact have overall reform developments had on the once strongly Bismarckian welfare state? How can we best describe and capture the essence of the welfare state edifice that is emerging?

## 7.1 Family Policy: From Familialism Towards Reconciling Work and Family Life

Continuing media attention and increased interest by social policy scholars in this topic suggest that policy-makers have implemented important changes of late. What kind of changes do they refer to and how have they affected the underlying principles of this archetypically Bismarckian policy area? To answer these questions, we will sketch large-scale trends in the evolution of family policy over time to be able to contextualize the most recent reforms. Given space limitations, the account is stylized: it mentions only the most salient reforms in each period and focuses on directional policy shifts rather than the details of individual proposals.<sup>1</sup> We conclude by arguing what the accumulated changes imply for traditional principles of German family policy.

### Entrenching the Male Breadwinner Model

During the expansionary phase of the welfare state, the male breadwinner model became firmly entrenched as the core of German family policy. The post-WWII period saw the introduction of tax allowances for children, tax advantages for non-working women, and a universal child benefit, all legislated by Christian Democratic governments. Essentially, these instruments were aimed at discouraging women from working. During the post-war boom of the 1950s and early 1960s, with the phenomenon of (near) full employment and the acceptance by women of their role as carers for children and the elderly, the male worker fulfilled his responsibilities as the primary breadwinner, and women's employment was considered as not necessary (Seeleib-Kaiser 2002). That attitude only changed gradually during the 1960s, when employers promoted part-time employment of married women and mothers. However, these labour market changes did not affect dominant views of the family and gender roles. The traditional family concept was merely modified into a breadwinner/housewife-supplementary income earner family (Hagemann 2006). The Social Democrat-Liberal coalition (1969-1982) was the first government to initiate a change of policy profile: it began to support individual family members and to improve opportunities for children in disadvantaged families (Bleses 2003). In 1975, it replaced the existing child tax allowance with a benefit that would increase for each additional child. During the 1970s, a cautious expansion of public childcare set in, followed by the introduction of a six-month paid maternity leave for working mothers, including an earnings-related leave benefit,

in 1979 (Bleses and Seeleib-Kaiser 2004: 79-80). The onset of economic crisis, as well as intra-party opposition, prevented the government from enacting more policies in favour of working mothers (Korthouwer 2007: 18). Therefore, at the beginning of the 1980s, the male breadwinner model still dominated German family policy.

#### Broadening Family Policy under Centre-Right Governments (1982-1998)

The Conservative-Liberal coalition (1982-1998) continued the expansion of family transfers. After some initial retrenchments (such as implementing means testing for transfers), from the mid-1980s, it reintroduced the dual system of family support (child benefits and child tax allowances), previously abolished by the SPD, officially, to promote a more equitable tax system for families with and without children in each income group (Clasen 2005b: 155). The most innovative measures of this period were introduced in 1985, when paid parental leave, including a flat-rate parental leave benefit for all mothers, replaced the previous maternity leave scheme for working mothers. Another innovation followed in 1986 with the introduction of pension credits for all mothers for child-rearing time to compensate female pensioners for lower lifetime earnings. All of these changes taken together amounted to a better compatibility of work and family responsibilities (Bleses and Seeleib-Kaiser, 2004: 83).

In the period following unification, some policy adaptations became necessary because of new contextual factors: the differences in household structures and employment patterns in East and West. For instance, in the Eastern *Länder*, there were more dual breadwinner couples and, thanks to better child care facilities, more mothers were in (full-time) employment. These facts led to pressure for measures that would help combine work and family life and spurred the debate on extending parental leave. Until 1993, the parental leave period and the period for receipt of the benefit were extended to a duration of 36 months and 24 months respectively (Clasen 2005b: 159-160). The most notable change was pushed by East German Minister of Family Affairs Angela Merkel. In 1992, within the context of a controversial abortion law reform, the government established the parental right to childcare for children between three and six, to be effective by 1996 (but delayed due to disagreements between the federal government and some *Länder* implementation problems until 1999). While being a decision that in fact promoted child care facilities – before this was an official goal of family policy – the primary motive was to protect mothers and their unborn children (ibid: 160-161).

## Expansion and Acceleration of Family Policy under Centre-Left Governments (1998-2005)

The first Red-Green coalition (1998-2002) continued to expand family policies put in place by the centre-right government, although it proceeded at a somewhat faster pace. Their expansionary plans were structured along three lines: first, raising the child allowance and child tax advantages; second, reinforcing pension credits for working parents devoting six months to childrearing; and third; improving possibilities for parental leave and the attached benefit for working parents and an entitlement to work part-time if parents wished to do so (Bleses and Seeleib-Kaiser 2004: 84-85). On two of these three dimensions, the Government was pushed to action by external requirements, from the EU and the Federal Constitutional Court. On the parental leave reform, an EU directive from 1996 designed to improve equal opportunities provided a crucial impetus and even went further than the strict requirements of the directive (Falkner et al 2002 cited in Korthouwer 2007: 24). The core provisions of the reform enabled parents to take leave at the same time while working part-time (up to 30 hours per week), and raised earning limits to increase the likelihood of parents receiving the full parental leave benefit (Bleses and Seeleib-Kaiser: 85-86). On the second dimension, an improvement in child allowances and tax allowances followed a 1998 Constitutional Court Ruling that provided the Government with fairly detailed instructions on how to correct child tax advantages to reflect more closely actual expenditures, by the year 2000. The resulting reform significantly increased child benefits and the alternative child tax allowance (including formerly separate allowances for childcare and education) and removed any advantages for single parents only (ibid: 85).

The last dimension dealing with the improvement of child care facilities was not really addressed until the second term of the Red-Green coalition starting in 2002. One should note, though, that the federal Government has no legal competence in this matter, but is dependent on the cooperation of the *Länder* and municipalities to actually implement regulatory improvements in childcare and education. To begin in 2005, the coalition earmarked annual federal subsidies of € 1.5 billion to expand child care for children under the age of three (aiming at coverage of 20 per cent) as well as € 4 billion in subsidies (between 2003 and 2007) to municipalities and regions to increase the availability of places at full-day schools (Clasen 2005b: 164). Notably, the combination of changes under the Red-Green Government was not driven by arguments for equal opportunities

of family members (as put forward by the SPD in the 1970s), but rather by a growing employment orientation, stressing the compatibility of work and family life. Especially the increased focus on extending childcare – as opposed to further compensation for family care – owed to economic incentives, along with signs of popular demand and the debate on early childhood education (ibid: 165).

#### Notable Innovations under the 'Grand Coalition' (2005-2009)

The 'Grand Coalition' of SPD and CDU/CSU has initiated notable changes in family policy. The proposals put forward by Minister of Family Affairs Ursula von der Leyen bear witness to a process of policy convergence between the two major parties. During the period of the Red-Green coalition (at least until 2002) a certain convergence between the two parties had taken place, as the SPD had, by and large, been building upon measures put into place under their conservative predecessors, and its image of the family as basic societal unit had already approached the one of the CDU (Bleses 2003: 205). After 2005, the CDU's traditional familiarist position had visibly shifted towards the SPD position (Korthouwer 2007: 27), a process that had been gaining momentum during the CDU's time in opposition, and helped by the rise of Angela Merkel to the party chair and amendments to the party programme.

Von der Leyen's main projects, both adopted in 2006, were the expansion of tax reimbursements to cover child care costs, and the introduction of a new parental leave scheme and benefit. The first reform, originally intended to cover families with two working parents, was finally amended to include families with only one working parent to accommodate accusations about 'neglect of the traditional family' (Korthouwer 2007: 31). Second, the new parental leave scheme was a novelty on all counts. It gives parents the opportunity to care for their children for one year, supported by a new leave benefit (*Elterngeld*) that replaces 67 per cent of former earnings up to a net ceiling of € 1,800 (with the possibility to be extended by two months if the partner of the caring parent also takes leave).<sup>2</sup>

In 2007, the Minister continued to launch new plans, proposing to expand child care facilities for under-three-year-olds by 500,000 places. At a special child care summit, including the *Länder*, she managed to secure a general commitment to provide child care for one-third of all children (approximately 750,000 places), by 2013. Furthermore, in May 2007 the Government agreed to establish the right of parents to child care for children under three years of age, to be effective from 2013 on-

wards. Such commitment to a substantial extension of public child care entailed an important concession to the CSU: granting the entitlement to a cash allowance (*Betreuungsgeld*) to parents raising their children at home as well as to working mothers. Later in 2007, Parliament approved a financing concept for the Minister's child care expansion plan, which was eventually to include the CSU-backed child allowance.<sup>3</sup> In early 2008, Van der Leyen reached an agreement with the Minister of Finance, Peer Steinbrück, about how to implement the entitlement to that allowance for non-working parents.<sup>4</sup> The resulting law regulating child care extension and codifying the new right of parents to child care was adopted by the *Bundestag* in September 2008.<sup>5</sup>

During 2008, a new round of improving financial support for families in the upcoming election year 2009 came on the agenda of the 'Grand Coalition'. In June 2008, CDU/CSU and SPD presented contrasting position papers on the issue – rather than a common plan.<sup>6</sup> Following the release of a government report on minimum living wages in the fall of 2008, the cabinet decided on a package including several measures aimed at supporting families to be effective in 2009 (improved child benefits, especially for families with three and more children; higher child tax credit; improved tax credits for family-supporting services; cash support for school supplies for families on lowest incomes).<sup>7</sup> Those latest improvements of family support seem a compromise between traditional CDU and SPD positions from which both higher-income (tax credits) and lower-income families (often featuring more children) can benefit.

Recent comparative analyses of family policy label the reforms of the past years, and the parental leave scheme in particular, as extraordinary. Analysts have noted that after a long-time focus of both heavy reliance on the male breadwinner model and the neglect of public childcare infrastructure, recent years have brought about an emphasis on facilitating the work and family balance by increasing support for working mothers (Klammer and Letablier 2007: 673-674). In this context, the new tax-financed parental leave scheme is qualified as a 'significant reorientation', as it not only implies a massive increase in spending for families but also redistributes funding from low-income parents to working parents. Moreover, as the new parental leave benefit (*Elterngeld*) has a wage-replacement function but is financed by taxes, it marks a new sort of structure in the Bismarckian welfare state (2007: 675). Others equally recognize the changes, but argue that they are still driven by a specific Bismarckian logic. That logic, based on the dilemma of 'welfare without work', first resulted in labour-shedding strategies during the 1980s, and, in the 1990s, in the necessity

to raise (female) employment levels, which led to family policy measures stressing women's 'free choice' between work and care. Interpreting such reform as complete departure from Bismarckian principles would be premature, since we still see a 'traditional gendered division of labour in the household and the family environment is still considered the best locus of care' (Morel 2007: 635). On the contrary, across Bismarckian welfare states, the latest reforms retain a conservative imprint as they are stratifying in character, that is, they favour high-income women over low-income ones. Other scholars confirm this assessment for the German case: The parental leave scheme, through its design and relatively high level of income replacement, explicitly aims to appeal to higher qualified and better paid women, disadvantaging low-income mothers and women without employment (Knijn and Ostner 2008: 13; Martinek 2007: 77).

## **7.2 Transforming Bismarckian Principles**

The previous analysis of changes in family policy reveals an overall expansion of initiatives to support families, facilitate child care facilities and measures that help families to combine work and family responsibilities. How are we to interpret these changes in terms of the overall normative orientation or principles underlying German family policy today? After reviewing some previous characterizations of changes in the literature, we will state how the latest reforms of the 'Grand Coalition' (introduction of generously funded parental leave, extension of child care capacity) have added to the overall picture.

One important core principle of the Bismarckian welfare state was familialism, which implied heavy reliance on the family, or rather, the housewife, for the provision of social services. In relation to the family, the state pursued both 'institutional' and 'societal' goals, which implied supporting the family 'as a value in itself', and upholding it as a constitutive element within society. Connected to familialism, the principle of subsidiarity implied that the state would only support the family if its traditional self-help mechanisms broke down (Seeleib-Kaiser 2002: 27), which found its expression in transfer payments such as child benefits or child (tax) allowances. During the 'Golden Era' of the welfare state, that is, in the 1950s and 1960s, both principles appeared to be firmly entrenched. Only in the 1970s, other goals were appearing on the political agenda, namely compensating parents for the costs of children ('socio-political' motives) and, to some extent, economic motives (Kaufmann 2002: 425).

At that point, the breadwinner-housewife model still remained in place, favouring family care over public provision.

