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The Social Policies of the Red-Green Alliance in Germany

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The Social Policies of the Red–Green Alliance in Germany

The German welfare state is often characterized as largely resistant to substantial policy changes. Moreover, policy changes are said to follow a path-dependent and incremental pattern despite "necessary" substantial changes. This article scrutinizes social policy development during the first five years of the Red–Green Alliance in office from a quantitative and qualitative perspective with a special focus on old-age insurance, unemployment insurance, and family policy. It shows that substantial changes have indeed been made despite the many "potential" veto players (Tsebelis 2002) and two "welfare state parties" (Kitschelt 2001), which are said to impede policy change. These changes largely follow a reform path, which began in the 1980s and can be characterized as a "dual transformation" of the German welfare state (Seeleib-Kaiser 2002a; Bleses and Seeleib-Kaiser 2004). This dual transformation encompasses, on the one hand, a withdrawal from the principle of publicly guaranteeing workers their achieved living standard during old age and unemployment and, on the other, an expansion of family-oriented policies.

In the first part of the article, I analyze key social policy changes before addressing the causes leading to policy changes in the second

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part. I show that a change in the interpretive patterns guiding social policy is the fundamental cause for observable changes at the policy level. Neither theories based on parties nor institutional theories can sufficiently explain recent social policy developments.

Analyzing Social Policy Change

My analysis of social policy change proceeds in two stages. First, I scrutinize quantitative developments in the spending and financing of social policy. Second, a qualitative analysis illuminates key changes in core social policy areas.

A Quantitative Perspective on Social Policy Change

From a Keynesian welfare state perspective one way to analyze policy output is to measure budgetary expenditures. Although the Federal Republic of Germany has not met the so-called deficit criterion of the European Monetary Union (EMU) stability pact since 2002, this is not the result of an explicit anticyclical Keynesian approach by the Red–Green coalition government. Moreover, despite a small increase in federal spending in 1999, the Red–Green coalition pursued a policy of reduced federal government intervention. In 2001, the spending of the *federal* government amounted to 11.8 percent of gross domestic product (GDP), which is the lowest level in the last four decades. The success of this policy combined with additional revenue from the auction of telecommunications licenses reduced the *federal* budget deficit from 1.5 percent of GDP in 1998 to 1.1 percent in 2001 (Hinrichs 2002, 23–24). The financial situation of the federal government, however, deteriorated rapidly in 2002. According to the definition used by the European Union (EU) to determine the state deficit, the deficit of the federal government rose from 1.4 percent in 2001 to about 1.9 percent of GDP in 2003. After having risen to 3.5 percent in 2002, the overall state deficit is projected to rise to more than 4 percent of GDP in 2003 (Deutsche Bundesbank 2003, 64).

The increase in the deficit in 2002 and 2003 is largely the result of an economic slump that precipitated higher social spending and declining revenues.[1] The increase in federal spending was primarily caused by rising transfers from the federal government to the pension system and the employment service. The annual transfer from the federal government to the old-age insurance system increased from €69 billion in 2001

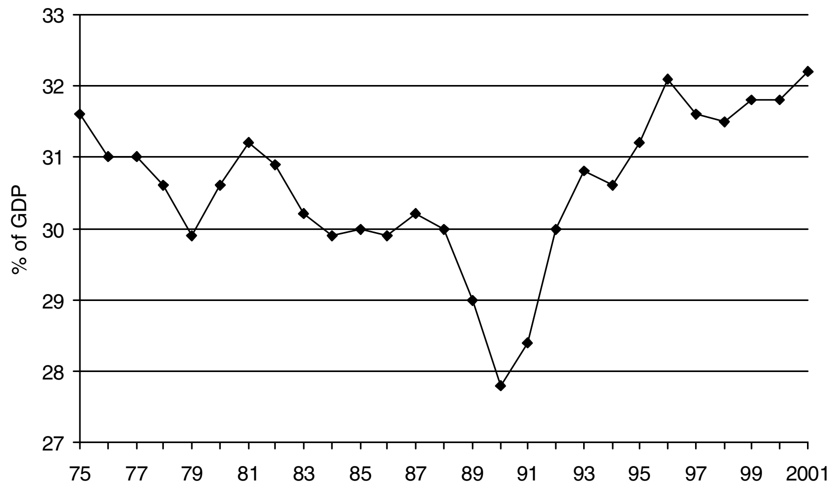

Figure 1. Social Spending in Germany as a Percentage of GDP, 1975–2001

Source: BMGS 2003a, table 7.2.

Note: From 1991 onward, data are for unified Germany; 1999 and 2000 data preliminary, 2001 data projections.

to approximately €77 billion in 2003. Transfers to the Federal Employment Service skyrocketed from €1.9 billion in 2001 to €7.5 billion in 2003 (BMF 2003, 10f.). The increase of the state budget deficit is therefore largely the result of the economic downturn and cannot be attributed to an expansionary fiscal policy designed to combat unemployment.

Aggregate public spending figures do not, however, tell us much about more narrow changes in social policy. Germany's federal system and the existence of parafiscal institutions such as the social insurance funds give the country a highly complex social-policy financing structure. Therefore, to grasp the overall development of social policy expenditures, we have to take a closer look at the "social budget" or social policy expenditures.[2] Figure 1 shows overall social spending in relationship to GDP from 1975 to 2001. After a reduction in spending during the 1980s, we saw a reversal of the trend in the first half of the 1990s, before social policy outlays were again consolidated during the late 1990s.

If we control spending by region for the period from 1991 to 2001, by and large we witness continuity since the mid-1990s in the West and a gradual but persistent increase in the East, reaching almost 50 percent

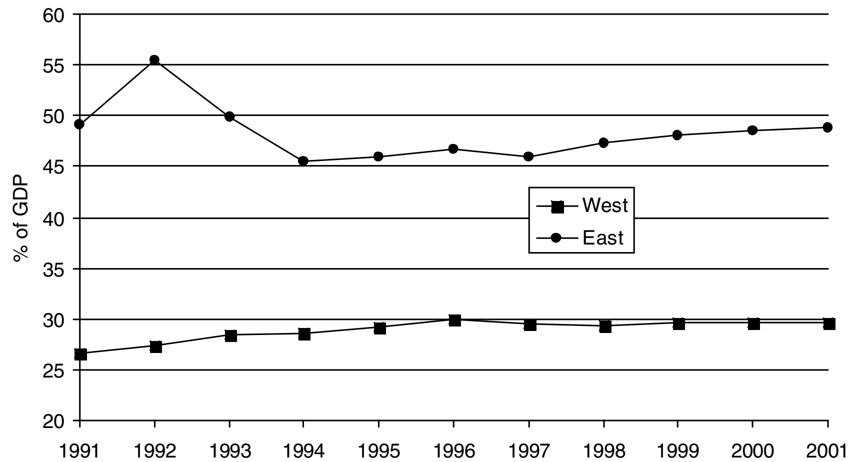

Figure 2. Social Spending in East and West as a Percentage of GDP, 1991–2001

Source: BMAS 2002b, table I-1.

