

# *The End of the Conservative German Welfare State Model*

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## **Abstract**

*This article investigates change and continuity of the German welfare state at the institutional as well as at the outcome level in the domains of family, pension and unemployment policies. It shows that seemingly path-dependent policy adaptations – largely through drift, layering and recalibration – have led to a paradigmatic and indeed transformational adjustment of welfare state arrangements. The unsettling of institutional arrangements and functional underpinnings of the welfare state in the wake of German unification constituted a ‘critical juncture’ facilitating the establishment of new ‘interpretative patterns’ that have subsequently replaced previous assumptions relating to the economic benefits of social policies and reordered the aims and goals of the welfare state.*

## **Keywords**

*Germany; Welfare state change; Interpretative patterns; Pension; Unemployment; Family*

## **Introduction**

Traditionally, Germany has been categorized as *the* archetypical conservative welfare state (Esping-Andersen 1990), a categorization not systematically questioned in much of the comparative welfare state regime literature (for a review, see Ferragina and Seeleib-Kaiser 2011). For many scholars Germany was largely stuck and unable to reform its coordinated market economy and welfare state arrangements at the turn to the 21st century, due to a large number of veto points and players and the dominance of two ‘welfare state parties’ (Heinze 1998; Kitschelt and Streeck 2003; Leibfried and Obinger 2003; Schmidt 2002). This assessment was very much in line with the image of ‘frozen welfare state landscapes’ (Esping-Andersen 1996; see also the introductory article to this special issue by Béland and Powell). A new consensus, however, seems to have emerged in the past decade, highlighting significant and indeed transformative welfare state changes since the turn of the century (see Bleses and Seeleib-Kaiser 1999, 2004; Streeck 2009; Hinrichs 2010).

This article investigates change at the institutional as well as at the outcome level in the domains of family, pension and unemployment policies. Using Peter Hall’s (1993) conceptualization of change, it is shown that *seemingly* path-dependent policy adaptations – largely through drift, layering (Mahoney

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and Thelen 2010) and recalibration (Pierson 2001) – have led to a paradigmatic and, indeed, transformational adjustment of welfare state arrangements in Germany. The concepts of drift, layering and recalibration relate to the modes of change. Policy drift largely occurs due to changes in the environment and layering can be understood as the introduction of new rules on top or alongside existing ones (Mahoney and Thelen 2010; see also the introductory article to this special issue). According to Pierson (2001: 425), recalibration seeks to bring welfare states in line with contemporary goals and demands for social provision. Peter Hall's (1993) conceptualization of policy change relates to the degree of change; first order change focuses on the adjustment of instruments, second order change on the adjustment and choice of instruments, while maintaining the overall policy aim, and third order change encompasses a comprehensive reordering of instruments and aims.

How can we explain transformative changes in a country, which has been characterized as 'semisovereign' (Katzenstein 1987), due to its many 'veto players' (Tsebelis 2002)? It is argued below that the unsettling of institutional arrangements and functional underpinnings of the welfare state in the wake of German unification constituted a 'critical juncture' (Capocia and Kelemen 2007) that has enabled the establishment of new 'interpretative patterns' (Gerhards 1995) that have subsequently replaced previous assumptions relating to the economic benefits of social policies and reordered the aims and goals of the welfare state. Mahoney (2002: 6) defines critical junctures as 'choice point[s] when a particular option is adopted among two or more alternatives', defined by antecedent historical conditions; choices during a critical juncture trigger a path-dependent process that constrains future choices (Capocchia and Kelemen 2007: 348).

The article progresses in the following way: first, I provide a section outlining some methodological and conceptual issues relating to measuring policy change, before I briefly sketch the historic reference point for the analysis. I then analyze and assess policy change and continuity in the domains of family, unemployment and pension policies. The fourth section, seeks to explain policy change.