From the 1980s onwards, the evolving positions of the major parties played a prominent role in policy development, which, in turn, led to an adjustment in the principles underlying family policy. Both major parties made a case for stronger public support for families, linking this to changes in household structures and employment patterns. The CDU/CSU adopted a stance of formal neutrality to family types and gender roles; at the same time, their traditional Christian Democrat preferences are still reflected by the aim of improving compensation for all mothers caring at home over public child care. In turn, the SPD came to acknowledge the popularity of the CDU's plea for the choice of all women between an entitlement for care at home and employment (Clasen 2005b: 180). As a result, the Social Democrats abandoned their earlier focus on strong wage labour and 'family member policy' (of the 1970s), gradually replacing it with an emphasis on the positive role of the family for individual development and for society as a whole (Bleses 2003: 201). Over time, the new goal of improving compatibility between family care and employment gained prominence (and became reflected in the extension of parental leave and improved child-raising credits).

From the late 1990s onwards, new goals had clearly supplemented the existing 'family-centred' approach: next to further improvements in family-related cash transfers, maternity or parental benefits, and leave arrangements, there was a growing focus on employment-centred policy – trying to improve the work and family life balance – and the promotion of public child care had only just begun. Since 2002, another switch had been made: the centre-left Government visibly put child care policy at the core of an increasingly employment-oriented policy (Clasen 2005b: 179). The combination of measures the 'Grand Coalition' has introduced since 2005 confirmed earlier developments towards improving of public child care and firmly established this goal alongside the two previous ones: family support and reconciliation of work and family responsibilities.<sup>8</sup>

Taking the latest reforms into account, the principles of familialism and subsidiarity have lost their previous prominence, as they have been complemented by economic and gender equality goals for family policy. Surely, familialism in its traditional form, expressed as a societal or institutional goal, has lost its predominant position due to a partial process of de-familialization (Esping-Andersen 1999). The latter concept is commonly understood as the decrease of individuals' (that is, women's) reliance on the family for economic subsistence. With regard to child care,

the extent of de-familization had already started with regard to three- to six-year-old children (Bleses and Seeleib-Kaiser, 2004: 87), but with the strong commitment to develop child care for very young children, it can be seen on the rise. In addition, we also witness a weakening of subsidiarity, becoming visible through a stronger state role regarding the provision of child support and care in relation to the responsibilities borne by families. Supporting families through public policies has turned into a new reference point of social policy, in contrast to the traditional reliance on the male breadwinner and securing the standard of living of former wage earners. This, in turn, points to a redefinition of state responsibilities or recalibration (Seeleib-Kaiser 2002: 35). By adding new policy measures that more than ever intervene in family matters (not to be understood in an intrusive sense, as all measures entail an element of choice on the part of families), the state has redefined its stance towards the needs of families, expanding its reach into the formerly 'private' family sphere. Returning to our initial question, the most likely scenario for the short to medium term is the co-existence of familialism and subsidiarity, in a weakened form, with new principles that reflect the more recent economic and gender equality motives, such as reconciliation of work and family life, and increasing de-familialization (if understood as a principle guiding policy and not as a process), as sufficient high-quality and affordable child care facilities become available and are being accepted – and used – by ever more working parents.

### **7.3 Towards a New Hybrid Welfare State Edifice**

Let us now reconsider the significance of the German reforms in their totality. The most fundamental reforms, which we labelled as structural, have been the focus of the detailed analyses in earlier chapters. Moreover, these analyses have shown that ideational leaders have contributed in great measure to their adoption. As structural reforms also imply the beginning of a transformation, the final question to be explored is: What are the contours of the new German social policy architecture as a whole? And, importantly, since the starting point of this analysis was the expected rigidity of this Bismarckian welfare state prototype, to what extent is it still in line with Bismarckian principles?

To return to the discussion of structural reforms in Chapter 1, the reforms analysed in the empirical chapters also reflect changes in the guiding principles underlying policies, both in terms of cognitive solutions to policy

problems and normative principles. Cognitive ideas contained in policy solutions serve to address an unsatisfactory policy status quo, while normative principles serve to legitimize reform adoption as they make reference to existing or redefined normative beliefs about how welfare provision should be organized. The table below summarizes changes in principles across the three policy areas, starting with Seehofer's health care reforms in the 1990s, the Riester pension reforms of 2001 and Clement's merger of unemployment assistance and social assistance (Hartz IV) in 2003/2004.

**Table 7.1 Summary of changes in policy principles**

	<b>Health care reforms</b>	<b>Pensions</b>	<b>Unemployment insurance</b>
<i>Policy status quo</i>	<ul style="list-style-type: none"> <li>- fragmented and restricted access to sickness funds (1992)</li> <li>- cost and contribution increases (1992, 1996)</li> </ul>	<ul style="list-style-type: none"> <li>- dominance of one pillar (statutory pension)</li> </ul>	<ul style="list-style-type: none"> <li>- de facto three-pillar system</li> </ul>
<i>Cognitive principles/solutions</i>	<ul style="list-style-type: none"> <li>- liberalization of access to insurers; cost ceilings (1992)</li> <li>- co-payments; liberalization of insurance contracts and regulation (1996)</li> </ul>	<ul style="list-style-type: none"> <li>- private pension pillar, occupational pensions</li> </ul>	<ul style="list-style-type: none"> <li>- merging systems for unemployed able to work</li> <li>- intensifying placement activities</li> </ul>
<i>Normative principles</i>	<ul style="list-style-type: none"> <li>- some competition among insurers; stronger state supervision (since 1992)</li> <li>- more self-responsibility (for patients); more competition (among insurers); more room for self-governance (since 1996)</li> </ul>	<ul style="list-style-type: none"> <li>- diversification through statutory, private, and occupational pillars</li> </ul>	<ul style="list-style-type: none"> <li>- activation as expression of social justice ('<i>Fördern und Fordern</i>')</li> <li>- lower benefit levels as incentive to take up paid work</li> </ul>

Health care provision in the 1990s first moved towards more choice for patients in terms of sickness funds, more financial solidarity between insurers (risk-compensation scheme) and an extended reach of state regulation. A second shift introduced more responsibility of care providers to control the quantity of services and expenditures; higher contributions and more self-responsibility for patients (via higher co-payments); and greater competences for self-governing bodies. In pension policy, the 2001 reforms brought a shift from a single-pillar towards a multi-pillar system that broadened pension provision from statutory provision to include also occupational and private pillars. The dominance of the statutory scheme was ended by reliance on several sources of pensions to compensate for the substantial reduction of benefit levels in the statutory system. Finally, the Hartz IV reform amounted to a wholesale restructuring of unemployment insurance. It replaced a *de facto* three-pillar system with a much simpler one featuring a single benefit for those long-term unemployed able to work, no matter whether they were formerly entitled to unemployment assistance or social assistance. Underlying this shift is a move from *de-commodification* towards a '*re-commodification*', implying that individuals have to rely more on their labour market value rather than on benefit transfers: levels of transfers have been reduced and activating measures play a much greater role than before. In sum, the various shifts in cognitive and normative principles brought about by these structural reforms contributed to the larger picture of overall change of Bismarckian principles across policy areas, to which we turn now.

As the reader will recall, these principles included wage-centred benefits based on social insurance; familialism, as expressed in the male breadwinner model and subsidiarity; and protecting the achieved living standard of (male) workers with derived benefits for other family members. The accumulated effect of reforms over time – both incremental and structural ones – has been a weakening of these Bismarckian characteristics.

This has been most obvious in pension and unemployment policy, where a withdrawal from the principle of guaranteeing an achieved living standard has been taking place (Bleses and Seeleib-Kaiser 2004: 146-148). In unemployment policy, this was due to cuts in wage replacement; a re-definition of reference wages, tougher eligibility rules for benefits, and tougher sanctions for non-compliance. Moreover, unemployed persons have become more dependent on tax-financed, means-tested benefits than on strictly contribution-based ones. Finally, active labour market policies have come to rely more on activation measures aimed at placing job seekers into atypical and temporary employment rather than retrain-

ing them for same-status employment. As a result, we have seen a certain recommodification of unemployed workers.

In pension policy, the most transformative changes will mostly affect future rather than current retirees. While (recent) current retirees already have to accept some retrenchment of pension levels and lesser indexation of pensions, the poorest also benefit from the introduction of a tax-financed minimum pension. However, future generations of pensioners will surely no longer receive a public pension maintaining their achieved living standard. To compensate for this, a multi-pillar system of pension provision has been initiated (including the partial privatisation of pensions through the Riestert reform, greater stress on occupational pensions, introduction and expansion of family-oriented benefits, abolition of special occupational disability benefit). Most recently, the graduated increase of the pension age to 67 will reinforce this development. In sum, the weakening of the protection of former living standards will increase as the impact of innovations is going to reach their full strength. At the same time, the wage-centred approach has been weakened, and family policy has been transformed by a remarkable expansion and re-definition of goals (Bleses and Seeleib-Kaiser: 2004)

To reiterate briefly, purely financial support of families was gradually 'socialized' in the sense that child care within families was found to deserve public support. In addition, parents should have the choice between employment and family responsibilities and be supported to reconcile both (2004: 148-149). Under the current Government, the state has even assumed more responsibility to facilitate the creation of more child care facilities in the near future, therefore creating more (future) autonomy for parents. In other words, familialism and subsidiarity have been redefined: the family is seen as important from more perspectives, not only for societal or institutional reasons, but also economic (employment-centred) and gender equality motives play a role now in defining the Government's policy strategy. Moreover, subsidiarity has lost its centrality, as the state has carved out a new role for itself vis-à-vis the ever more diverse forms of family: it is now more enabling and assumes formerly private responsibilities.

What has happened to Bismarckian principles in health care? The wage-earner principle embedded in the statutory health insurance and the corporatist regulation structure involving shared self-government by sickness funds, providers and the state has not been left untouched. The reforms of the 1990s have started to introduce competition between funds, which has been extended and strengthened ever since. At the same time, wage-centredness has lost some of its centrality, as self-reliance of

the insured and of patients (less coverage, higher co-payments and more emphasis on sickness prevention) has gained in importance. In addition, the regulatory state has re-manifested itself vis-à-vis other actors, especially with the 2006 reform that envisages, for instance, more universalistic coverage with state-regulated premiums, a new scheme of risk equalisation between funds and a greater share of tax-financing. All in all, a dual logic of universalization through state intervention and market orientation through regulated competition characterizes this policy area.

Taken together, these developments indicate that Bismarckian core principles have definitely lost their previously predominant status: this means that the German welfare state is now much less Bismarckian than it was thirty years ago. It is much more difficult to answer the question what it has become instead, which involves a fair amount of speculation. If one still accepts the Esping-Andersen 'three worlds of welfare' typology, the most logical question to ask is whether Germany has moved closer towards the liberal and/or social-democratic regimes. Here, I agree with the assessment of Bleses and Seeleib-Kaiser, who find elements of both in the current German arrangements (2004: 152-153). For instance, means-tested benefits, a hallmark of the liberal welfare state, have increased, especially with regard to unemployment insurance, but do not – in its German variant – exclude all but the poorest parts of the population from receiving benefits: even (lower) middle-class incomes would still be eligible for benefits. Furthermore, some of the new family policy measures, such as the Scandinavian-style funded parental leave scheme, resemble policies we find in social-democratic welfare states, with one important difference: in the German context they do not imply a semi-obligation of mothers to take on paid employment, as the choice for care or work is explicitly left with the parents. On the basis of such observations, it is difficult to conclude that the German welfare state has clearly moved in the direction of one or the other regime. However, it has surely become more of a 'hybrid' welfare state, combining elements of Bismarckian regime type with elements of the other two regimes.

#### Hybridization rather than Dualization

In contrast to the finding of the last paragraph, it has been suggested that the reforms are in line with Bismarckian institutions and even reinforce their characteristics (Palier and Martin 2007). In line with the general argument of this book, Bruno Palier and Claude Martin note that even notoriously change-resistant Bismarckian welfare states have undergone

significant changes since the late 1980s. At the same time, they see the reforms as a response to a 'dominant international social policy agenda'. Importantly, the type of expected reforms is pre-structured by Bismarckian characteristics and 'the similarity of welfare conception and institutions partly explains the similarities in the problem profile and in the trajectories of reform'. Regarding the overall direction of the reforms, Palier and Martin note an 'increase of the insider-outsider cleavage' (2007: 536). The last observation implies a 'dualization' of welfare in Bismarckian regimes, implying that 'national solidarity schemes' (providing universal or means-tested and state-controlled, tax-financed benefits) face remnants of formerly dominant social insurance systems (which, however, are ever more based on actuarial principles, as is the case with public pensions). Thus, citizens face varying degrees of social policy coverage, resulting in a group of 'insured' insiders versus a group of outsiders that are 'assisted' by other means of social protection. According to Palier and Martin, this development is fully in line with a 'Bismarckian institutional dynamic' and becomes most obvious in unemployment and family and elderly policies. As for the former, policies are neither fully activating, nor fully compensating (Clegg 2007), while in care policies, reforms have not removed gender divisions in households, but created measures that offer different solutions and/or incentives to low and high-income women, respectively (Morel 2007).