Note: 1999 and 2000 data preliminary, 2001 data projections.

of GDP by 2001 (Figure 2). The high level of social spending in the East is financed through continuously rising West–East transfers, which in 2001 reached approximately €27.9 billion. These West–East transfers are largely channeled eastward through transfers from the "Western" unemployment and old-age insurance funds, which totaled €25.8 billion in 2001 (BMAS 2002b: table III; table III, 112; table III, 16). Without these transfers to the East the social expenditure ratio in the West would amount to about 28 percent of GDP (Sitte 2003, 693). Based on the overall spending data, the change in government in 1998 did not seem to substantially alter the spending pattern.

Accordingly, when combined with German unification, *neither* programmatic expansion *nor* demographic changes led to the steep increase of social insurance contributions in the last decade (Figure 3). To reduce the high social-insurance contribution rates the Red–Green government introduced an ecological tax. The revenues from this tax are estimated at €57 billion in 1999–2003 and are earmarked by statute for the old-age insurance fund. Without the revenues from the ecological tax, employers' contributions to the old-age insurance fund would have been 0.75

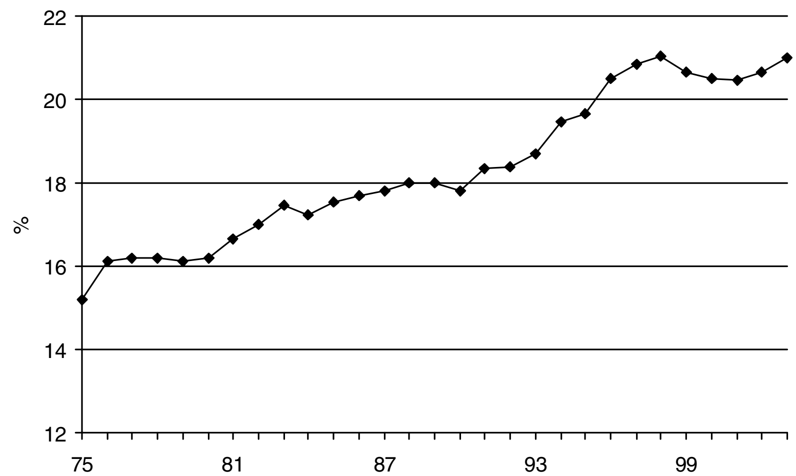

Figure 3. Employers' Contributions to Social Insurance Schemes in Germany as a Percentage of Gross Wages, 1975–2003

Source: BMGS 2003a, table 7.7.

Note: Premiums for accident insurance not included in contributions. Because there are small differences between East and West, these data are based on premiums in the West.

percentage points higher in 2002 (Truger 2001; BMF 2002, 10). Hence, by increasing the tax transfers the Red–Green coalition government was more successful in limiting the social-insurance cost increases than its conservative–liberal predecessor. Nevertheless, according to Winfried Schmähl, the former chairman of the Social Policy Advisory Council of the federal government, an effective way to reduce substantially the high level of social insurance contributions without benefit curtailments would be to further increase the tax subsidies. He argues that many social policies that are not in line with the principles of the social insurance philosophy, one prominent example being active labor-market policies, are financed through the social insurance system. If such measures were fully tax-financed, the social insurance contributions of employers could be reduced by four percentage points (Schmähl 2003a). We must, however, admit that the Red–Green government did not follow such a comprehensive strategy. Moreover, it pursued a policy of (income) tax reductions. It is estimated that when the already enacted tax reform measures are fully implemented, by 2005, the state will confront an annual

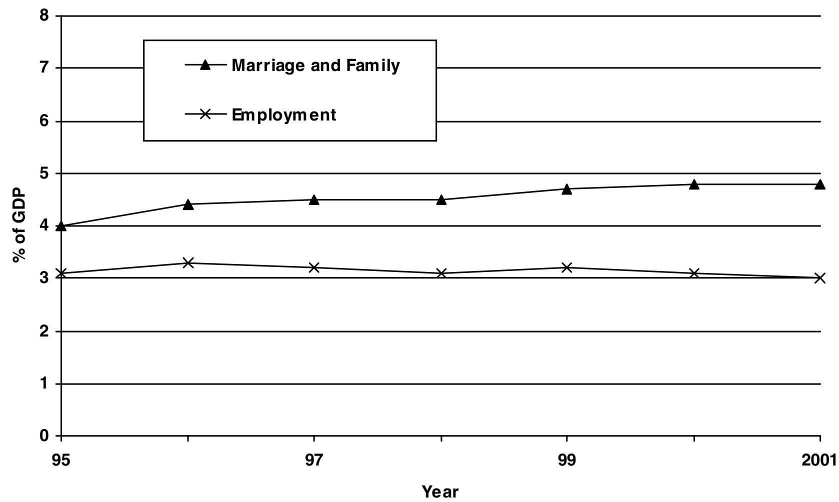

Figure 4. Expenditure for Selected Social Policies by Function as a Percentage of GDP, 1995–2001

Source: BMAS 2002b, table I-3.

Note: 1999 and 2000 data preliminary, 2001 data projections.

revenue shortfall of €48 billion (Zohlnhöfer 2003). This means that the massive increase in social insurance contributions after unification theoretically could have been avoided or reversed without increasing the budget deficit.

If we disaggregate the spending data by function for 1995–2001, the categories of old age[3] and health care generally remained the same, while outlays on the "Marriage and Family" category continued to increase[4] and the spending for employment-related policies decreased (Figure 4). Economic and demographic developments should have favored the opposite trend, since unemployment in absolute numbers was higher in 2001 than in 1995 and the number of children declined over the same period.

Based on the quantitative data presented here, it becomes evident that the new government did not adopt an expansionary social policy. Moreover, it consolidated public finances and moderately reduced social insurance contributions. Recent increases in the state budget deficit and in the level of social insurance contributions are the result of the economic slump and not of a systematic expansion of social policy.