## Measuring Policy Change

For any assessment of policy change, we need a systematic conceptualization of what constitutes change: first, a reference point; and, second, tools or categories to be able to judge whether policy developments constitute a *significant* change (Seeleib-Kaiser 2002). One is well advised to take a longer time period into consideration when determining a reference point, as an analysis of short time periods will inevitably tend to have a stability bias. This article takes the early 1980s as the reference point, a time when the post-Second World War welfare state growth had reached its limits (Flora 1986) and international observers had identified *Modell Deutschland* (Markovits 1982) as being able to cope with the storms of turbulent economic times, largely due to its political economy and welfare state arrangements. Furthermore, the ideal-typical classification of welfare state regimes introduced by Esping-Andersen

(1990, 1999) relies on data from 1980, a point in time at which according to Danforth's (2014) longitudinal analysis – including a broader array of institutional *and* outcome variables – welfare regimes have become salient.

Although public social spending has been used by many observers as an indicator for welfare state generosity as well as measuring policy continuity and change (cf. Kittel and Obinger 2003; Brady 2009), Esping-Andersen (1990) identified the work–welfare nexus as the core dimension of institutional welfare state arrangements and suggested using the concept of decommodification. Subsequently, Esping-Andersen (1999) added the concept of defamilialization to assess the care–welfare nexus. In my assessment of policy change and continuity I rely on institutional variables relating to these two concepts, such as replacement rates, benefit duration and coverage. However, as socio-economic conditions have undergone significant change during the past decades, I additionally include outcome indicators, as insufficient adaptation of institutional arrangements to changed external circumstances can lead to policy drift (Mahoney and Thelen 2010: 17); i.e. we need to include outcome variables to assess whether a policy is still effective in achieving its goals under changed circumstances.

As the various social policy domains can follow different reform trajectories and specific (social) policies can determine politics (Lowi 1972; Seeleib-Kaiser 1995; Kasza 2002), we need to take into account a broad array of social policies to be able to assess and explain policy changes. I suggest focusing on family policy, pensions and unemployment insurance, thereby covering 'old' and 'new social risks' (Bonoli 2007). Reforming family policy from a largely transfer-intensive approach towards a more 'active' policy is seen as a cornerstone of those advocating for social investment and activation policies (Bonoli 2013). Pensions and unemployment insurance have been key programmes included in Esping-Andersen's (1990) seminal work and the construction of the decommodification index; more recently both programmes have been identified in need of reform or even retrenchment as they are said to focus on compensation instead of on social investment, which has become a primary focus of social policy reforms in Europe (for a critical review of the social investment literature, see Nolan 2013). At the outcome level, crude indicators to assess the 'effectiveness' of welfare state arrangements are the degree of social inequality and levels of poverty. Degrees of coverage and replacement rates are key for measuring policy continuity and change over time, especially in a conservative welfare state relying heavily on earnings-related benefits. From a Keynesian welfare state perspective (Korpi 2003), low unemployment rates and a low incidence of low-wage employment can also be understood as hallmarks of an effective welfare state approach. The level of female employment can be used as a crude indicator for assessing the degree to which women have access to the labour market.

## Historical Overview

Historically, the German welfare state heavily relied on social insurance and earnings-related benefits as the organizing principles of social protection for workers and on social assistance for the non-working poor. This

differentiation between workers and the non-working poor can be characterized as an institutional dualism (Leibfried and Tennstedt 1985). Within the comparative literature the German welfare state has been characterized as the archetypical conservative or Christian-democratic welfare state, coinciding with a strong male-breadwinner model (Esping-Andersen 1990; Lewis 1992). Important elements of continuity have characterized welfare state development from Bismarck to unified Germany. Major reform steps in this period were the 1957 pension reform, the 1969 Labor Promotion Law and the extension of the West-German welfare state to 'eastern' Germany after unification (Ritter 2007).