In our view, there are two arguments against the 'dualization' thesis, one empirical and one theoretical. Starting with the former, is it an accurate characterization of German developments? We do not think so. To claim that 'dualization' has taken place across *all* policy areas is oversimplifying reality, as it does not hold for health care and pension policy. Although health care policy features a regulation mode in between state steering and more competition (and coverage has traditionally been split between those insured by sickness funds and those covered by private insurance), it is not obvious how an insider-outsider cleavage manifests itself here, especially with the latest move towards more universal insurance and better access to private insurance. In pension policy, one may think of the generation gap between current and future pensioners as marking the line between in- and outsiders, but this concerns a cleavage that will only gain more prominence within the next decades when demographic developments fully set in, and the gap between pensioners living off statutory pensions and those living off pensions from multi-pillar sources becomes visible. Leaving these caveats aside, reality must show whether 'dualization' is a roughly accurate description or simply a snapshot of a transition

period, surely as far as Germany is concerned. Even Palier and Martin implicitly concede this: although they hypothesize that their vision represents ‘the typical (conservative and corporatist) way of adapting to the new economic and social world and that this segmented pathway is quite robust and will shape the future of continental Europe’, they also state that their observation may be about a ‘period of transition’ (2007: 551).

A more theoretical argument for rejecting the ‘dualization’ thesis relates to its underlying vision of what political actors can achieve or, rather the lack of it. Its authors maintain that the first waves of the reforms adopted since the late 1970s were very much in line with the Bismarckian welfare state model. Only the more recent stages of ‘institutional’ and ‘paradigmatic’ reforms (since the late 1990s) would weaken its institutions and usher in a structural transformation of the system as a whole (Palier and Martin 2007: 542-544). But even the latter reform stages are portrayed as steps in a path-dependent process, in which the next step in the reform sequence is explained largely by the previous one (although it is also conceded that learning by governments has played a role). Additionally, although the latest reforms imply a growing differentiation within institutions in terms of welfare recipients, they are interpreted as a continuation of Bismarckian social policy principles. Essentially, the analysis creates a picture in which structure essentially re-creates itself and political agency is restricted to the sidelines at best. Such institutional reinforcement is reminiscent of the Streeck and Thelen modes of gradual institutional change with its relative lack of intentional action and absence of deliberate political reform strategies, as we discussed at the end of Chapter 2. However, as we have argued throughout this book, a more pro-active way of reform adoption, through ideational leaders, as empirically demonstrated in the case studies, is also plausible. As the IL argument states, under certain conditions, political actors deliberately seek to break up institutional structures. In doing so, institutional alternatives are being put into place, either alongside remnants of existing policy structures, or even replacing them, which makes for hybrid forms of institutional provisions. This points us in the direction of how we see contemporary German welfare state development.

In contrast to the Palier and Martin notion of ‘dualization’, we contend that Germany has started to evolve into another form of welfare state, which cannot be captured adequately by reference to traditional welfare regime types. To make this clear: today’s Germany simply cannot be described in terms of one of the other well-known regime types. Its new welfare state edifice – to avoid the term ‘model’ – is rather dynamic in

nature as it features hybrid institutional characteristics that have not yet firmly been anchored. They combine *both remnants of the Bismarckian tradition and new elements stemming from the social-democratic and liberal regimes*. The same goes for the cognitive and normative principles underlying these characteristics, which might not become fixed in the short- to medium term, in contrast to Bismarckian principles that had been very durable over several decades. Patterns of long-term transformation of institutional arrangements involve long transition periods from one type of arrangement to another, for instance, in pension policy, which contributes to the dynamic character of the new edifice. The emerging multi-pillar system leaves the door open for further government interventions and adjustments which may either accentuate differences between those covered by new or old arrangements or try to smooth them out. In other areas of the welfare state, such dynamism manifests itself through more diversified arrangements: complementing passive income transfers by stronger activation requirements on jobseekers and re-integrative labour market measures, and a health care system that is more demanding on patients in terms of financial and personal responsibility yet combines a strong state role with market-driven forms of regulation. These developments also reflect the search of governments – not only in Germany, but also elsewhere – for answers to ‘new risks’ facing the citizens of mature welfare states, as the latter need to adapt to important changes in the societal, family and labour market sphere. These new risks are, to some extent, externalities of a secular process of liberalization that has been penetrating societies as a whole but leaves heavy imprints on social policy in particular. The result tends to be a more or less gradual decline of measures that used to protect citizens against markets and a redesign of social policies towards re-commodification. As a consequence, governments face appeals for a reshaping of benefit-centred, ‘passive’ and protective arrangements towards a more pro-active, and social investment-oriented provision of welfare (Engelen, Hemerijck and Trommel 2007). Such market-enhancing rather than market-protecting reorientation of welfare states raises a host of normative questions societies need to come to terms with. Wolfgang Streeck (2009) suggests an interesting historical analogy at the end of his political economy analysis of German capitalism, where he speculates about its future. He compares the current focus on ‘work and family’ issues to the 19<sup>th</sup>-century factory legislation devised to protect workers and their children from the dangers of excessive work. In Streeck’s view, current government efforts to increase the compatibility of work and care responsibilities can be seen as ‘responding once again to

the challenge to devise methods of social intervention that organize work, and perhaps consumption as well, in ways making it possible for society to bring up a new generation and have a future, capitalist or not' (2009: 267). Whether this analogy is entirely appropriate or not, it is unlikely that comprehensive reshaping of the welfare state takes place without societal and political deliberation about its meaning for society.

### The Recent German Debate on Growing Social Divisions

Indeed, such deliberation already has begun if one considers the debate about the consequences of social policy reform which has started under the Red-Green coalition. That public and political debate clearly signals that the recalibration of Germany's welfare state is still in flux, while it indicates how contentious an issue social justice has become. Rather than reconstructing the debate in detail, we will point to a few key issues that figured prominently in the media and are indicative of a society trying to get to terms with the implications of a transforming welfare state. First, there is a greater awareness of growing income inequalities. In the fall of 2006, a survey conducted for the social-democrat Friedrich-Ebert Foundation on people's attitudes toward societal change had signalled the presence of a '*Prekariat*': a segment of the population that has lost faith in improving life chances and suffers from social exclusion.<sup>9</sup> This finding triggered considerable discussion within the coalition and was readily used to back up the claims of critics about the link between Schröder's *Agenda 2010* reforms and increasing poverty and the growing gap between the better-off and the worse-off. These undesirable developments were seen as endangering the existing situation of social justice in terms of distributive justice.<sup>10</sup>

One important focus of the latter debates became the question whether and how to adjust the flat rate of the Hartz IV benefit. Raising the benefit level for long-term unemployed to ensure an adequate living standard in a context of rapidly rising food and energy prices is seen as a means of ensuring social justice for those with least chances on the labour market.<sup>11</sup> What is more, the debate on the Hartz IV benefit feeds into a more general discussion on the increase of poverty in German society. The conclusions of the 2008 poverty report (*Armutsbbericht*), a periodic report by the government about the development of the population's income and financial circumstances, were received with a sense of indignation. It states that about 13 per cent of Germans are at risk of becoming poor according to the EU definition (monthly earnings of Euro 781 or less) and another 13 per

cent are only kept out from this category due to social transfer payments such as long-term unemployment, child, or housing benefits. In addition, the report showed that the gap between income groups has widened during the last five years, supporting the SPD's ongoing plea for introducing a statutory minimum wage and leading the opposition to condemn the policies of the 'Grand Coalition' and the previous Red-Green Governments.<sup>12</sup>

The preceding debates, apart from raising questions about the current meaning of social justice, also had repercussions on the position of the Social Democrats and, indirectly, left imprints on the German party-political landscape. They have contributed to a gradual demise of SPD support and continuing internal infighting about the party's programme. The party lost part of its left-wing members because of disillusionment with the modernizing reforms enacted by the two Schröder Governments. In 2005, they founded a new splinter party (Electoral Alternative for Labour and Social Justice) that merged in 2007 with the former East German Socialist party to form the leftist party DIE LINKE. Their main aim seems to undo Schröder's *Agenda 2010* reforms, returning to a more generous welfare state with higher levels of social protection financed by higher taxes for the wealthier segments of the population. As a matter of fact, this would mean reversing the redefinition of social justice achieved by structural reforms such as Hartz IV and the Riester pension reform. To date, chances are slim that this will actually materialize, although the party has meanwhile entered the parliaments of several German states by successfully competing for votes from traditional social-democratic voters.<sup>13</sup> The prospect of a far-left party taking on governmental responsibility of some kind has fuelled party-internal discussions about the programmatic profile of the SPD vis-à-vis DIE LINKE. Its peak was reached with the dismissal of troubled party leader Beck and the unexpected return of the respected former Minister of Labour Müntefering, who took over party leadership in September 2008.

To conclude, what the previous discussion demonstrates is that the reshaping of German welfare state provision in the early 2000s has come at a price: it has produced a backlash in the form of a growing public awareness of and unease about a growing social division between higher- and lower-income groups. In addition, there is political disagreement – within the governing coalition and between the Government and the opposition – on how to react to the growing share of those living on lowest incomes, either working in low-income jobs or dependent on Hartz IV benefits or social assistance. Finally, we witness growing unease about an increasing group within the formerly stable middle class that fears growing job insecurity

and has more difficulty to make ends meet despite a general economic upswing and falling unemployment rates in recent years. These observations are in line with the necessity of most governments to search for effective policy solutions to the 'new risks' mentioned earlier. Chancellor Merkel's 'Grand Coalition' has not offered conclusive answers to these developments and will have to pass on this chore to the new government after the federal elections in September 2009.<sup>14</sup> It will be a major task for the next and future governments to come up with answers that determine which path Germany's new hybrid welfare state takes.

## List of Abbreviations

AOK	Allgemeine Ortskrankenkasse
B'90/Grüne	Bündnis 90/Die Grünen (B'90/Green Party)
BA	Bundesagentur für Arbeit (Federal Employment Agency)
BfA	Bundesanstalt für Angestellte (Federal Agency for Employees)
BMFSFJ	Bundesministerium für Familie, Senioren, Frauen und Jugend (Federal Ministry of Family Affairs, Senior Citizens, Women and Youth)
BMGS	Bundesministerium für Gesundheit und Sozialordnung (Federal Ministry of Health and Social Affairs)
BMWA	Bundesministerium für Wirtschaft und Arbeit (Federal Ministry of Economic Affairs and Labour)
BR	Bundesrat (German Federal Council)
BT	Bundestag (German Parliament)
CDU	Christlich Demokratische Union (Christian Democratic Union)
CSU	Christlich Soziale Union (Christian Social Union)
DIE LINKE	The Left
DGB	Deutscher Gewerkschaftsbund (German Trade Union Federation)
DGSB	Deutscher Städte- und Gemeindebund (German Federation of Towns and Municipalities)
DKG	Deutsche Krankenhausgesellschaft (German Hospital Association)
DLT	Deutscher Landkreistag (German County Association)
DST	Deutscher Städtetag (German Association of Cities)
EU	European Union
FDP	Freie Demokratische Partei (Free Democratic Party)
GSG	Gesundheitsstrukturgesetz (Structural Health Care Act)
IAB	Institut für Arbeitsmarkt- und Berufsforschung (Institute for Employment Research)

KBV	Kassenärztliche Bundesvereinigung (Federal Association of Sickness Fund Physicians)
KV	Kassenärztliche Vereinigung (Association of Sickness Fund Physicians)
GKV-NOG	Gesetzliche Krankenversicherungs-Neuordnungsgesetz (Statutory Health Insurance Reorganization Act)
KOG	Kommunales Optionsgesetz (Municipal Implementation Act)
SPD	Sozialdemokratische Partei Deutschlands (German Social Democratic Party)
VDR	Vereinigung Deutscher Rentenversicherungsträger (Association of German Pension Insurers)
VerDi	Vereinigte Dienstleistungsgesellschaft (United Services Union)
VfA	Verband forschender Arzneimittelhersteller e.V. (German Association of Research-based Pharmaceutical Companies)
WIdO	Wissenschaftliches Institut der AOK (AOK Research Institute)

## **List of Interviewees**

### **Health Care Policy under Minister Seehofer (1992-1998)**

- 1) Assistant professor of political science and health care policy expert, Bochum, 10 November 2005.
- 2) Assistant professor of political science/public policy and health care policy expert, Hannover, 11 November 2005.
- 3) Former chairman KBV, Berlin, 15 November 2005.
- 4) VfA representative, Berlin, 15 November 2005.
- 5) DKG representative and editor of *Das Krankenhaus*, Düsseldorf, 22 November 2005.
- 6) Director of WIdO, Bonn, 22 November 2005.
- 7) Professor of medical sociology and health care policy expert, Frankfurt, 23 November 2005.
- 8) Former SPD Member of Parliament and speaker for health care policy, Berlin, 24 January 2006.
- 9) CDU/CSU parliamentary party official, Berlin, 12 January 2006.
- 10) BMG senior official, Bonn, 27 January 2006.
- 11) Professor for medical provision research and member of the German Expert Advisory Board on Health Care Policy, Bremen, 7 February 2006.