A Qualitative Perspective on Social Policy Changes

The quantitative data presented so far cannot fully and accurately reflect policy developments. The data can reflect only policy changes that have been implemented and proven cost-effective, not those that are phased in over longer periods or have no budgetary implications. In this section, therefore, I focus on qualitative social policy changes. During its first term in office the Red–Green government focused on reversing *some* of the curtailments enacted during the late 1990s by the previous government, legislating a comprehensive pension reform and expanding family policy. The beginning of its second term was dominated by further reform of the pension system as well as labor-market policies, measures of cost containment in the realm of health care, and increased funding for child-care services. I focus this part of my analysis on old-age insurance and on labor-market and family policies, since these sectors featured prominently in the construction of the wage earner–centered social policy model of the post–World War II era.[5]

Reforming Old-Age Insurance Policies

The major political achievement of the Red–Green coalition government during its first term in office was the enactment of a pension reform,[6] characterized by Chancellor Gerhard Schröder as "epochal" (cited in Unterhinninghofen 2002, 213). The main aim of the reform was the limitation of future increases in social insurance contributions to 20 percent of gross wages in 2020 and 22 percent in 2030, when the baby boomers will retire. This limitation on future old-age insurance contributions was accomplished by a significant reduction in the replacement ratio of pension benefits from 70 percent to about 64 percent for the standard pensioner[7] in 2030.[8] To achieve the prior level of support during retirement, workers are encouraged through public subsidies and tax credits to enroll voluntarily in certified *private* old-age schemes. The level of subsidies for workers who enroll in private or company-based programs depends on income level and the number of children in their household. Furthermore, the social partners are encouraged via the tax system to include old-age schemes into collective bargaining agreements (BMAS 2002a, 114).

Even if workers enroll in the various certified programs,[9] however, there is no *guarantee* of a defined benefit at the previous level, because companies offering the various financial products are legally required to guarantee “only” the nominal amount paid into the system. Hence, the overall pension system in Germany is being transformed from a pay-as-you-go system based on the principle of defined benefits to a partially funded system based in part on the principle of defined contributions. According to estimates by the Bundesbank, a fifty-year-old worker will have to save an extra 4 percent of his or her gross pay if he/she is not to witness any income loss in retirement. The additional savings ratio for a twenty-year-old worker would be 1.5 percent (Deutsche Bundesbank 2002c, 30). By granting subsidies for low-income workers who enroll in the new programs, the state intends to reduce the negative effects of a voluntary private pension scheme.[10] Nevertheless, the combined contributions of employees who participate in the voluntary programs will be substantially higher in the future than they would have been without the reform. They basically have to shoulder the financial burden of “privatization,” while employers and employees equally finance the public scheme.

Because of overly optimistic assumptions regarding economic growth and unemployment, it became obvious only a year after the pension reform was enacted that further measures would be necessary to stabilize old-age insurance contributions in the short as well as the long term. To develop proposals to cope with this development, the Red–Green alliance appointed a commission of experts. Based on their recommendations (BMGS 2003b), the Red–Green government enacted measures to improve the short- and long-term liquidity of the old-age insurance plan late in 2003. The short-term measures included: (1) a reduction in the statutory contingency reserve of the pension fund to a level equivalent to a third of monthly expenditures, (2) a six-month postponement of annual pension adjustments, and (3) higher contributions by pensioners to long-term care insurance. To cope with the long-term situation, the government introduced a new sustainability factor into the pension formula, which is to *guarantee* that the combined contribution rate of employers and employees will not rise above 22 percent in 2030 (Nürnberger 2003; Schmähl 2003b, 19–21). Most likely this new factor will lead to a further reduction in pension benefits. The standard retiree will receive a pension equal to 54 percent of average net earnings. Hence a large percentage of pensioners will receive only a public pension, which roughly equals the social assistance level (Schmähl 2003b).

In addition, the occupational disability pension was reformed in 2001.

In the future, workers will no longer be able to draw *special* disability pension benefits if they are unable to continue to work in their profession or occupation; they will have to rely on the labor market for an alternative occupation and/or on the *regular* disability program. Although the reformed disability insurance program now treats unskilled and skilled workers in the same way, it means a real change for skilled workers by ending the protection of their occupational or professional achievements in case of specific disabilities (Wollschläger 2001). Finally, the coalition government introduced a de facto minimum pension effective 1 January 2003, by revoking the income and wealth test of the relatives of low-income senior citizens, when they apply for social assistance. The law requires the administrators of the old-age insurance fund to inform senior citizens with very low pensions about their entitlement to social assistance in addition to their insurance benefits (Buhr 2003).

Overall, the pension reform measures will lead to a recommodification and marketization of the old-age and disability insurance system and to a withdrawal from the principle of publicly guaranteeing the achieved living standard. Whereas in the past, the state basically guaranteed a certain benefit level for retirees (a replacement ratio of 70 percent for a standard pensioner), the main goal of the recent pension reforms has been to limit the level of future contributions. Thus these reforms constitute a substantial change, since publicly guaranteeing the achieved living standard has been the guiding principle of old-age insurance ever since the enactment of the 1957 pension reform legislation (Seeleib-Kaiser 2002a; Bleses and Seeleib-Kaiser 2004).

Labor-Market Policy Reforms

During the first four years of the Red–Green coalition government no major reforms were legislated in the areas of active labor market policy (ALMP), unemployment insurance, and social assistance. In regard to (re)integrating or activating unemployed workers, the Red–Green coalition supported the establishment of a limited number of pilot projects and initiated a program against youth unemployment. Ministry of Labor data, however, show a clear decline of participants in traditional public works projects from an annual average of about 385,000 participants (1998) to 180,000 (2002)—the lowest number since unification (Figure 5). Despite continuously high unemployment in the East of about 20 percent, this region witnessed considerable reductions in ALMP measures (BMAS 2002a, 37).

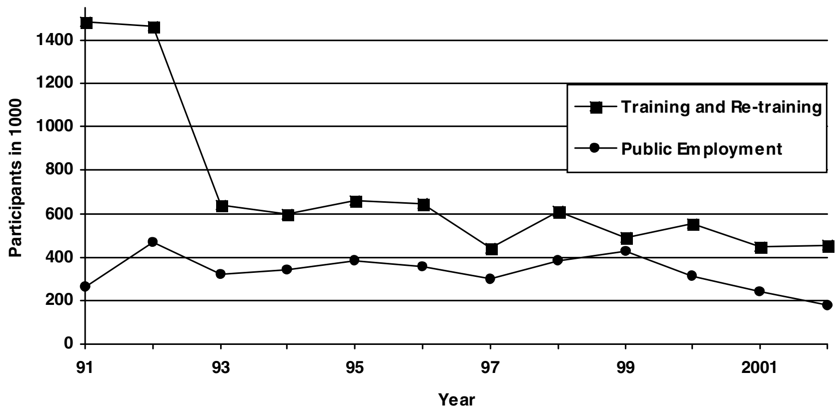

Figure 5. Participants in Measures of ALMP (Training and Retraining, Public Employment Programs), 1991–2002

Source: BMGS 2003a, table 8.14A.