The 1957 reform had as its leitmotif the public guarantee of the achieved living standard during old age. As a consequence of the reform and subsequent policies the net replacement rate for the standard pensioner reached 70 per cent during the mid-1970s, which led to a significant reduction of poverty. A core aim of the 1969 labour market policy reform was to abolish 'substandard' employment. This was to be achieved by the introduction of active labour market policy, largely focusing on further education and training, as well as a quite restrictive definition of 'suitable work'. A wage replacement rate of 68 per cent of previous net earnings was introduced to ensure the achieved living standard. Thus, social protection for unemployed workers was achieved by provision of occupational status protection and generous income maintenance. The non-working poor, who did not qualify for social insurance schemes, had to rely on means-tested social assistance; however, benefit levels were increased significantly, and eligibility restrictions as well as work rules for the 'employable poor' were liberalized. By expanding the coverage and increasing the benefits of the social insurance schemes to a level maintaining the achieved living standard, the political actors of the post-Second World War era also pursued the goal of poverty reduction and making social assistance receipt residual (Alber 1986; Bleses and Seeleib-Kaiser 2004).

Indeed, over time an ever-larger proportion of the population was covered through social insurance schemes, leading Leisering (2009) to argue that Germany had embarked on a route towards 'quasi-universalism'. This development coupled with low unemployment rates and benefits of social insurance schemes linked to rising earnings, resulted in low poverty and inequality. Family policy was transfer-intensive and aimed to support the family as an institution, as part of a strong male breadwinner model (Lewis 1992).

## Policy Reforms

The pension and labour market reforms of the early 2000s have reversed the road to 'quasi universalism' and once again reinforced the institutional dualism, differentiating between social protection insiders and outsiders. Social protection insiders can be defined as individuals, usually workers in standard employment relationships (labour market insiders), covered either through comprehensive statutory social protection *or* by statutory entitlements, complemented or supplemented by private/occupational social protection to a level that maintains living standards. Outsiders are defined as the (working)

poor that would have to rely on modest (largely means-tested) public provision, primarily intended to ameliorate poverty (Seeleib-Kaiser *et al.* 2012). The reforms within the family policy domain have clearly shifted the focus from a transfer-intensive towards an employment-oriented family policy.

### *Pensions*

Until the late 1990s, the German statutory old-age insurance scheme witnessed only incremental reforms, the most important of which was the reversal of early retirement policies that were used to smooth structural economic adjustment processes since the 1970s (Ebbinghaus 2006). Nevertheless, the principle of guaranteeing the achieved living standard during old age, the leitmotif of social protection since the pension reforms of 1957, was not fundamentally questioned until the reforms following the turn of the 21st century, when the statutory old-age social insurance system underwent significant change. The reforms enacted since 2001 included major future reductions in the net replacement rate, from about 70 to 52 per cent, and a partial privatization (Leisering 2011), which in effect put an end to the guiding principle of guaranteeing the achieved living standard for pensioners. The aim of these policies was to stabilize social insurance contributions with a maximum of 22 per cent of gross wages by 2030 (Berner 2009: 134).

The partial privatization over time can be categorized as a *layering*, as old-age income from the statutory old-age insurance will decline over the years for future pensioners in line with reductions in the replacement rate, but those who have contributed to the subsidized private and occupational schemes are 'promised' a combined replacement rate of 70 per cent, i.e. the same level as previously provided exclusively by the public scheme. Hence one could argue that the reform followed a path-dependent trajectory, as it did not question the public guarantee of the achieved living standard for pensioners in the short term and introduced a partial privatization, or layering, of the pension system over a 30-year period. Although overall occupational pension coverage has increased in all sectors since the pension reform of 2001, only about 50 per cent of workers in the private sector are covered by occupational schemes; furthermore, coverage is very uneven between industrial sectors, with the lowest coverage rates in certain service sectors with a high percentage of female workers, such as the retail and hospitality sector (Seeleib-Kaiser *et al.* 2012).