### **Pension Policy under Minister Riester (1998-2002)**

- 1) IAB pension policy expert, Nuremberg, 22 April 2004.
- 2) DGB official, Department of Labour, Social and Co-Determination Law, Berlin, 14 June 2004.
- 3) Member of the SPD federal board and former Member of Parliament, Berlin, 15 June 2004.
- 4) BMGS senior official, Berlin, 16 June 2004.
- 5) CDU Member of Parliament and speaker for unemployment policy and social assistance issues, Berlin, 17 June 2004.

- 6) BfA official, formerly DGB, Berlin, 28 June 2004.
- 7) SPD parliamentary party official, Berlin, 28 June 2004.
- 8) B90/Greens parliamentary party official, Berlin, 29 June 2004.
- 9) B90/Greens Member of Parliament, via email, 16 July 2004.

**Unemployment Insurance Policy under Minister Clement  
(2002-2005)**

- 1) Ministry of Labour Affairs of North-Rhine-Westphalia senior official, Düsseldorf, 21 January 2005.
- 2) SPD Member of Parliament, Berlin, 26 January 2005.
- 3) BMWA official, Berlin, 28 January 2005.
- 4) FDP Member of Parliament, via email, 31 January 2005.
- 5) SPD mayor and member of the Hartz Commission, Leipzig, 31 January 2005.
- 6) CDU/CSU parliamentary party official, Berlin, 1 February 2005.
- 7) DGB official, Department of Labour Market Policy and International Social Policy, Berlin, 2 February 2005.
- 8) Journalist *DER SPIEGEL*, Berlin, 3 February 2005.
- 9) B90/Greens parliamentary party official, Berlin, 3 February 2005.
- 10) VerDi senior official and member of the Hartz Commission, Berlin, 8 February 2005.
- 11) IAB labour market policy expert, telephone interview, 8 March 2005.
- 12) Professor of political science and labour market policy expert, telephone interview, 21 March 2005.
- 13) Assistant to the BMWA Parliamentary State Secretary, Berlin, 19 August 2005.
- 14) BA board member, Nuremberg, 4 October 2005.
- 15) Former BMWA State Secretary, Berlin, 23 January 2006.

## Notes

### Notes Chapter 1

- 1 In their geographical variant, Esping-Andersen's regime types are also commonly referred to as Anglo-Saxon, Scandinavian and Continental regimes.
- 2 In his later book (Pierson 2001), Pierson goes one step further by specifying the conditions of change by hypothesizing about different reform paths for different welfare regimes. However, this text does not build upon his 1996 'preconditions for significant change', but starts from a 'broad reform consensus' assumption and is essentially still historical-institutionalist in its orientation.
- 3 'Eine Mischung aus Prämie und Beitrag. Die Niederländer reformieren ihr Gesundheitssystem', *Handelsblatt*, 4 October 2005, 4.
- 4 Centraal Economisch Plan 2005, Netherlands Bureau for Economic Planning Analysis (Centraal Planbureau, CPB), source: [http://www.cpb.nl/nl/pub/cep-mev/cep/2005/speciale\\_onderwerpen/wao.pdf](http://www.cpb.nl/nl/pub/cep-mev/cep/2005/speciale_onderwerpen/wao.pdf); Van Geus, A.J. (2003) Letter: 'Hoofdlijnen stelsel van arbeidsongeschiktheidsuitkeringen', source: <http://www.arbo-advies.nl/WaoGeus.htm>.
- 5 At the beginning of the 2000s, there were still few comparative analyses acknowledging that far-reaching reforms had been enacted or were being prepared. Rather, analysts argued that Germany had not been capable of significant reforms well into the 1990s (Schmidt 2002b; Scharpf 2000b). Generally, Germany was considered a reform laggard compared to the United Kingdom, the Netherlands or Denmark, where significant reforms had been carried out *and* were widely acknowledged by analysts. Only few observers thought otherwise, such as the International Monetary Fund (IMF), which found that economic reforms coupled with steps towards pension reform and fiscal consolidation might be seen as the end of reform gridlock (IMF (2000) cited in Bönker and Wollmann 2001).
- 6 The term was chosen as the 'word of the year' in 1997 following a debate initiated by federal president Herzog's 1997 Berlin speech, in which he demanded a common societal effort to break through what he diagnosed a state of re-

form paralysis (*Aufbruch ins 21. Jahrhundert*, Berliner Rede von Bundespräsident Roman Herzog, 26 April 1997, source: <http://www.bundespraesident.de/dokumente/-,2.15154/Rede/dokument.htm>).

- 7 These approaches rely on three main types of indicators to capture (changes in) welfare effort, namely social expenditure data (e.g. social spending in percentage of GDP), 'social rights' indicators (e.g. measures of 'decommodification'), and institutional characteristics.
- 8 Taylor-Gooby notes that while the outcomes of quantitative analyses tend to stress stability and resilience to pressures, in case studies of policy-making processes are more likely to detect 'current changes in political alignments and in the institutional framework of policy-making which may be opening the way to substantial restructuring' (Taylor-Gooby 2002: 598). Statistical analyses tend to lead to an emphasis on continuity because they are necessarily based on data which covers a period stretching back into the past, whereas case studies 'provide a greater opportunity to examine factors that are currently significant and thus direct attention to forces making for change' (ibid.).

## Notes Chapter 2

- 1 In addition, it is possible to add Europeanization hypotheses which stipulate a link between European level policies and the national welfare state (Natali 2005; Ferrera and Gualmini 2004; Stiller 2006). These hypotheses bridge economic and ideational explanatory approaches.
- 2 This is not to deny the vast amount of leadership literature in the context of business and organizational studies, which is not of relevance here.
- 3 'Paradoxically, it is the exercise of leadership rather than that of "naked power" that can have the most comprehensive and lasting causal influence as measures by real change' (Burns 1978: 439).
- 4 'Real change means the creation of new conditions that will generate their own changes in motivations, new goals, and continuing change. Leadership analysis, with its emphasis on motivation, improves explanation by enabling the analyst to identify purpose among all the eddies and cross-currents of the many forces at work – purpose that can be measured in itself to some degree and compared to intended results (real change)' (Burns 1978: 441).
- 5 Blondel conceptualizes leadership impact along two dimensions, as the extent of change (none [i.e. status quo maintenance], moderate, large) and the scope of change (wide, moderate or specialized). The first dimension serves to 'distinguish the "great" leaders [from one another], depending on the extent to which they are concerned with maintenance or change in the society';

the latter ‘helps to differentiate between “great” leaders and policy-makers by assessing the scope and range of intervention’ (Blondel 1987:94). Nine different types of leadership impact result; concerning the specialized scope or policy area dimension, there are ‘managers’ (no change), ‘adjusters’ (moderate change) or ‘innovators’ (large change). However, leadership cannot be assessed without paying due attention to the environment of leaders, who are subject to internal (from within the polity) and external (from outside the polity) factors which both create constraints and create room for maneuver (ibid: 113).

- 6 Luke’s work on policy leadership has been customized to the US context of policy-making, and Moon’s innovative leadership concept relates to the empirical context of the UK. Finally, ’t Hart’s reformist leadership concept has been applied to macroeconomic policy reform in Australia (’t Hart and Goldfinch 2003).
- 7 The fourth task, ‘sustain action and maintain momentum during implementation,’ corresponds to the implementation phase of the policy cycle and is beyond the scope set for IL. For the sake of completeness, this task involves policy legitimization, building constituent support and advocacy coalitions, creating implementation structures, resource accumulation and mobilization, rapid information sharing and feedback, and maintaining a policy learning approach.
- 8 To our knowledge, the study of Goldfinch and ’t Hart (2003) has gone furthest in evaluating the effects of reformist leadership in a context of policy change. Its aims are similar to the aims of this study, as the authors ‘seek to enhance the actor perspective on major policy reforms’ (Goldfinch and ’t Hart 2003: 235).
- 9 The aspects of this earlier concept are as follows (they differ only slightly from the later concept of ‘reformist leadership’ discussed in the main text): the first element requires that leaders present the current situation in a policy area or the existing system as a threat to central societal values and interests. Secondly, leaders are expected to commit themselves forcefully (i.e. publicly and verbally) to the objective of a reform. Finally, they need to present their proposals as unavoidable, desirable and achievable, especially compared to competing policy options, if these exist. The coalition-building dimension involves co-opting groups needed for implementation and controlling the game. Co-opting of groups means that leaders ensure themselves early of the support of groups which are indispensable for the implementation of the envisaged reforms. Controlling the game, on the other hand, assumes that leaders exert (preferably personal) control over crucial forums, the timing and the ‘rules of the game’ in the reform process (’t Hart 2000).

- 10 In his more recent work, 't Hart has developed, based on the dichotomy of communication and coalition-forming, three types of (reformist) leadership: a) constructive, b) reformist, and c) conserving leadership ('t Hart and Ten Hooven 2004). While the first type assumes creating or establishing new institutions or policies, only the last two types can be applied to the realm of policy reform. Reformist leadership closely resembles the concept in 't Hart's earlier work and includes, as four conditions for successful leadership, the four aspects of reformist leadership discussed in his work of 2000. Conserving leadership is a sub-type of reformist leadership, preserving the valuable parts of the existing order while possibly doing away with or changing other parts of the same order. Such a leader may argue that further reform measures are impossible to realize; choose an incremental reform strategy, or add new institutional or policy goals to compensate for those that have been replaced in the course of reforms ('t Hart 2004: 94-100).
- 11 Rather than looking at interest groups, they stressed the role of advocacy coalitions, epistemic communities and discourse coalitions (Etheredge 1985, Jobert and Muller 1987, Heintz and Jenkins-Smith 1988, Heman 1988, Sabatier 1988; cited in Braun 1999), using novel metaphors to describe (parts of) the policy process, such as 'coalitions', 'streams', 'sub-systems' and 'networks'. The emergence of such approaches went hand in hand with a general questioning (from different intellectual sources) of the hitherto predominant rational choice approach in the field of political science. Neo-institutionalist, normative, neo-Marxist and interpretivist approaches aimed to explain the role of ideas, beliefs, word views etc. to supplement or to substitute interest-based explanations (Braun 1999: 11-12)
- 12 The concept of 'epistemic communities' takes up a position between the two frameworks (Haas 1990). Being closely connected to network or community approaches, 'epistemic communities' consist of professionals who share common causal and political beliefs or values and are committed to translate these convictions into public policies to enhance human welfare. Haas also highlights the role of policy 'brokers', who bring ideas into the policy process, while the persuasiveness of an idea that is brought forward, and making alliances with the dominant political coalition also matters (Parsons 1995: 174).
- 13 On the ideational dimension, this depended on both how convincingly actors made the necessity for new policies and how 'appropriate' they were in the light of existing national values. On the interactive dimension, success is said to depend on whether the discourse was causally important before or after the fact, i.e. to enable policy-makers to gain agreement before agreeing on a programme or to change opinions and win elections (Schmidt 2000b: 308-9).