In early 2002, the federal government commissioned a report by experts, which presented its findings shortly before the elections. The recommendations primarily focused on the improved effectiveness and efficiency of the labor exchange offices and the rapid reintegration of unemployed workers into the labor market (Hartz Kommission 2002). Based on the report of the commission, the Red–Green government enacted substantial changes in 2003, which reformed the Employment Service and refocused the active labor-market policy approach. In the past, active labor-market policies were designed to reintegrate an unemployed worker into a standard employment relationship within his or her occupational field or to upgrade skills. The new measures are intended to promote the rapid reintegration of the unemployed into the labor market, almost independently of whether or not the potential employment opportunities are within the category of "atypical employment" or reflect the educational achievements and occupational skills of the worker. In addition to subsidizing the self-employment of formerly unemployed workers, the state will also subsidize private and establish public temporary work agencies to hire out formerly unemployed workers to private companies (BMWA 2003).

Finally, late in 2003, the federal government enacted a comprehensive reform of unemployment compensation payments. According to the new rules, which will become fully effective after a transition phase, the extended benefit duration for workers fifty-five and older will be reduced from thirty-two to eighteen months.[11] The regular "Unemployment Compensation Payment I" will be limited to twelve months. Workers who have exhausted their unemployment insurance benefit and are needy, as well as all other needy unemployed workers—those between the ages of fifteen and sixty-four who are able to work for a minimum of three hours daily—will receive "Unemployment Compensation Payment II." Unlike the former unemployment assistance benefit, which was based on a mix of means testing and social insurance principles, this new payment will be a flat and fully means-tested benefit. In principle, its level will be set at the monthly social assistance amount of €345 in the western states and €331 in the East. Consequently, this reform will lead to substantial benefit reductions for unemployed workers who previously commanded a comparatively high income and were eligible for unemployment assistance payments after their regular unemployment insurance benefit expired. Furthermore, the suitability requirements have been considerably tightened for those receiving Unemployment Compensation II, in effect defining any job offer as suitable.[12]

Similar to the changes in the old-age insurance scheme these changes in active and passive labor-market policies constitute the endpoint of a long reform process that began during the tenure of the previous conservative–liberal government. The reform process was characterized by an increased recommodification of unemployed workers that led to the withdrawal from the principle of status maintenance—that is, publicly guaranteeing the achieved living standard during spells of unemployment.

Expansion of Family Policy

The Red–Green coalition continued to expand, albeit in a somewhat accelerated fashion relative to the previous government, various family policies,[13] as the spending data already suggested. The expansion of family policy developed in four directions: (1) increasing the child allowance and child tax credits; (2) strengthening the recognition of a limited time devoted to child rearing as equivalent to monetary contributions toward old-age insurance; (3) improving parental leave and parental benefits and introducing an entitlement toward part-time employment; and (4) expanding child-care services.

In several steps, the Red–Green coalition government increased the monthly child allowance payment to €154 per child (an increase of the monthly benefit by €41.50 since 1998) and the annual child tax credit to €5,508. Furthermore, parents can receive additional tax credits to defer some of the costs of child care, if the child care is deemed necessary due to the employment of the parents (BMFSFJ 2002); for a more detailed analysis of family tax policies, see Dingeldey 2001).

Beginning in 1986, the state, for the first time in the long history of the German social insurance system, recognized the contributions of caregivers as equivalent to monetary contributions within the old-age insurance system. Currently, time devoted to child care is recognized as a fictive contribution—equivalent to 100 percent of the average contribution—to the old-age insurance system for the duration of three years per child.[14] *New* is the provision that, if a parent should choose a part-time position to reconcile employment with the desire to care for the child personally at least in part, the state will contribute to the pension fund to make up for the "lost" contribution, up to a limit of 100 percent of the average contribution, until the child is ten years old. By recognizing (limited) time spent as a caregiver and thereby creating individual entitlement rights, the state reduced the dependence of predominantly female caregivers on the derived social insurance benefits of male breadwinners (Meyer 1998).

In addition, legislation was introduced and consequently expanded to increase the compatibility of work and the responsibility or desire of parents to care for their children personally during the first years of life. In 1986, the parliament passed a parental leave act, whereby a parent was initially entitled to take up to ten months of unpaid leave from employment after the birth of a child. The employer has to guarantee that a similar job will be available after the leave with equivalent remuneration. The duration of the parental leave was extended in several stages in the late 1980s and the early 1990s. Since 1993, parents have been entitled to three years of leave. During the first two years, the government pays a flat monthly means-tested benefit of €307 (600 deutsche marks) (Bleses and Rose 1998, 152). The Red–Green government made it easier for both parents to share the parental leave and substantially increased the earnings limit up to which parents are eligible for the full parental benefit.[15] The stated goal of the Red–Green government is that all parents with an average income shall once again receive the benefit (BMAS 2002a, 228), whereas the percentage of recipients declined substantially during the tenure of the previous government, since the earnings limit had not been adjusted since 1986. Furthermore, a new provision entitles parents with children born after 1 January 2001 to work part-time up to thirty hours per week during their parental leave (Bleses 2003).

In its first four years in power, the Red–Green coalition government did not enact any measures expanding public child-care facilities. First, however, it must be acknowledged that education and child care in principle are within the responsibility of the *Länder*, and the federal government can promote certain institutional changes only through regulatory policies or financial incentives. Second, increasing spending for the establishment of new child-care facilities and schools with an all-day schedule is a top priority of the federal government during its second term. The Red–Green coalition has pledged to spend €1.5 billion annually to expand day care for children under three years of age, starting in 2004. This program is explicitly excluded from the continued efforts to consolidate the federal budget and reduce the budget deficit (SPD, Bündnis 90/Die Grünen 2002, 10, 29). If local governments fully implement the program, this would lead to a substantial increase in child-care facilities. The federal government estimates that after the full implementation of its program, child-care facilities will be available to 20 percent of children under the age of three.[16] In addition, at the local and regional levels we have witnessed tendencies to increase the provision of "reliable elementary-school"[17] education and after-school programs in the last couple of years. The Red–Green coalition government has started a program to support attempts to establish all-day schools with €4 billion between 2003 and 2007 (SPD, Bündnis 90/Die Grünen 2002, 31).