According to the German pension expert Schmähl (2007), the comprehensive pension reform will very likely once again lead to an increase in pensioner poverty, especially among those not covered by occupational pension schemes. The depth of *future* social protection dualism can be estimated by analyzing prospective replacement rates derived from public and occupational pensions for current workers. By 2030 an average worker will have to have contributed 37 years to the statutory pension scheme to be entitled to a statutory pension above the social assistance level. *Future* pensioners will only be able to enjoy an old-age income with an adequate replacement rate level of approximately 70 per cent, if they are covered by additional

occupational or private arrangements (Schmähl 2007; Hockerts 2011: 294–324).<sup>1</sup> Based on simulations by the Organisation for Economic Co-operation and Development (OECD), the prospective net replacement rate of the public scheme will be 55.3 per cent for a pensioner with an average wage; the net replacement rate for workers covered by an occupational pension scheme will be 76.4 per cent (OECD 2013: 143).<sup>2</sup> The low future replacement rates will lead to a higher percentage of pensioners once again not being able to maintain their achieved status of living, the overarching aim of the social policy reforms of the post-Second World War era, and having to rely on the minimum income benefit for pensioners, which is set close to the social assistance level. Thus, this pension reform, once fully implemented by 2030, can be clearly categorized as a third order change, based on a new policy paradigm (see also Berner 2009: 134f.).

### *Unemployment insurance*

Despite incremental measures to reform the unemployment insurance scheme since the 1970s, the degree of income protection, as well as occupational status maintenance, *significantly* declined with labour market reforms enacted and implemented since the late 1990s. With the increase of long-term unemployment during the 1980s and 1990s we were already witnesses of significant *policy drift*, as an increasing proportion of the unemployed were no longer eligible for unemployment insurance benefits. The most prominent reforms, however, were the so-called Hartz reforms of 2003/04, which reduced the maximum duration of unemployment insurance from 32 to 18 months,<sup>3</sup> with the regular benefit being limited to 12 months. In addition, the reforms integrated the former earnings-related and means-tested unemployment assistance with the social assistance programme for the unemployed. Short-term unemployed workers continue to receive an earnings-related benefit between 60 and 67 per cent of their previous net income, depending on family status, even after the implementation of the reforms. However, long-term unemployed workers with an unemployment spell of more than 12 months or those who do not qualify for the insurance benefit are only entitled to a means-tested transfer at the level of social assistance, leading to a reduction in the net replacement rate from 54 per cent to 17 for a single with a previous average wage. For recipients of this new jobseeker benefit *any job* offer is deemed *suitable* (Seeleib-Kaiser and Fleckenstein 2007). The various reforms since the 1990s have once again contributed to a deepening and widening of the dualistic structure of the German unemployment compensation scheme, whereby the short-term unemployed continue to rely on relatively generous unemployment insurance payments and the long-term unemployed, or those who do not qualify for unemployment insurance benefits, have witnessed severe cuts to their benefits. The revised definition of suitability, i.e. the requirement to accept any job offer, differs significantly from the aims of status protection and to abolish 'substandard employment'. These reforms together with shifting unemployed workers, implicitly and explicitly, from the unemployment insurance programme onto the unemployment assistance programme can be interpreted as a third order change, as the underlying

logic is no longer status protection, the protection of the achieved living standard and the abolishment of 'substandard employment', but seemingly an understanding that any job is 'better' than unemployment.

### *Family policy*

Family policies have seen a more or less continued expansion since the late 1980s. The most important reforms in the 1980s and 1990s included: the introduction of parental leave with a maximum duration of three years; the introduction of child-care credits into the statutory pension scheme; the entitlement to days off from work to care for dependent sick children; and the introduction of an entitlement to publicly provided or subsidized childcare for children from three to six years of age. Although these incremental reforms each only changed a very small element of the strong German male-breadwinner model, in their sum they laid the foundation of the more transformative reforms to come. These reforms included: the introduction of an earnings-related and gender-neutral parental leave benefit (capped at a maximum of €1,800 per month) for the duration of 12 months (with an additional two 'partner' months); and a massive expansion of childcare provision for children between the ages of one and three. Since August 2013, every child over the age of one is entitled to a place in publicly provided or subsidized childcare. The introduction of the two main family policy reforms has marked a clear departure from the previous policy path (Fleckenstein *et al.* 2011) and can be interpreted as a *recalibration* and a move away from a strong male breadwinner model towards a Scandinavian approach in family policy. Hence, also within the domain of family policy we can speak of a third order change.