- 14 In the leadership literature, this aspect can be found in both policy and reformist leadership. The first aspect of policy leadership involves getting an issue on the policy agenda by focusing attention on it, while not specifying how such focus can be achieved. For the 'how' of achieving policy change, reformist leadership offers further inspiration. It is the communicative aspect of that concept, which is relevant to the first aspect of IL, as it stresses that leadership needs to 'unmask the status quo' and 'articulate the need for reform'.
- 15 Note that Schmidt's 'logic of appropriateness' that underlies the quality of normative arguments differs from the one used by March and Olsen in their work on political institutions (1989). Their *logic of appropriateness* relates to action that is instigated by institutional rules, routines and obligations based on institutionally defined roles. Therefore, it contrasts with the other great logic behind human action, the *logic of consequentiality*, in which 'behaviours are driven by preferences and expectations about consequences' (March and Olsen 1989: 160). While March and Olsen see political and social institutions to define what is appropriate behaviour for a person in a specific situation (ibid: 23), Schmidt sees national values as a base of normative arguments to legitimize policy programmes and to underlie her 'logic of appropriateness'. By the second logic, the 'logic of necessity' (which is not explicitly defined) Schmidt seems to imply that the justification of a policy programme (by using cognitive arguments) demonstrates the necessity for its adoption, presenting it as a solution to current problems and to avoid possible problems in the future. Thus, her 'logic of necessity' is related to March and Olsen's *logic of consequentiality*, which stresses that action is based on rational calculation of consequences. Equally, Schmidt assumes that policy-makers who point out a cognitive cause-effect (or consequence) relationship can make a convincing (or successful) case for a policy proposal.
- 16 At least two processes characterize the search for meaning: cognitive frameworks of the mind help to order, retain and understand information about the world; norms and values enable their evaluation (Inglehart and Klingemann 1978: 206).
- 17 Braun's concern was to better understand the relationship between belief systems and interests to assess ultimately the influence of belief systems on the choices of (individual or collective) actors.
- 18 'Cognition helps not only to determine what "is" but also what actors perceive they can do to solve the conflict between their ideal and material need structure on the one hand and their perception of the real situation on the other hand. The result is then, either actions based on "goal orientation" or actions based on "value-orientation"' (Braun 1999: 14).

- 19 The idea behind this is that reform opponents confronted with the charge of being indifferent to societal welfare (which according to political actors is in danger when reform is delayed or blocked) may care about the consequences for their public image (which forms part of their ideal interests) and adapt their stance.
- 20 In that case, opponents confronted with the prospect of future material losses for their constituency and their own position may be more likely to accept possible short-term losses implied by reforms to avert losses in the longer term.
- 21 Only a few studies on the impact of cabinet members, i.e. ministers, on policy outcomes have been undertaken, but they underscore the importance of taking the micro-level of analysis into account (Hahm, Jung, and Moon 2004; Thompson 1994; Chabal 2003). On the other hand, the scope of ministerial authority may be restricted by prime ministerial government, coalition leadership, a government programme or rules of collective decision-making (Andeweg 2000).
- 22 With regard to the second commonly stated obstacle, electoral resistance, we assume that politicians who launch structural reform proposals do either disregard electoral risks (e.g. because of the distance of elections), or are well-aware of the political gamble they are taking, hoping to convince voters of its added benefits in the medium or long term, although it may be costly to them in the short term.
- 23 ‘Tautological’ here refers to the danger of formulating an explanation that is true by definition and therefore not falsifiable. The aspects of IL are all formulated with a view to specifying the relationship between them and the shaping of conditions for institutional break-out, which allow structural reform to occur. However, this does not mean that the specification or definition of IL (the independent variable), includes structural reform (the dependent variable). IL is merely related to, *but not equated with* structural reform; therefore, the presence of IL in a reform process does not automatically imply a structural reform: this clearly leaves room for falsifying the hypothesis. However, it can only be shown by empirical study of structural reform cases whether or not key policy-makers indeed acted in accordance with the hypothesized aspects of IL and, if this was the case, whether the role of these IL-type actors could be linked to the occurrence of structural reforms.
- 24 These terms refer to Hecló’s often-cited distinction between two dimensions of policy-making: ‘Politics finds its sources not only in power but also in uncertainty – men collectively wondering what to do. Finding a feasible course of action includes, but is more than, locating which way the vectors of political pressure are pushing. Governments not only “power” (or whatever the

- verb for that approach might be); they also puzzle. Policy-making is a form of collective puzzlement on society's behalf; it entails both deciding and knowing. Much political interaction has constituted a process of social learning expressed through policy' (Hecló 1974: 305-306).
- 25 Alluding to Hecló's distinction, Ferrera and Gualmini argue that powering and puzzling may not be separate activities but 'crisscrossing' ones, as policy actors try to organize consensus around preferred policy solutions and the puzzling process tends to be disturbed by political considerations (Ferrera and Gualmini 2004: 25-28).
  - 26 Drawing upon more complex psychological concepts, Hecló highlighted that learning from failures, which is usually invoked in notions of policy learning, is analogous to 'operational conditioning' (where actors select options based on positive or negative reinforcements obtained by trial and error), as opposed to 'Pavlovian learning' (see Hecló 1974). Underlying such conditioning is a consequentialist logic, which regards negative stimuli (i.e. penalties associated with ineffective behaviour or failure) to be more important than positive ones; this is due, in turn, to the negativity bias that characterizes social actors: they tend to be more sensitive to losses than to gains (Kahneman and Tversky 1979).
  - 27 See Braun for a detailed discussion of the conditions which may induce actors to step back from particular interests and endorse collective or societal interests and institutionalized arenas where some of these conditions apply (Braun 2000).
  - 28 For another interpretation of policy-seeking, the thinking of Max Weber is relevant. In his essay 'politics as vocation' (Gerth and Mills 1948: 115), he argued that 'three preeminent qualities are decisive for the politician: passion, a feeling of responsibility, and a sense of proportion'.
  - 29 Some authors work with a more fine-grained typology of motivations. Weaver, for instance, in focusing on blame-avoiding behaviour, also distinguishes between credit-claiming and non-electoral motivations next to a 'good' policy motivation. He describes the latter as follows: '[policy makers] may act because they think an action is worthwhile even if it has no political payoff' (Weaver 1986: 372).
  - 30 Concerning policy change, the debate revolves around what explains radical changes in public policy and political order best: ideas, interests or a combination of both (Majone 1996; Lieberman 2002; Starke 2006). In the ideational literature, constructivist scholars stress the transformative power of ideas over interests (Hay 2001, 2004; Blyth 2002, 2003), while advocates of policy learning stress the importance of ideas as adaptable cognitive and normative orientations (Hecló 1974, Hall 1989, 1993; Visser and Hemerijck 1997).

Others insist that ideas and interests are equally important or even necessary complements in building comprehensive explanations (Campbell 1998, Lieberman 2002, Hering 2004). In institutionalist analysis, a diverse group of scholars ranging from rational choice to discursive institutionalists pursues a similar debate, stressing the explanatory power of interests, norms, and historical legacies within the general paradigm of 'institutions matter' (Hay 2006; Schmidt 2006).

### Notes Chapter 3

- 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).
- 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 (see for overviews of the literature Andersen 2003; Genschel 2004). Similarly, with European integration (or 'Europeanization') 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 theoretical disagreement as well as divergent empirical evidence on the strength of such effects (Scharpf 2002; Leibfried and Pierson 1995; Leibfried 2005; Ferrera 2005; Stiller 2006).
- 3 During the mid-1970s, these contributions as a share of gross wage still totaled about 30 per cent, but rose to over 35 per cent in the mid-1980s, reaching a critical threshold of 40 per cent in the mid-1990s (Kaltenborn et al. 2003:673). In 2003, contributions had reached about 42 per cent of gross wages (including both contributions from employers and employees) with

contributions for pensions (19.5 per cent) and health care (on average 14.3 per cent) making up the bulk of this 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. This 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 per cent.

- 4 Coalition agreement of CDU/CSU-SPD 11 November 2005, 'Gemeinsam für Deutschland – mit Mut und Menschlichkeit', 21, source: [http://www.bundesrat.de/nn\\_38758/DE/foederalismus/bundesstaatskommission/Mitglieder/Koalitionsvertrag.templateId=raw,property=publicationFile.pdf/Koalitionsvertrag.pdf](http://www.bundesrat.de/nn_38758/DE/foederalismus/bundesstaatskommission/Mitglieder/Koalitionsvertrag.templateId=raw,property=publicationFile.pdf/Koalitionsvertrag.pdf).
- 5 While the percentage of the population in the OECD countries aged over 65 was still 9.4 per cent in 1960, it was projected to rise to nearly 14 per cent by the year 2000 and is anticipated to reach 23 per cent 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). The corresponding figures for Germany envisage increases in the retired population (65 years and older) from 15 per cent in 1990 to 26.1 per cent in 2030 and 28.4 per cent in 2050 (Schirmmacher 2004: 44 ). The predictions of the German Statistical Office are even more drastic: in its 2003 population outlook it concluded that the proportion of those over 60 years of age is to increase from a current 23 per cent to 37 per cent during the next 50 years; at the same time, the proportion of those under 20 years is to decrease from 21.3 per cent to 16 per cent. 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 per cent until the year 2040 (Statistisches Bundesamt 2003 in: Sesselmeier 2006: 35). 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); this necessitates 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 per cent of GDP across

the OECD countries, for health care provisions, it is set at 1.7 per cent, totalling an average increase of expenditures for these two programmes of 5.6 per cent 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 per cent; 2000: pensions 10.9; health care 10.7 per cent; 2003: pensions 12.4; health 10.9 per cent). In a ten-year period, the ratios for pension expenditure/GDP had thus risen by 1.9 per cent and for health by 0.5 per cent, combining to 2.4 per cent. With the onset of demographic effects after 2010, this trend is set to continue.

- 6 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 tax-based benefits, 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).
- 7 The spiral implies that, in reaction to competitive pressures, firms try to increase labour productivity, which results not only in investments for training, but also in the dismissal of the less productive and most costly workers. Given the Bismarckian welfare states' male breadwinner bias, this 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 which 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 (ibid: 109).
- 8 In his analysis of the historical development of the German political economy and its system of social protection, 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). 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 programmes.

- 9 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 2005b: 35). For instance, production regimes, comprising 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 and 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 *Tarifautonomie*. Clasen points to the fact that in the German context, the notion of a 'social wage' (entitlement to wage replacement benefits linked to work-based contributions plus a high level of employment protection), means that '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 (ibid: 36-39).
- 10 For a discussion of these features in interaction with party competition in the context of pension policy, see Schulze and Jochem (2007).
- 11 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 (Bonoli 2001; Immergut 1992). 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.
- 12 Tsebelis defines 'veto players' as 'individual or collective actors whose agreement is necessary for changing the status quo'. He further distinguishes institutional veto players (in presidential systems) and partisan veto players (in parliamentary systems). Moreover, Tsebelis 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 (Tsebelis 1995).
- 13 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 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.
- 14 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*.
  - 15 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: 224-225).
  - 16 For reasons of brevity, this section only sketches the contours of German pension arrangements. See for more details e.g. Clasen 2005b (Chapter 5) and Schludi (2002).
  - 17 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.
  - 18 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).
  - 19 A third unofficial tier of the system was formed by social assistance as a potential source of income for the unemployed.
  - 20 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).
  - 21 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 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.

- 22 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 admissible options for reform' (1995: 142). For my argument on stickiness, I only draw upon what they identify as 'sectoral structures'.
- 23 The general part of this and the following two sections are based on Schmidt 2005, Chapter 1.4.
- 24 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); 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).
- 25 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 measures were considered to be insufficient, the Government also resorted to balance deficits by transfers between social budgets and between the federal budget and social budgets.

- 26 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.
- 27 This translated into several cost-cutting reforms in 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).
- 28 These developments contributed to a steep rise in total payroll contributions (from 35.9 per cent in 1989 to 42.2 per cent 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 per cent in 1996 and was higher than at the beginning of the 'Kohl era'.
- 29 The goals set included reducing unemployment, adapting the welfare state to socio-economic and demographic change, introducing more flexibility and personal responsibility into the system and redirecting social provision to those who needed it most (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 (2005:105-106): 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)
- 30 The Hartz I reform strengthened the incentives for the 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: 119-120).
- 31 These measures included the increasing promotion of new forms of subsidized self-employment and temporary work. In addition, employers were freed from paying unemployment insurance contributions for older workers and public support was granted for jobs with wages below the former income of workers.
- 32 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 2005b: 112-113).

- 33 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 per cent (Bandelow 2007: 20-21).
- 34 'Kabinett beschließt Mindestlohn-Gesetze', 16 July 2008, sueddeutsche.de, source: <http://www.sueddeutsche.de/deutschland/artikel/82/186095>, accessed 15 October 2008.
- 35 'Debatte um Mindestlohn und Steuererhöhung', 16 October 2008, sueddeutsche.de, source: <http://www.sueddeutsche.de/politik/368/314268/text>, accessed 15 October 2008.
- 36 Krankenkassenbeitrag steigt auf 15,5 Prozent', 05 October 2008, sueddeutsche.de, source: <http://www.sueddeutsche.de/finanzen/904/312815/text>, accessed 1 November 2008.
- 37 'Pflegebedürftige Reform', 14 March 2008, sueddeutsche.de, source: <http://www.sueddeutsche.de/deutschland/artikel/990/163534>, accessed 1 November 2008.
- 38 'Wieder einmal nur ein kleiner Wurf', 14 March 2008, sueddeutsche.de, source: <http://www.sueddeutsche.de/deutschland/artikel/6/163548>, accessed 1 November 2008.