In summary, the Red–Green coalition has continued the path pursued by the previous government to expand family policies, including improved benefits and reforms of labor-market regulations making it easier for *both* parents to reconcile work and care. In its second term the federal government offered substantial financial incentives to local and state governments to upgrade child-care facilities for toddlers and introduce all-day elementary schools, after public child-care services for children between the ages three and six had been considerably expanded during the 1990s. These policy reforms are by no means in accordance with the strong male breadwinner model, which prescribed the role of a married woman as wife and mother, that had dominated German social policy since the late nineteenth century (Lewis 1992).

Welfare State Changes

Without German unification, all else being equal, welfare state expenditures as well as social insurance contributions would be considerably lower today. Based only on expenditures in the West and discounting transfers to eastern German regions, social spending did not increase during the tenure of the Red–Green coalition government. Hence, the spending reductions achieved by the former conservative coalition government during the 1980s were not reversed. Despite overall social policy stability based on aggregate expenditure data, qualitative changes were achieved.

Although past policy decisions obviously had an impact on the degree of various social policy reforms, it would underestimate the extent of the policy changes if we characterized them as incremental and path-dependent and thus as not leading to a deviation from the formerly institutionalized conservative welfare state regime. On the one hand, the post–World War II German welfare state was characterized by a wage earner–centered social policy approach (Vobruba 1990) with the *key* aim of publicly guaranteeing the achieved living standard of male breadwinners during old age and spells of unemployment. On the other, it was the prescribed role of married women not to engage in wage labor but to provide unpaid familial social services. Through successive policy reforms, starting in the 1980s, this abstract description decreasingly reflected the reality of the social policy arrangement. Moreover, the state increasingly withdrew from this concept. The realm of wage earner–centred social policies was characterized by an increased recommodification and retrenchment leading to increased means testing of benefits, while family-oriented policies were expanded. These two processes constitute the core of the dual transformation of the German welfare state (Seeleib-Kaiser 2002a; Bleses and Seeleib-Kaiser 2004).

Explaining Social Policy Change

How can we explain these developments? Social scientists have developed various theories to explain welfare state continuity and change (Amenta 2003). We can differentiate three basic approaches, one of which largely follows functional arguments and is focused on how socio-economic challenges affect social policies. The second approach emphasizes the importance of political parties, while the third focuses on political institutions in explaining social policy changes and continuity. I argue that these "traditional" theories cannot sufficiently explain the social policy developments traced here, and hence that we have to take a closer look at the ideas and interpretive patterns of the political elite guiding social policy trends.

Parties, Institutions, and Socio-Economic Challenges

According to classical "parties matter" theory, social policy changes implemented by Social Democrats should clearly differ from those of Christian Democrats. Traditionally, Christian Democrats are said to favor a social policy approach that emphasizes maintenance of the status quo and the social responsibilities of families and other communal organizations in providing services. Social Democrats, in contrast, are believed to opt for a social policy design with universal benefits and social services while acknowledging an institutional responsibility of the state for full employment (Kersbergen 1995; 1999).

Especially in terms of (active) labor-market policies, however, we have not witnessed substantial variance in the policies of different coalition governments over time. Moreover, the Red–Green coalition government continued to reduce traditional measures of active labor-market policy in the late 1990s and early 2000s. Although the Red–Green coalition government did introduce 'new' activation measures, this strategy can be characterized as an acceleration of the reform approach already pursued by the previous conservative government. Considering the current very high unemployment rate, the labor-market policies implemented by the Red–Green coalition government can by no means be interpreted as an indication that the state is assuming an institutional responsibility for full employment. Furthermore, the partial privatization of the old-age insurance system by the Red–Green government runs counter to the expectations of the "parties matter" thesis. Finally, both the conservative government of Chancellor Helmut Kohl and the Red–Green coalition under the leadership of Chancellor Gerhard Schröder expanded family-oriented social policies (Seeleib-Kaiser 2004). In light of the evidence presented here, the classical "parties matter" thesis has only limited power to explain the dual transformation of the German welfare state, and specifically the policies of the Red–Green Alliance.[18]

More recently, political institutions—for example, the existence of "veto players" (Tsebelis 2002) and specific types of party competition (Kitschelt 2001)—have moved to the fore in explaining welfare state resilience in times of fiscal austerity (Pierson 2001). In general, these theories are better equipped to explain welfare state continuity than they are in "specifying the conditions under which major institutional change does occur" (Hering 2002, 4; Seeleib-Kaiser 2003). Furthermore, and contrary to the assumptions in many comparative analyzes, it has to be stressed that in most areas of social policy the upper house (Bundesrat) does not fulfill the basic requirements needed to be considered a veto player—namely, a political actor "whose agreement is necessary for a change of the status quo" (Tsebelis 2002, 19). In many cases objections by the Bundesrat can only delay but not prevent the adoption of a bill (suspensive veto). It is largely up to the lower house of parliament to determine contribution and benefit levels as well as eligibility criteria for the social insurance programs.[19]

Since both approaches seem to be limited in their capacity to explain the observed policy changes, perhaps these were caused by new socio-economic challenges such as globalization. Has globalization caused the changes I have described? The Achilles' heel of the West German economy ever since the 1950s has been its reliance on international markets (Abelshauser 1983; 2003). The 1970s, however, brought some fundamental changes. First, the Bretton Woods system of fixed exchange rates was replaced by a floating system, which led to a substantial appreciation of the German mark. Second, companies with very low personnel costs in the emerging economies of Asia began to compete with German companies at an increasing rate. Third, thanks to the liberalization of capital markets, assets could move much more freely around the globe, thereby enhancing the "exit option" of companies to relocate to low-cost economies.