### **Socio-economic Outcomes**

As indicated in the introduction, analyzing institutional arrangements and government policies excluding outcome variables might lead to misinterpretations, as such an approach cannot necessarily identify policy drift, which can occur without active government intervention. Obviously, socio-economic outcomes can be caused by a number of factors; however, 'non-interventions' are as relevant as policy interventions and politicians cannot be relieved from their responsibility through inaction (Luhmann 1987: 79). According to Danforth's (2014) longitudinal analysis of welfare regimes a split between liberal and conservative welfare states can only be identified if poverty measures are included in the analysis – highlighting the importance of outcome measures for regime analysis (also see Ferragina *et al.* 2015). Outcome variables included in the analysis are: poverty and inequality measures; female employment; unemployment rate; long-term unemployment; and low-wage employment.

Poverty, defined as less than 50 per cent of median income, stood at 5.3 per cent of the population in 1981. Overall inequality was also comparatively low – with a Gini coefficient<sup>4</sup> of 0.244 in 1981, Germany had one of the lowest levels of income inequality in the OECD world. Inequality and poverty have increased significantly over the years in Germany; the Gini coefficient has increased to 0.28 and the poverty rate (less than 50 per cent of median



income) has reached 9.6 per cent (an increase of more than 4 percentage points since 1981); using the now more common poverty threshold of households with less than 60 per cent of median income, the poverty rate increased from 10.6 to 16.4 per cent in 2010 (LIS 2013); poverty among the unemployed in 2012 stood at a staggering 69 per cent, the highest level in the EU (Ferragina *et al.* 2015), a result of ever fewer unemployed receiving an earnings-related benefit. Also poverty (less than 60 per cent of median) among pensioners has increased significantly from 18 per cent in 2000 to 20 per cent in 2010 (LIS 2013). Although the primary aim of the German welfare state was to promote social stability and status protection, we observe a significant implicit policy drift, as the welfare state has become significantly less effective in guaranteeing the achieved living standard and realizing low poverty levels.

From a labour market perspective, the German welfare state has also undergone a significant transformation. Unemployment, and long-term unemployment in particular, are significantly higher in 2010 than they were in the early 1980s. However, it has to be highlighted that by the early 1980s long-term unemployment had already increased significantly since 1975, when it stood at a rate of 8 per cent of all unemployed (Alber 1986: 59). Nevertheless, the changes in labour market regulations and social protection for the unemployed during the late 1990s and early 2000s are very likely to have contributed to an overall increase in the employment rate,<sup>5</sup> a reduction in unemployment as well as in long-term unemployment. However, they have at the same time facilitated an increase in 'atypical' work, including (involuntary) part-time employment, temporary or fixed-term contracts, agency work and low-wage work. The proportion of workers with 'atypical' jobs, or in other words the size of the precariat, has increased from 20 to 25 per cent of the workforce in the first decade of the 21st century (BMAS 2013: XXV). The incidence of low pay, defined as the share in total dependent employment of workers earning less than two-thirds of median earnings has increased from 14 (1990) to 20 per cent (2010). Overall, we can characterize these developments as clear indications of significant *recommodification* processes within the labour market – taking the aim of abolishing substandard employment as a reference, the labour market development is clear evidence of a third order change. Taking the female employment rate as a proxy indicator of defamilialization we have been witnesses of significant change as well, as the female employment rate increased from about 50 per cent in 1980 to 66 per cent in 2010 – the steepest increase occurring in the 2000s.