#### Notes Chapter 4

- 1 After 1998, Seehofer continued to be involved in policy-making as parliamentarian and social policy expert for the CSU parliamentary party before serious heart problems forced him to retreat from politics in 2001. On his return, in 2003, he negotiated a cross-party agreement leading to the 2004 Health Modernization Act (GMG) with his successor, Minister of Health Ulla Schmidt (SPD). In 2004, he fell out with the CDU/CSU over an internal com-

promise over the future financing base of the statutory health care insurance (which he publicly criticized), and was forced to resign from most of his party posts. From 2005-2008, he served as Minister of Agriculture and Consumer Protection in the Merkel Government but kept voicing his opinion on issues of health care and social policy. In October 2008, he left federal politics to become Minister-President of the state of Bavaria.

- 2 In the author's PhD thesis research design (Stiller 2007), this case study differed from the other two in its selection on the explanatory variable, IL. This was necessary to verify whether a case with an ideational leader present would display the outcome expected by the theoretical framework: structural reforms. To identify an IL-type policy-maker beforehand (without examining his or her performance in the context of a specific reform), four criteria were employed: determination of a Minister to change the status quo in health care during his/her term; ability of a Minister to promote and legitimize structural reforms; ability of a Minister to decrease or overcome reform resistance; political style of a Minister (more policy-oriented or more power-oriented). To select a Minister, two previous Ministers of Health, Horst Seehofer (1992-1998), Andrea Fischer (1998-2001), and the current Minister Ulla Schmidt (2001-present) were compared on the four criteria and on their policy legacy in a survey among a small number of experts in German health care politics. Seehofer appeared to be the best choice as presumed ideational leader. On three out of four IL-based criteria, he ranked highest compared to the two other ministers, except for the political style criterion, where he was ranked (together with Schmidt) as both policy- and power-oriented behind Fischer, who was seen as the more policy-oriented. In order to compensate for possible selection bias on the basis of experts' (unavoidable) prior knowledge about Minister's policy legacies (= the dependent variable), and to double-check the results of the survey, an additional criterion for identifying an IL-type politician was applied: whether or not Ministers had voiced explicit ideas on what to achieve in their policy area when starting their term in office or even before. On this count, Seehofer was the only one of the three with clear ideas on how to shape policy from the outset (and even before) and wasted no time in working out a reform concept. In contrast, Fischer and Schmidt's ideas to reshape health care policy did not become visible to the same extent, which makes them less likely to be ideational leaders; possibly because their first decisions in office were subordinated to political constraints. On the basis of this additional criterion, the selection of Seehofer as a presumed ideational leader was confirmed.
- 3 Until the early 1990s, these incentives included, for care providers (doctors and hospitals), the regulations governing financing and remuneration of health care provision; especially the per diem payment for hospital operating

costs and individual transaction reimbursements for doctors. At the same time, for sickness funds, the system of regulated membership was factually securing their existence. Although they did try to avoid contribution rate rises, in the old system, the consequences of such rises for individual funds were rather limited (Gerlinger 2003: 6).

- 4 *Bundesrat DS 560/92*, Gesetzentwurf der Bundesregierung – Entwurf eines Gesetzes zur Sicherung und Strukturverbesserung der gesetzlichen Krankenversicherung (Gesundheits-Strukturgesetz 1993), 14 August 1992.
- 5 The *Bundestag* committee advice was announced by the Health Committee, overruling some doubts of the Legal Committee on the lawfulness of limitations on doctors' registration procedures and making only minimal amendments to the draft (Perschke-Hartmann 1994: 259).
- 6 Minister Seehofer's speech to Parliament at the first reading of the GSG, *Bundestag* plenary protocol 12/105, 11 September 1992, 8995.
- 7 Minister Seehofer's speech at a debate on health care policy, *Bundestag* plenary protocol 12/98, 24 June 1992, 8125.
- 8 Minister Seehofer's speech at the first reading of the GSG, *Bundestag* plenary protocol 12/105, 11 September 1992, 8988.
- 9 Several observers have referred to the German health care sector as a 'pool of sharks,' which illustrates the difficult task of ministers who are responsible for this policy area.
- 10 Minister Seehofer's speech at the first reading of the GSG, *Bundestag* plenary protocol 12/105, 11 September 1992, 8988.
- 11 'Wir müssen härter rangehen,' *SPIEGEL* interview with Minister Horst Seehofer, 3 August 1992, source: <http://www.spiegel.de/spiegel/0,1518,380995,00>.
- 12 Minister Seehofer's speech at the third reading of the GSG, *Bundestag* plenary protocol 12/127, 9 December 1992.
- 13 Minister Seehofer's speech at the third reading of the GSG, *Bundestag* plenary protocol 12/127, 9 December 1992, 10944.
- 14 Minister Seehofer's speech, *Bundestag* plenary protocol 12/117, 5 November 1992, 9932-9933.
- 15 *Ibid.*, 9933.
- 16 Minister Seehofer's speech, *Bundestag* plenary protocol 12/105, 11 September 1992, 8988-8989.
- 17 *Ibid.*
- 18 Minister Seehofer's speech, *Bundestag* plenary protocol 12/105, 9 December 1992, 10946.
- 19 Minister Seehofer's speech, *Bundestag* plenary protocol 12/117, 5 November 1992, 9936.

- 20 Ibid.
- 21 For Brandhorst, this is visible in the end of state-regulated sickness fund membership; the risk-adjustment mechanism for avoiding competition about healthy and wealthy members; the change of the compensatory system in the hospital sector (more competitiveness through a prospective budgeting system); and linking doctors' and hospital remunerations and expenditures for medicine to the development of wages for three years.
- 22 Furthermore, the authors stress that the particular contribution of the GSG was to introduce a number of steering mechanisms, which durably changed actors' incentive structures, for instance, by allowing competition between sickness funds and the introduction of lump-sum payments or individual budgets for care providers.
- 23 Without defining structural reforms in detail, Giaimo and Manow noted changes in the financing mode of hospitals; the sickness fund risk-adjustment and free choice of sickness fund; the ceilings on care provision expenditure; and restrictions on doctors to set up practices.
- 24 Hinrichs argues that the cost-containment measures allowed time for the preparation of further reforms, while the organizational reforms concerning sickness funds already established some prerequisites for a structural reform, which could also question established principles.
- 25 The conversations with experts and other close observers of health care policy revealed that thirteen years after the adoption of the GSG, opinions on the GSG are (still) divided: some of them point to the short-lived character of some of its provisions and the abandonment of others (interview policy analyst, 10 November 2005). Others still see it as 'paradigmatic' (interview policy analyst, 23 November 2005), and 'a structural reform to a certain extent' (interview policy analyst, 11 November 2005) while other close observers rather think that it was a reform that defined a direction for further structural reform. However, at the time of its adoption, and with a partially failed reform predecessor, the GSG must have appeared more spectacular than we can grasp today. Another observation from the conversations was how little overall agreement exists on the definition of the term 'structure' in the field of health care. Interest group representatives tend to define structure somewhat more narrowly, i.e. regarding the institutions applying to their own clientele (interviews DKG representative, 22 November 2005, and former KBV chair, 16 November 2005) than the wider definition adopted and used in this study, which covers the three main dimensions of a policy area.
- 26 The conscious choice for more competition in this part of the health care system was also characterized by some respondents as a clear structural change

- (interviews sickness fund analyst, 22 November 2005, and policy analyst, 23 November 2005).
- 27 Since the laws discussed in this sub-section are strongly connected in terms of their goals and content, the discussion of the reform processes and politics will be combined. Note that the NOG laws will be treated in more detail than its predecessor, the Contribution Relief Act, which merely serves to illustrate the origins of the NOG laws and the conflictive character of policy-making at the time.
  - 28 'Lohmann: Keine Leistungsausgrenzungen', CDU/CSU-Fraktion Pressedienst, 3 March 1995.
  - 29 'Neuaufgabe der 3. Stufe der Gesundheitsreform – Erstes und Zweites GKV-Neuordnungsgesetz', letter by MP Wolfgang Lohmann to the CDU/CSU and FDP parliamentary parties, 28 November 1996.
  - 30 The Contribution Relief Act was embedded in the governments comprehensive 'Growth and Employment Programme', which also included measures in pension and unemployment policy, sought to consolidate social insurance budgets and reduce the total level of social contributions.
  - 31 *Bundestag* DS 13/4615, 10 May 1996, Gesetzentwurf der Fraktionen der CDU/CSU und FDP, Entwurf eines Gesetzes zur Entlastung der Beiträge in der gesetzlichen Krankenversicherung (Beitragsentlastungsgesetz – BeitrEntlG).
  - 32 Rudolf Dressler's speech, *Bundestag* plenary protocol 13/181, 12 June 1997, 16257.
  - 33 *Bundestag* DS 13/5724, 8 October 1996, Gesetzentwurf der Fraktionen der CDU/CSU und FDP, Entwurf eines Ersten Gesetzes zur Neuordnung von Selbstverwaltung und Eigenverantwortung in der gesetzlichen Krankenversicherung (1.GKV-Neuordnungsgesetz – 1.NOG).
  - 34 In particular, the hospital sector and dentists were singled out as being responsible for rising costs. In the former, rising costs were to be expected after the termination of cost-stabilizing budgets in 1996, and due to expected major investment expenditures after a ruling by the Federal Administrative Court. The dental sector, for its part, gave reason to worry because it failed to promote preventive measures in place of dental replacements and since subsidy regulations gave incentives to dentists to provide comprehensive and costly dental care services.
  - 35 *Bundesrat* DS 822/96, 8 November 1996, Gesetzentwurf der Bundesregierung, Entwurf eines Zweiten Gesetzes zur Neuordnung von Selbstverwaltung und Eigenverantwortung in der gesetzlichen Krankenversicherung (2. GKV-Neuordnungsgesetz – 2. GKV-NOG).
  - 36 Letter of Parliamentary State Secretary Bergmann-Pohl to the CDU/CSU and FDP parliamentary parties, 14 November 1996.

- 37 In this respect, one symbolic act of this break was that Minister Seehofer handed the remainders of the *'Positivliste'* (one of the measures of the GSG agreed upon with the SPD to contain the price of medication but never implemented) at a meeting with the chairman of the German pharmaceutical association as a birthday present.
- 38 In fact, the importance of this time-related factor was stressed by most interviewees: in a situation which resembled a de facto election campaign, agreements with the opposition, which tried to sharpen its electoral profile, are hard to realize. The SPD actively campaigned against higher co-payments and other elements of the NOGs, which was, in retrospect, one of the main reasons why the CDU/FDP lost the 1998 elections (interview former SPD MP, 24 January 2006).
- 39 Indeed, as one respondent reported, 'the fact that Seehofer had several bills drawn up in order to circumvent *Bundesrat* approval, only led to conflicts about this matter. (...) Personally, I was dismayed by the procedure chosen for the NOGs despite it being legitimate' (interview with former SPD MP, 23 January 2006).
- 40 The SPD's Dressler steadily maintained his opposition against the plans, labeling them as 'a combination of punishment for the ill and purposefully serving some interests in the health care sector'. He also announced that the SPD would obstruct these intentions with the backing of a majority of patients, as well as the support of sickness funds and of many care providers (speech by Rudolf Dressler, *Bundestag* plenary protocol 13/181, 12 June 1997, 16258-16260).
- 41 Minister Seehofer's speech, *Bundestag* plenary protocol 13/166, 20 March 1997, 14908-14910.
- 42 Sachverständigenrat (1997), *Gesundheitswesen in Deutschland. Zukunftsfaktor und Wachstumsbranche*. Band II: Fortschritt, Wachstumsmärkte, Finanzierung und Vergütung, source: <http://www.svr-gesundheit.de/Startseite/Startseite.htm>, accessed 4 April 2006.
- 43 An alternative proposal by Seehofer to allow the employee share of health care contributions to rise while keeping the employers' share constant (in order to avoid higher co-payments by patients) was dismissed by the CDU/CSU parliamentary group (interview with policy analyst, 23 November 2005, and CDU/CSU parliamentary party employee, 12 January 2006).
- 44 Sickness funds therefore received additional parameters on which to compete with each other, not only through the contribution rate, both on the demand and on the provisioning side: they were authorized – for a limited period – to test new care and compensation structures (Brandhorst 2003: 214).