All these "adverse" developments associated with globalization, however, did not seem to have a negative influence on the performance of the German export sector during the 1980s, when the German economy achieved increasing trade surpluses. The trade surplus initially plunged in the early 1990s in response to German unification, but it quickly recuperated in subsequent years. In contrast to the competing U.S. and British economies, Germany was again able to secure increasing trade surpluses at the turn of the century. Obviously, German companies on the aggregate were not priced out of the market by new, fierce international competition. Although foreign direct investment (FDI) began to bypass Germany and German entrepreneurs increasingly invested abroad, these investments can largely be interpreted as the flip side of the trade surplus. German FDI did not flow primarily into low-cost economies but rather into other West European countries, a trend that can be attributed mainly to the continuing market integration of the EU. Finally, the 1990s saw a huge influx of portfolio investment, which was brought on by the great demand for capital triggered by the unification process and the stability of the currency.[20] Moreover, according to the rankings of the prominent International Institute for Management and Development (IMD) from 1999 to 2003 Germany was ranked among the top five internationally most competitive national economies.[21] Despite the economic "burden" triggered by unification, Germany consistently scored better than its main European competitors—France, Italy, Spain, and the United Kingdom, as well as Japan (IMD 2003). Nevertheless, one could argue that the relatively high international competitiveness of the German political economy is the result of past social policy reforms. One should not reject this argument too readily, since the precise nature of the causal relationships between globalization and the welfare state are still being heavily debated among political economists.[22]

If we *assume* that globalization "objectively" has a negative effect on the German welfare state, this does not mean that the welfare state per se would necessarily change in the way that would bring it into line with changed socio-economic conditions. In theory, the stickiness of institutions can lead to situations in which even dysfunctional institutions survive for long periods: "[W]elfare states do not need to reform, people must want them to reform" (Cox 2001, 475). Various survey data show strong continuous overall support (intensity) for the welfare state, which, as indicated by a significantly higher support rate in the East, was even further strengthened by German unification (Andreß and Heien 2001; Roller 1999a). Asked which public programs or policy domains should be cut in times of austerity, an overwhelming majority (more than 70 percent) named public administration, defense, and transfers to the EU, whereas, on average, only 18 percent were in favor of cuts in various social policy areas (Roller 1999b, 30).[23] Notwithstanding the overall support for the welfare state, support may vary across the spectrum of social policies (extensity). In analyzing the core wage earner–centered policies, we can identify a drop in support only for measures designed to maintain the living standard of the unemployed and to create jobs, although this support continues to be substantial (Andreß and Heien

2001). In 2000, only 18 percent of the population supported cuts in unemployment compensation, whereas a mere 5 percent supported pension cuts (Roller 2002b, 517). Based on these data, one might argue that support for a social-democratic welfare state, in which the institutional responsibility for full employment lies with the state, has dropped somewhat. Nevertheless, it is important to note that a clear majority still perceives job creation to be the responsibility of the state (Roller 2002a, 17).

On further examination of the old-age system, we find that it enjoys strong public support. According to a survey conducted in the fall of 2001 that asked about the goals of a good pension system, 91 percent of all respondents said they preferred a pension system that would guarantee senior citizens an adequate living standard based on their previous wage income. Only 35 percent agreed with the statement that public pension benefits should cover only basic needs and that citizens should also be obliged to insure the risks of old age through other, private means.[24] More than 60 percent said they supported a continuation of the current (2001) pension benefit levels, even if this meant raising social insurance contributions. And only slightly more than 30 percent were in favor of stabilizing social insurance contributions if this was associated with a reduction in benefit levels (Kohl 2002, 490f.). Overall, these data cannot explain the policy changes we have seen. If politicians were indeed reacting to voter preferences, we most likely would have witnessed a continuation of the wage earner–centered social policy approach, which guarantees the achieved living standard.

None of the theories discussed so far can sufficiently explain the welfare state changes of recent years. According to the "parties matter" theory, we would have expected a very different line of development—namely, an expansion of active labor-market policies and expansionary fiscal measures to promote full employment. Theoretically, such an approach would have been possible, since the consent of the Bundesrat is not necessary to enact such changes in core welfare state policies. Furthermore, public opinion data would suggest support for policy continuity or even an expansion with regard to the state's responsibility to provide guarantees against social risks and to create jobs.

Changed Interpretive Patterns Explaining Red–Green Social Policy Reforms

Based on the limited reach of the various explanatory approaches, I hypothesize that the welfare state changes can be explained by the emergence and eventual dominance of new interpretive patterns among the elite. It is theorized that collective actors perceive various socio-economic challenges as having specific effects on welfare state institutions. These perceptions, or causal beliefs, enter into a political discourse, which is bound or framed by "principled beliefs" (Goldstein and Keohane 1993). (New) interpretive patterns emerge out of the political discourse, addressing the perceived challenges within a normative frame, which eventually lead to the actual policy responses we have observed. Finally, (new) interpretive patterns may constitute "cognitive locks" (Blyth 2001), making other policy options practically impossible to enact. The empirical analysis is based on a qualitative content analysis of party platforms, important policy statements, coalition agreements, and justifications given by party spokespersons in parliament for key social policy legislation. (For a more detailed elaboration of this approach, see Seeleib-Kaiser 2002a; Bleses and Seeleib-Kaiser 2004.)

Analyzing the 1998 party platforms of the SPD and Bündnis 90/Die Grünen as well as the coalition agreement, it becomes evident that the two parties did not intend to expand the welfare state in the medium term, despite promises to revoke certain policy changes of the prior conservative coalition government in the short term. In the short term, they promised among other things to reinstate the former policies regarding the regulation of dismissals and the sick-leave benefit and to *suspend* the implementation of the Pension Reform Law (enacted in 1997). Their overarching policy approach was characterized by the following four elements:

(1) no new deficit-financed economic stimulus programs;

(2) a reduction of social insurance contributions and enterprise taxes;

(3) a modernization of the welfare state, which emphasizes activation instead of compensation, a promotion of greater self-reliance, and a reduction of government tutelage; and

(4) an expansion of family policies (Seeleib-Kaiser 2004).

In his first address to parliament Chancellor Gerhard Schröder forcefully reiterated the need to reduce the budget deficit and to focus subsidies as well as social policies on the truly needy.[25] Although some statements by the SPD chairman and finance minister, Oskar Lafontaine, were interpreted as calls for an expansionary deficit-financed approach, at no time during the tenure of Lafontaine did a deficit-financed stimulation of the economy become an official policy goa1.[26] After Lafontaine resigned in the spring of 1999, the new finance minister, Hans Eichel, made it unmistakably clear that there was no room for any *new* deficit-financed programs and that his primary goal was the reduction of the government deficit.[27] Even after the economic situation deteriorated in late 2001 and the unemployment rate once again began to climb, the Red–Green government did not change its programmatic stance. Based on the "parties matter" theory, one would have expected a very different approach by the Red–Green government—namely, an expansionary fiscal policy. At times, even Governor Edmund Stoiber of Bavaria, later the CDU/CSU (Christian Democratic Union/Christian Social Union) candidate for chancellor, criticized it as too rigid. During the 2002 election campaign, a prominent social-democratic critic of Schröder's economic and social policies summarized the strategy of the conservatives as "social democratism," while the SPD itself was not offering anything (MP Ottmar Schreiner, cited in Meng 2002, 228).