- 45 Minister Seehofer's speech, *Bundestag* parliamentary protocol 13/166, 20 March 1997, 14910.
- 46 'Kranke müssen bei Arzneien mehr zuzahlen', *Süddeutsche Zeitung*, 16 November 1996; 'Gesundheitsreform-Gesetze abgelehnt', *Frankfurter Allgemeine Zeitung*, 20 December 1996.
- 47 See footnote 45, 14911.
- 48 Speech of Minister Seehofer, *Bundestag* plenary protocol 13/181, 12 June 1997, 16257.
- 49 On this point, a Ministry source recalled: 'the consequence of the failure of another cross-party agreement was followed by an approach that would induce further conflict: this meant to split the NOG into two bills, none of which needed *Bundesrat* approval. The choice for this procedure led to a conflict between *Bundestag* and *Bundesrat* with the latter turning eventually to the German Constitutional Court, which later ruled that both bills indeed did not require *Bundesrat* approval' (interview with BMG official, 27 January 2006).
- 50 Although Seehofer seemed to underwrite those goals, and to agree with putting a greater share of the reform burdens on patients, the measures implied in the reforms must have been compromised his beliefs in social justice as he had to succumb to austerity pressures that were out of his sphere of control.
- 51 'Ende des Drachentöters', *Der Spiegel* 11/1997, source: <http://www.spiegel.de/Spiegel/0,1518,380989,00.html>.
- 52 Compared with the changes introduced in the GSG, these shifts seemed to appear like 'mere adjustments' (interview policy analyst, 11 November 2005). From the view of the pharmaceutical industry, which was hardly affected by the NOGs, their provisions were qualified as 'non-structural' (interview representative VfA 15 November 2005). From the physicians' viewpoint, the NOGs initially contained the potential for a structural reform, but were opposed by the sickness funds: the initial proposal would have relaxed restrictions on doctors but was thwarted by the sickness funds, whose demands were echoed by the SPD. Thus, it could have been a structural reform (compared to the cost containment measures of the GSG), if the legislative process had turned out differently (interview former KBV chair, 16 November 2005). Equally, the second NOG contained some structural elements to strengthen the role of hospitals in self-administration bodies, and their possibility to negotiate with sickness funds over new forms of integrated care (interview representative DKG, 22 November 2005). What becomes clear from these responses is that they are coloured by the organization the interviewees were affiliated with, and do not lead to a consistent answer.

- 53 This applied to the increase of co-payments in the Contribution Relief Act, as well as the elements of private health insurance in the second NOG.
- 54 These burdens were seen to provide efficiency gains and therefore cost savings. The measures of the NOGs stood for a system of different incentives, which were to encourage both sickness funds and patients to act cost-consciously when financing and using health care services. On the other hand, some expenditure control for providers was maintained through budgets (which had been greatly reduced since 1996/97).

### **Notes Chapter 5**

- 1 A third bill that was part of the Riester reform package, the less controversial reform of reduced capacity and disability pensions, had already been passed as a separate law in December 2000 (Bundesgesetzblatt, 23 December 2000) and will not be dealt with here: the case study will concentrate on the first two laws as they are relevant for the structural changes to pension policy arrangements.
- 2 This summary draws on the discussion in Schludi (2002), 159-174.
- 3 This factor was to be applied first in 2011 with a reduction effect of 0.3 per cent. Afterwards, it was to rise by 0.3 per cent annually until 2030 and would remain at a maximum of 6 per cent thereafter. See *Bundestags-Drucksache* 14/4595. Entwurf eines Gesetzes zur Reform der gesetzlichen Rentenversicherung und zur Förderung eines kapitalgedeckten Altersvorsorgevermögens (AmVG), 14 November 2000.
- 4 It should be noted that Riester started to offer concessions to the CDU in order to win their eventual parliamentary approval. Only when this strategy proved futile, he also approached the trade unions, hoping to influence also reform critics within the SPD.
- 5 *Bundestag-Drucksache* 14/5146. Entwurf eines Gesetzes zur Reform der gesetzlichen Rentenversicherung und zur Förderung eines kapitalgedeckten Altersvorsorgevermögens (AmVG). Beschlussempfehlung und Bericht des Ausschusses f. Arbeit und Sozialordnung, 24 January 2001.
- 6 The 67 per cent, however, correspond in fact to the previously mentioned 64 per cent according to the previous pension formula because of changes in the definition of the net wage (Fehr and Jess 2001 in Schludi 2002:166).
- 7 DGB-Bundesvorstand, ISA 3/2001 *Reform in der Altersvorsorge*, 27 June 2001, 1.
- 8 Note that the fourth aspect of IL, 'making efforts at political consensus-building' is absent as it was added to the theoretical framework only after the analysis of this case was concluded.

- 9 'Keine Problemlösung auf dem Rücken der jüngeren Generation', *Frankfurter Rundschau*, 13 March 2000.
- 10 'Sicherheit für die Älteren, Bezahlbarkeit für die Jüngeren', interview with Walter Riester, *Ifo-Schnelldienst*, 28/29, 2000, 5-8.
- 11 Interview with Walter Riester, *Einblick*, 23 October 2000; source: <http://www.einblick.dgb.de/archiv/0019/tx001901.htm>; accessed 16 October 2003
- 12 'Halbzeit, Reform-Zeit: Zeit der Ernte', *Gewerkschaftliche Monatshefte*, 10/2000, source: [http://www.gmh.dgb.de/main/jahresin/2000/Leseproben/leseprobe\\_Riester-10-2000](http://www.gmh.dgb.de/main/jahresin/2000/Leseproben/leseprobe_Riester-10-2000), accessed 14 October 2003.
- 13 'Eine zukunftsfeste und bezahlbare Rente', *Frankfurter Allgemeine Zeitung*, 25 April 2001.
- 14 Walter Riester's speech to the annual SPD party congress, 'Die Zukunft des Sozialstaats', 19 November 1999, source: [http://www.bmgs.bund.de/deu/drv/index\\_2059.cfm](http://www.bmgs.bund.de/deu/drv/index_2059.cfm), accessed 13 October 2003.
- 15 'Keine Problemlösung auf dem Rücken der jüngeren Generation', *Frankfurter Rundschau*, 13 March 2000.
- 16 Ibid, 7.
- 17 'Sicherheit für die Älteren, Bezahlbarkeit für die Jüngeren', *Ifo-Schnelldienst*, 28/29, 2000, 5-8.
- 18 Interview with Walter Riester, *Einblick*, 23 October 2000; source: <http://www.einblick.dgb.de/archiv/0019/tx001901.htm>; accessed 16 October 2003.
- 19 Op.cit., see footnote 17.
- 20 Interview with Walter Riester, *Einblick*, 23 October 2000; source: <http://www.einblick.dgb.de/archiv/0019/tx001901.htm>; accessed 16 October 2003.
- 21 Walter Riester's speech to Parliament, 16 November 2000, *Bundestag* plenary protocol 14/133, 12753.
- 22 Walter Riester's speech to Parliament, 26 January 2001, *Bundestag* plenary protocol 14/147, 14428.
- 23 'Eine zukunftsfeste und bezahlbare Rente', *Frankfurter Allgemeine Zeitung*, 25 April 2001.
- 24 Walter Riester's speech to Parliament, 11 May 2001, *Bundestag* plenary protocol 14/168, 16444.
- 25 Ibid, 16445.
- 26 Walter Riester's speech to the SPD annual party congress, 'Die Zukunft des Sozialstaats', 19 November 1999, source: [http://www.bmgs.bund.de/deu/drv/index\\_2059.cfm](http://www.bmgs.bund.de/deu/drv/index_2059.cfm), accessed 13 October 2003.
- 27 Interview with Walter Riester, *Einblick*, 23 October 2000; source: <http://www.einblick.dgb.de/archiv/0019/tx001901.htm>; accessed 16 October 2003.
- 28 Walter Riester's speech to Parliament, 26 January 2001, *Bundestag* plenary protocol 14/147, 14428.

- 29 Walter Riester's speech to Parliament, 11 May 2001, *Bundestag* plenary protocol 14/168, 16445.
- 30 One lesson learned from the interview accounts is that the strategies might be complementary (in the sense of occurring together), rather than being mutually exclusive, as the term 'alternative explanations' implies. Indeed, seven out of nine interviewees reported that all three strategies had been used by the Government, albeit at different stages in the process and to different extents.

### Notes Chapter 6

- 1 The unofficial name of the reform may be traced to Peter Hartz, the former director of human resources of Volkswagen AG, who headed the government-appointed Commission on the Modernization of Labour Market Services in the spring of 2002. The recommendations made by the Hartz Commission were transformed into four laws (called Hartz I through to Hartz IV), which were passed between December 2002 and December 2003.
- 2 Since the mid-1970s, social assistance expenditure has risen much more rapidly than other categories of social spending and, notably, other local government expenditure. These large increases have mostly been caused by mounting unemployment (Reissert 1998). In 2001, more than 40 per cent of all claims to social assistance were caused by registered unemployment, amounting to € 3 billion of the € 7 to 8 billion spent by local governments on this benefit (Gemeindefinanzreformkommission 2003).
- 3 This amount is currently € 345 per month for the first adult in a household in the Western *Länder* and € 331 in the Eastern *Länder*, with dependents receiving lower amounts. These amounts slightly exceed the flat-rate amounts for social assistance because it includes lump sums for specific needs that are paid on an individual basis to social assistance recipients. One notable exception is that people who claim the new benefit after the end of their entitlement to unemployment insurance (and would have otherwise been able to claim unemployment assistance), receive a degressive supplement in order to compensate for the difference between the insurance benefit and the new benefit. This supplement covers a maximum of two-thirds of the difference between the two sorts of benefit, with a maximum of € 160 per month. It is reduced by half after one year and is phased out after two years of claiming the new benefit.
- 4 See corresponding paragraph 10 on acceptability of work, BGBl I Nr.66 (2003), S.2954, § 10 (2).

- 5 Previously, the FEA had to prove in court cases that a certain job was suitable and acceptable for an unemployed person. Hartz I laid the burden of proof with the unemployed: any job offer is regarded to be acceptable and refusal to accept it means being disqualified from unemployment insurance benefits for a certain period.
- 6 For example, adult recipients of ALG II who refuse such offers are subject to a 30 per cent reduction in the flat-rate benefit; while recipients under the age of 25 are disqualified from the benefit (with the exception of housing costs).
- 7 The information contained in this paragraph follows Reissert's overview of the German system of unemployment protection (2005).
- 8 BA Hauptstadtvertretung. (2004). *Aktualisierte Übersicht der Neuregelungen zum SGBII*, 27 July 2004, source: [http://www.arbeitnehmerkammer.de/sozialpolitik/doku/04\\_gesetze/gesetzgebung/2003/2004\\_07\\_27\\_hartz4\\_ba\\_uebersicht.pdf](http://www.arbeitnehmerkammer.de/sozialpolitik/doku/04_gesetze/gesetzgebung/2003/2004_07_27_hartz4_ba_uebersicht.pdf).
- 9 Former Minister Wolfgang Clement endorses the reconstruction of the reform process in this chapter. Furthermore, he confirmed that had fully identified himself with the greater project of comprehensive labour market reforms including Hartz IV. From his perspective, the negotiations aimed at reaching a final compromise on Hartz IV had been extremely difficult, but at the same time, the December 2003 compromise had been vital to make the reform happen (personal communication, 22 November and 28 November 2006).
- 10 Presentation 'Die Grundsicherung fuer Arbeitssuchende (SGBIII)', Referat II B4 Grundsatzfragen des SGBII, BMWA, Berlin, 28 January 2005.
- 11 Letter of BMWA parliamentary secretary Gerd Andres to the parliamentary parties of the Government coalition, 26 June 2003.
- 12 These included very diverse issues such the Hartz III-reform (organisational reform of the FEA), the loosening of labour law regulations such as dismissal laws and the law on collective agreements, the loosening of the regulations on crafts and trades, and a range of reforms related to taxation, e.g. bringing forward a planned income tax relief for citizens by one year.
- 13 By way of a parliamentary amendment, reform critics had succeeded in declaring work unacceptable that 'is not paid according to the applicable collective agreement or, when this is lacking, according to what is paid according to local conditions'. This clause had been inserted in order to avoid downward pressures on salaries.
- 14 Beschlussempfehlung des Vermittlungsausschusses, *Bundestag-DS 15/2259*, 16 December 2003.
- 15 BA Hauptstadtvertretung. (2004). *Kommunales Optionsgesetz - Zusammenfassung*, 5 July 2004, source: [http://www.arbeitnehmerkammer.de/sozialpolitik/doku/04\\_gesetze/gesetzgebung/2004/2004\\_07\\_05\\_optionsgesetz\\_ba.pdf](http://www.arbeitnehmerkammer.de/sozialpolitik/doku/04_gesetze/gesetzgebung/2004/2004_07_05_optionsgesetz_ba.pdf).

- 16 This may seem an odd construction in practice but reflects the Government's willingness to accommodate the wishes of local governments. The compromise also entailed a financial concession by the federal Government: It would bear 29.1 per cent of local government costs, resulting in a predicted financial relief of € 3.2 billion.
- 17 'Schröder: Clement für Erfolg von Hartz IV verantwortlich', *Frankfurter Allgemeine Zeitung*, 29 December 2004, 2.
- 18 Letter of *Deutscher Städte- und Gemeindebund* and *Deutscher Städtetag* to Prof. Bernd Reissert, FHTW Berlin, 18 January 2002.
- 19 *Deutscher Landkreistag*: Arbeitslosen- und Sozialhilfe durch einheitliches Leistungssystem ersetzen! Pressemitteilung, 18 June 2002, source: <http://www.landkreistag.de>.
- 20 Sozialabbau – DGB-Argumente gegen die Absenkung der Arbeitslosenhilfe auf Sozialhilfeniveau, *Einblick* 08/03, 28 April 2003, source: [www.einblick.dgb.de](http://www.einblick.dgb.de).
- 21 Minister Clement's speech at the first and second reading of the Hartz I and II bills, 7 November 2002, source: [www.arbeitsmarktreform.de/Arbeitsmarktreform/Navigation/Presse/](http://www.arbeitsmarktreform.de/Arbeitsmarktreform/Navigation/Presse/), accessed 23 March 2005.
- 22 Interview with Minister Clement, *Welt am Sonntag*, 26 January 2003.
- 23 Interview with Wolfgang Clement, *Hamburger Zeit Matinee*, 16 January 2002, source: [http://zeus.zeit.de/text/politik/zeit\\_matinee\\_160203](http://zeus.zeit.de/text/politik/zeit_matinee_160203).
- 24 BMWA (2003), Umsetzungsfahrplan zur Agenda 2010 im Bereich Wirtschaft und Arbeit: Arbeitslosen- und Sozialhilfe zusammenführen, 9-11, source: [http://www.arbeitnehmerkammer.de/sozialpolitik/doku/04\\_gesetze/gesetzgebung/2003/2003\\_04\\_08\\_agenda2010.pdf](http://www.arbeitnehmerkammer.de/sozialpolitik/doku/04_gesetze/gesetzgebung/2003/2003_04_08_agenda2010.pdf).
- 25 'Wir sind am Anschlag', interview with Minister Clement, *Der Spiegel*, 16/2003.
- 26 'Die Zeit in der in Deutschland gewartet wurde, bis sich was bewegt, die ist einfach zu lang', interview with Minister Clement, *Die Zeit* 30/2003.
- 27 *Bundestag-DS* 15/1516, 5 September 2003, 1.
- 28 Minister Clement's speech at the first reading of the Hartz IV bill, *Bundestag* plenary protocol 15/60, 11 September 2003, 5106.
- 29 Minister Clement's speech at the second and third reading of the Hartz IV bill, *Bundestag* plenary protocol 15/67, 17 October 2003, 5738.
- 30 Minister Clement's speech at the first reading of the *Optionsgesetz* bill, *Bundestag* plenary protocol 15/103, 2 April 2004, 9350.
- 31 Minister Clement's speech at the second and third reading of the *Optionsgesetz* bill, *Bundestag* plenary protocol 15/105, 29 April 2004, 9488-89.
- 32 The co-existence of several benefits had already been seen as problematic by opposition parties before the SPD-led Government took political action.

- Examples of this are a 2001 CDU/CSU discussion paper by the party's labour market policy speaker [Laumann, K.-J. (2001) CDU/CSU-Fraktion, Arbeit für alle: Wege zu einer neuen Sozialhilfe] and an unsuccessful motion submitted to the *Bundestag* in May 2001 [FDP-Fraktion(2001), Für eine sinnvolle Zusammenführung von Arbeitslosen- und Sozialhilfe, *Bundestag-DS* 14/5963].
- 33 This also applied, for the most part, to trade unions, churches and social welfare associations. These contributed plenty of criticism on the details of the reform until it was fully worked out and passed the legislative hurdles, but did not see it as an 'unbearable reform' (interview SPD MP, 25 January 2005).
  - 34 Recommodification refers to a process due to which work seekers must make a living on the basis of his or her employability on the labour market as opposed to social insurance benefits.
  - 35 Press- and Information Office of the Federal Government (2003) *Agenda 2010 – Mut zum Frieden und Mut zur Veränderung*, government declaration of Bundeskanzler Gerhard Schröder, 14 March 2003, 21-22.
  - 36 Minister Clement's speech to the SPD parliamentary party on 'Agenda 2010 für Wirtschaft und Arbeit', 8 April 2003, Berlin.
  - 37 Ibid.
  - 38 'Wir sind am Anschlag', interview with Minister Clement, *Der Spiegel* 16/2003.
  - 39 'Jeder Job ist zumutbar', interview with Minister Clement, *Die Zeit*, source: <http://zeus.zeit.de/text/2003/24/Clement>.
  - 40 'Clement: Arbeitslosenzahl bleibt unter 5 Millionen', *Deutschlandfunk Interview*, 7 August 2003, source: [http://www.dradio.de/dlf/sendungen/interview\\_dlf/155952/](http://www.dradio.de/dlf/sendungen/interview_dlf/155952/).
  - 41 Minister Clement's speech at the second and third reading of the Hartz IV bill, *Bundestag* plenary protocol 15/67, 17 October 2003, 5738.
  - 42 Interview with Minister Clement, *Tagesspiegel*, 2 November 2003.
  - 43 Minister Clement's speech at the first reading of the *Kommunales Optionsgesetz* bill, *Bundestag* plenary protocol 15/103, 2 April 2004, 9350.
  - 44 Minister Clement's speech at the second and third reading of the *Kommunales Optionsgesetz* bill, *Bundestag* plenary protocol 15/105, 29 April 2004, 9489.
  - 45 Minister Clement's statement at a BMWA press conference on 'Ergebnisse des Vermittlungsausschusses Hartz IV' 1 July 2004, Berlin.
  - 46 Minister Clement's speech at the first reading of the Hartz IV bill, *Bundestag* plenary protocol 15/60, 11 September 2003, 5107.
  - 47 Minister Clement's speech at the first reading of the *Kommunales Optionsgesetz* bill, *Bundestag* plenary protocol 15/103, 2 April 2004, 9350.
  - 48 Ibid, 9352.

- 49 Minister Clement's speech to the Bundestag, *Bundestag* plenary protocol 15/105, 29 April 2004, 9488.
- 50 Ibid, 9489.
- 51 Minister Clement's speech to the *Bundesrat* plenary session on the 'Kommunales Optionsgesetz', 14 May 2004, Berlin, source: [www.bmwa.bund.de/navigation/presse/reden-und-statements](http://www.bmwa.bund.de/navigation/presse/reden-und-statements), accessed 14 December 2004.
- 52 Interview with Minister Clement, *Deutschlandfunk*, 6 August 2004, source: [www.dradio.de/dlf/sendungen/interview\\_dlf/292036](http://www.dradio.de/dlf/sendungen/interview_dlf/292036).
- 53 'Wolfgang Clement: 600.000 Jobs für Langzeitarbeitslose', *Die Welt*, 18 August 2004.
- 54 'Wer ist Wolfgang Clement?', *Tagesspiegel*, 27 March 2005.
- 55 'Der rüde Reformier', *sueddeutsche.de*, 19 September 2003, source: [www.sueddeutsche.de/sz/politik/red-artikel544/](http://www.sueddeutsche.de/sz/politik/red-artikel544/).
- 56 'Superminister ausser Kontrolle', *Spiegel Online*, 30 March 2004.
- 57 'Super-Reformier mit ausgeprägtem Hang zur Ungeduld', *Agence France Presse – German*, 11 August 2004.
- 58 'Wer ist Wolfgang Clement?', *Tagesspiegel*, 27 March 2005.
- 59 'Clement – der letzte Reformier', *Tagesanzeiger*, 30 June 2004.
- 60 'Wer ist Wolfgang Clement?', *Tagesspiegel*, 27 March 2005.
- 61 Government declaration by Chancellor Gerhard Schröder, 'Agenda 2010 – Mut zum Frieden und Mut zur Veränderung' 14 March 2003, *Presse- und Informationsamt der Bundesregierung (2003)*, 21-22.

## Notes Chapter 7

- 1 See for more comprehensive accounts of reform developments, for instance, Bleses and Seeleib-Kaiser 2004: 79-93, and Clasen 2005b, Chapter 6.
- 2 In February 2008, thirteen months after the introduction of the new leave scheme, the Ministry drew a positive balance. Roughly 570,000 parents had applied for the scheme, 12.5 per cent of whom were fathers. In addition, the Minister stressed that the fertility rate in 2007 had again increased to more than 1.4 (from 1.33 in 2006). BMFSFJ, 29 February 2008 'Erfolgsbilanz nach einem Jahr: Das Elterngeld wirkt', source: <http://www.bmfsfj.de/bmfsfj/generator/Politikbereiche/familie,did=108302.html>, accessed: 26 March 2008.
- 3 *Süddeutsche Zeitung* Themen des Jahres 2007, 57-58.
- 4 Bundesministerium f. Familien, Senioren, Frauen und Jugend (BMFSFJ) Pressemitteilung 27 February 2008. 'Einigung zum Thema Betreuungsgeld erzielt', source: <http://www.bmfsfj.de/generator/Kategorien/Presse/pressemitteilungen,did=108136.html>, accessed 26 March 2008.

- 5 'Eltern erhalten Anspruch auf Kleinkindbetreuung', *Süddeutsche Zeitung* online, 26 September 2008, source: <http://www.sueddeutsche.de/politik/909/311829/text>, accessed 1 October 2008.
- 6 'Familien sollen mehr Geld bekommen', *Süddeutsche Zeitung* 9 June 2008, 1.
- 7 Bundesministerium f. Familien, Senioren, Frauen und Jugend (BMFSFJ) '„Förderung und Entlastung für Familien: Kabinett beschließt Familienleistungsgesetz', 15 October 2008, source: <http://bmfsfj.de/bmfsjf/generator/Politikbereiche/familie,did+113778.html> ; accessed 16 October 2008.
- 8 The establishment of three goals is reflected in a threefold strategy. As is reiterated in parliamentary documentation concerning the financing of child care promotion, the SPD-CDU/CSU coalition's family policy concept now rests on *three* pillars, namely, the 'sustained and systematic financial support of families, a family-conscious work environment, and quality-conscious expansion of child care facilities that meets parents' needs' (*Bundestagsdrucksache* 16/6534, 28 September 2007).
- 9 Report 'Gesellschaft im Reformprozess', Friedrich-Ebert-Stiftung, Berlin, source: [http://www.fes.de/inhalt/Dokumente/061017\\_Gesellschaft\\_im\\_Reformprozess\\_komplett.pdf](http://www.fes.de/inhalt/Dokumente/061017_Gesellschaft_im_Reformprozess_komplett.pdf).
- 10 'Unterschicht entzweit die grosse Koalition', *FAZnet* 16 October 2006, source: <http://www.faz.net/s/Rub594835B672714A1DB1A121534F010EE1/Doc~EB5216F886BC949FD9C7464FD0DC4E70B~ATpl~Ecommon~Scontent.html>; accessed 1 October 2008.
- 11 'Harter Streit um höhere Hartz IV Leistungen', *SZ online*, 11 August 2007, source: <http://www.sueddeutsche.de/deutschland/artikel/903/127698/>, accessed 1 October 2008.
- 12 'Soziale Kluft in Deutschland wächst', *Süddeutsche Zeitung*, 16 June 2008, 1.
- 13 In addition, there is uneasiness about its possible future participation in a federal coalition government. These fears intensified during 2008 by a possible first quasi-inclusion of DIE LINKE in a state-level government, lending support to a minority government of SPD and the Green party in the state of Hesse. However, that government did not materialize as the construction failed to gain parliamentary approval in November 2008 with new elections to make a repetition unlikely.
- 14 On 27 September 2009, German voters have opted to end the 'Grand Coalition'. A majority of votes in the *Bundestag* was won by CDU/CSU and the liberal FDP, enabling Angela Merkel to stay in office as chancellor for a second term.



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## CHANGING WELFARE STATES

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