Furthermore, the Red–Green Alliance accepted the need to reduce the level of social insurance contributions, because these were perceived as having significant negative effects on the international competitiveness of German firms. While the Social Democrats and the Green Party initially rejected this interpretive pattern, proposed by the Christian Democrats and the liberals since the early 1980s and pushed much more vehemently in the 1990s, they finally accepted it in the second half of the 1990s. Interestingly, German unification was only rarely identified by politicians as challenging social policy arrangements and leading to increased social insurance contributions. Moreover, globalization was perceived as a core challenge to the German social insurance system. Unless rising social insurance contributions could be brought under control, it was believed, German companies would lose international competitiveness.[28] Hence, the new coalition government called for the introduction of a new ecological tax, which was to be used to supplement the pension fund and thereby allow a reduction in the level of social insurance contributions (SPD, Bündnis 90/Die Grünen 1998, 14–15). During the Social Democrats' years in office, the goal of controlling social insurance contributions became paramount. The recently enacted pension, health-care, and unemployment insurance reforms were all guided and justified by this goal. In the spring of 2003, Chancellor Gerhard Schröder stated in a widely accepted parliamentary speech on "Agenda 2010": "We will accomplish tremendous budgetary savings by restructuring the social security system and reducing bureaucracy. Even so, it will be necessary to cut benefits. . . . Together with our policies to renew the social security system, we will reduce additional wage costs by cutting social insurance contributions."[29]

Although the struggle among Social Democrats about the future programmatic direction of social policy is ongoing, the majority of the German Social-Democratic Party (SPD) has departed from long-held programmatic positions. In the late 1990s, the interpretive pattern with regard to social policy, which called for social insurance contributions to be cut, was complemented by a new (at least for many Social Democrats) interpretive pattern stressing the benefits of market mechanisms and personal responsibility (SPD 1998; 2002). The Blair-Schroeder Paper (1999)[30] highlights the more "radical" programmatic version of this new thinking among top social-democratic politicians. According to this document, social-democratic policy should be guided by the credo: "[W]e need to apply our politics within a new economic framework, modernized for today, where government does all it can to support enterprise but never believes it is a substitute for enterprise. The essential function of markets must be complemented and improved by political action, not hampered by it. We support a market economy, not a market society."

Moreover, the two leaders argued, with specific reference to social policy: "Too often rights were elevated above responsibilities, but the responsibility of the individual to his or her family, neighborhood, and society cannot be offloaded on to the state. . . . Modern social democrats want to transform the safety net of entitlements into a springboard to personal responsibility."

Although this document was heavily criticized by more "traditional" SPD members, the party chairman and Schröder stuck to the policy path outlined in the document. Adopting such an approach toward social policy and ALMP meant that the Social Democrats moved toward social policy positions articulated by Christian Democrats since the mid-1970s—the need to reduce government intervention and to promote more personal responsibility, without fully withdrawing from the state responsibility for social cohesion (Seeleib-Kaiser 2002b).

The interpretive pattern calling for a reduction in social insurance contributions and in the overall level of government intervention while promoting more personal responsibility constitutes the overall normative framework. The privatization of the pension system was part of this broader strategy aimed at strengthening self-reliance and engagement. The Social Democrats and the Greens made it explicit in their election platforms and later restated in their coalition agreement that they would reform the old-age insurance system with the goal of expanding private and company-based pension plans as key elements (SPD, Bündnis 90/Die Grünen 1998, 29f.). At the same time, the state should demand more personal investment by the unemployed in finding new employment, based on the principle of rights and responsibilities. The SPD argued that if an unemployed person drawing public support turned down an employment opportunity, the administrators should implement all legal measures to cut benefits (SPD 1998). This approach also included a call for "work instead of assistance" (SPD, Bündnis 90/Die Grünen 1998, 32), meaning a reform of social assistance and concomitantly of unemployment compensation.

Finally, in regard to family policy the party platforms and the coalition agreement called for improvement of parental-leave provisions, expansion of the child allowance and tax credits, and expansion of child-care facilities (SPD, Bündnis 90/Die Grünen 1998, 36–38). In the debate on modifying parental leave, the coalition partners stressed that the new measures would increase the options available to parents to reconcile the responsibilities of employment and family. Both parents were given the new option to reduce their working hours and at the same time enjoy part-time parental leave. This step was heralded as a major step toward making it possible for fathers to become more involved in child rearing. Furthermore, politicians from both parties stressed that the liberalization of means-testing criteria meant that many more parents would in future be eligible for the parental (leave) benefit (Sten. Prot. 14/115, 10943). Although the Christian Democrats put a stronger emphasis on the general needs of the family and the individual choices of parents with regard to child rearing and employment, overall the justifications for expanding family policies made by the Red–Green Alliance were very similar to those put forward by the CDU since the mid-1980s. After a long period of parliamentary opposition in which the Social Democrats often complained that family policy was not being expanded enough, it was now the role of the Christian Democrats to call for more generous expansion (Sten. Prot. 14/115, 10945ff.; 14/183, 18097).

Summarizing the overall programmatic approach of the Social Democrats and the Greens, it seems fair to argue that the new coalition government did not publicly call for a comprehensive *new* approach to social policy after sixteen years of conservative rule. Moreover, based on the party platforms and the coalition agreement, the Red–Green coalition government pledged to continue the general policy path pursued by the former conservative coalition government, albeit with some shifts of emphasis (Seeleib-Kaiser 2004). In this sense, the statement made by Schröder during the 1998 election campaign—that Social Democrats in government would not change everything but would improve many things—seems to describe accurately the party's programmatic approach within the realm of social policy. Compared with the social policy approaches and reform initiatives put forward by Social Democrats during the long dominance of Christian Democratic rule in the 1980s (SPD 1988), this "new" approach constitutes the preliminary endpoint of a substantial programmatic shift—one that can be characterized as a social-democratic convergence with programmatic aims of the Christian Democrats (Seeleib-Kaiser 2002b).

Conclusion

At the policy level, the implemented changes are largely in accordance with processes that have also been identified in other advanced capitalist economies and have been characterized by Jane Jenson and Denis Saint-Martin (2002) as a development "from Ford to LEGO." In their view, "advanced democracies are currently in the process of renegotiating the terms of the post-war social contract. . . . It is a movement for rethinking the blueprints for the very architecture of welfare, that is the respective responsibilities of families, markets, and communities as well as the states" (Jenson and Saint-Martin 2002, 4). Mainstream social policy analysis has underestimated these developments, since it has largely remained focused on the wage–welfare nexus, often concentrating only on a single program such as the early retirement program, and has not included family policies.

In times of renegotiating institutional arrangements, theories that were once adequate to explain continuity and change within, as well as commonalities and differences among, welfare states can lose their explanatory power. If Social Democrats are indeed redefining their programmatic aims, as the empirical evidence presented here suggests, we need to adjust our theories. Obviously, the difference between Social Democrats and Christian Democrats in regard to social policies has diminished over time. Based on analysis of the party platforms and the knowledge that parties usually implement the proposals they put forward in their election manifestos, this policy development was predictable (Klingemann et al. 1994). Whether or not a new and clear "parties matter" theory evolves in regard to social policy will depend on the future positioning of the Christian Democrats—that is, whether they remain a welfare state party or move further toward the Right. Finally, the argument whereby the German polity, with its many potential veto players, aggravates policy change has been exaggerated in the past and on detailed inspection does not apply equally to all areas of social policy. Furthermore, the veto player approach can explain policy stability but not policy change. Finally, the analysis shows that a change in ideas and interpretive patterns largely accounts for the policy changes we have witnessed over the past five years.

Notes

1. The decline in revenues was magnified in 2001 and 2002 by the effects of the income tax reform enacted in 2000 (Deutsche Bundesbank 2002a).

2. The "social budget" is the most comprehensive statistical data set of social policy expenditures in Germany and includes, in addition to social spending by various public entities at different political levels, the social policy provisions provided by employers (BMAS 2002a, 371f.).

3. Even in a longer-term perspective, expenditures on the old-age insurance system in the west have not risen; moreover, they amounted to 9.8 percent of GDP in 1975 and 9.5 percent of GDP in 2001. If we again differentiate by region, however, we witness a substantial increase in pension spending in the east, rising from 15.1 percent of GDP in 1991 to 21.1 percent in 2001 (Deml 2002, 412).

4. According to data published recently by the Bundesbank, spending on families with children is even higher. In 1999, the state spent almost €150 billion, or 7.6 percent of GDP, on families, which amounts to an annual average increase of almost 4 percent from 1992 to 1999 (Deutsche Bundesbank 2002b, 21–22).

5. For an analysis of health policy, see Brandhorst (2003), who concludes that at the level of political aims the Red–Green Alliance continued to pursue the policy course of the former conservative–liberal coalition government, limiting raises in health insurance contributions and promoting competition within the solidaristic insurance system. At the instrumental level differences among the two major parties prevailed.

6. For an elaborate and critical evaluation of the pension reform, see Nullmeier (2001; 2003) and Lamping and Rüb (2001). For a more optimistic view see Kohl (2001).

7. A standard pensioner is defined as an employee, who has earned an average income and contributed forty-five years to the statutory pension system.

8. Although officially the government maintains that the replacement ratio of the benefits will only decline to 67 percent (BMAS 2002a, 103), this level is accomplished by a changed pension formula. Based on the old formula, the replacement ratio would drop to exactly the same level that would have been achieved by the implementation of pension reform legislated by the prior government in 1997 (Schmähl 2003b, 16).

9. Initial signs indicate that a substantial number of workers do not intend to participate in the new programs. Various surveys show that 20–48 percent of eligible workers do not intend to sign a contract (Deutsche Bundesbank 2002c, 32). By the middle of 2002, only about 9 percent of those aged between thirty and fifty had contributed to the new private programs (Bertelsmann Stiftung 2002). To evaluate the take-up rate systematically, however, a longer time span is necessary.

10. We must acknowledge that subsidized premiums or contributions to private pension plans by low-income workers will be too low to build up sufficient capital stock (Bulmahn 2003).

11. For a critical assessment of the legal ramifications, see Mayer 2003.

12. BGBl 2003, I: 66, 67. For an overview of the various labor market measures "Zaghaft werden die Weichen für mehr Dynamik auf dem Arbeitsmarkt gestellt," *FAZ,* December 20, 2003: 14.

13. For an analysis of gender policies during the Red–Green coalition, see Furhmann (2002) and Leitner (2003). Due to the complexity of the issue, I also refer to specific family policy measures already legislated during the tenure of the Christian–Liberal coalition government in this section, before addressing more recent legislative changes.

14. Initially the state limited the recognition of child-rearing time to one year on the basis of 75 percent of the average income, but in 1989 the government began to expand these provisions.

15. During the first six months of parental leave, parents with a joint annual income of up to €51,130 can receive the full benefit. Starting from the seventh month, the earning limit for the full benefit for a two-parent household is €16,470. Furthermore, since 2001, parents who choose a benefit duration of only twelve months instead of twenty-four months are eligible for a monthly benefit of €460 (Bleses and Seeleib-Kaiser 2004).

16. The latest available figure for this category of child-care facilities is a provision rate of 7 percent [1998] (Seeleib-Kaiser 2002a).

17. The "reliable elementary school" (*verlässliche Grundschule*) guarantees a fixed schedule from morning to early afternoon on each school day. Traditionally, elementary-school education in Germany has had rather erratic daily timetables, making it difficult if not impossible for both parents to work, even part-time. For recent changes in the state of Baden Württemberg, for example, see Kultusministerium des Landes Baden-Württemberg (2000).

18. For a comparative perspective on the reduced explanatory power of the "parties matter" theory, see Kittel and Obinger (2002) and Seeleib-Kaiser (2002b).

19. For a discussion of the relatively low veto potential of the Bundesrat in the realm of labor market policies, see Zohlnhöfer (2001).

20. For an overview of economic developments, see Seeleib-Kaiser (2001a, 60–71).

21. This ranking is limited to economies with a population of more than twenty million.

22. For a review of the literature, see Bowles and Wagman (1997) and Rhodes (1996; 2001).

23. Data are for West Germany only.

24. Data refer to West Germany only.

25. "Schröder verspricht Konsolidierungskurs, Abbau der Arbeitslosigkeit, außenpolitische Kontinuität," *FAZ,* November 11, 1998: 1.

26. See, for example, "Lafontaines neue Kleider," *FAZ,* February 14, 1999: 34. For a perspective from the former finance minister himself, see Lafontaine (1999, 222ff.).

27. "Der Bundesfinanzminister verteidigt 'die bittere Medizin der Gesundung,' " *FAZ,* June 25, 1999: 1.

28. For a more comprehensive analysis of this interpretive pattern, see Seeleib-Kaiser (2001a; 2001b).

29. Sten. Prot. 15/32, 2489.

30. Although this paper never received the status of an official party document, it heavily influenced the debate within the SPD (Gohr 2003, 46–49), especially in the realm of labor market policies (Heinelt 2003).

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