## Policy Change and Continuity

Including institutional and outcome variables in our analysis clearly corroborates that we have been witnesses of 'third order' policy changes since 1980 that have included policy drift, layering and recalibration. The most important and significant changes have occurred in the late 1990s and in the first decade of the millennium. The decommodification potential for a large proportion of the unemployed and *future* pensioners has significantly declined, whilst at the same time defamilialization has increased. Elsewhere, I have argued that these two processes can be characterized as a dual transformation of the German welfare



state, which could no longer be categorized as a conservative welfare state, if we took the mid-1970s or early 1980s as a reference point (Seeleib-Kaiser 2002, 2014; Bleses and Seeleib-Kaiser 2004). Table 1 provides an overview of the developments, displaying institutional and outcome variables.

Table 1

Outcome and institutional variables measuring policy change

	1980	1990	2000	2010
<b>OUTCOME VARIABLES</b>				
Poverty rate (40 % of median)	2.6	3	4	4.6
Poverty rate (60 % of median)	10.6	11.8	12.7	16.4
Inequality (Gini)	0.244	0.258	0.266	0.286
Female employment rate	49.6	52.2	58.1	66.1
Unemployment rate	3.8	7.2	10.7	8.6
Long-term unemployment rate	39.3	46.3	51.5	45.4
Low-wage employment (percentage of total)	N/A	13.9	15.9	20.5
<b>INSTITUTIONAL VARIABLES</b>				
<i>Pensions</i>				
Pension replacement rate/single	73	76	73	61
Pension prospective net replacement rate (base year 2010)				56
<i>Unemployment compensation</i>				
Unemployment insurance/maximum duration in months	12	32	32	24
Percent of unemployed receiving unemployment insurance benefit	51	42	44	32
Unemployment compensation net replacement rate/initial period (single/average wage)			60	59
Unemployment compensation net replacement rate/long-term unemployed (single/ average wage)			54	17
<i>Family policy</i>				
Parental leave/duration in months	0	36	36	36
Parental leave benefit (per month)	0	€307	€307	max €1,800
Childcare (number of places as a percentage of age group 0 < 3/3–6 years)	1.6/69.3	1.8/69.0	7.0/89.5	27.6/93.4

*Sources:* Poverty and inequality: LIS 2013; Unemployment rate: BMAS (2011); Employment/long-term unemployment statistics – OECD Employment and Labour Market Statistics, [http://stats.oecd.org/BrandedView.aspx?oecd\\_bv\\_id=lfs-data-en&doi=data-00310-en#](http://stats.oecd.org/BrandedView.aspx?oecd_bv_id=lfs-data-en&doi=data-00310-en#) (accessed 6 December 2015); Pension replacement rate – Scruggs *et al.* 2014; Pension prospective replacement rate – OECD 2012; Reciprocity rate: own calculations based on annual average number of unemployed and unemployment insurance benefit recipients from BMAS 2012; Unemployment insurance replacement rates – OECD Tax-Benefit Models, <http://www.oecd.org/els/benefits-and-wages-statistics.htm> (accessed 6 December 2015); childcare – Bleses and Seeleib-Kaiser 2004; Statistisches Bundesamt 2012.

*Notes:* For Gini and poverty rates, data is for 1981, 1989, 2000 and 2010; low-wage employment is for the years 1996, 2000 and 2010; long-term unemployment 1980 = 1983; childcare 1980 = 1985; 1998 = 2000; 2010 = 2012.

Taking a larger array of outcome variables relating to ‘old’ and ‘new social risks’ into account<sup>6</sup> and employing a cluster analysis of welfare states in the EU (EU14) with pooled data for 2005–12, Ferragina *et al.* (2015) support the finding that Germany can, indeed, no longer be identified as a conservative welfare state, but clusters with Britain in the liberal welfare state cluster. High levels of poverty among the unemployed are the most defining feature of liberal welfare states. A clustering of EU14 countries only including ‘new’ social risk variables would provide a different outcome, namely Germany being part of the social democratic welfare regime (Ferragina *et al.* 2015; see figure 1).<sup>7</sup>

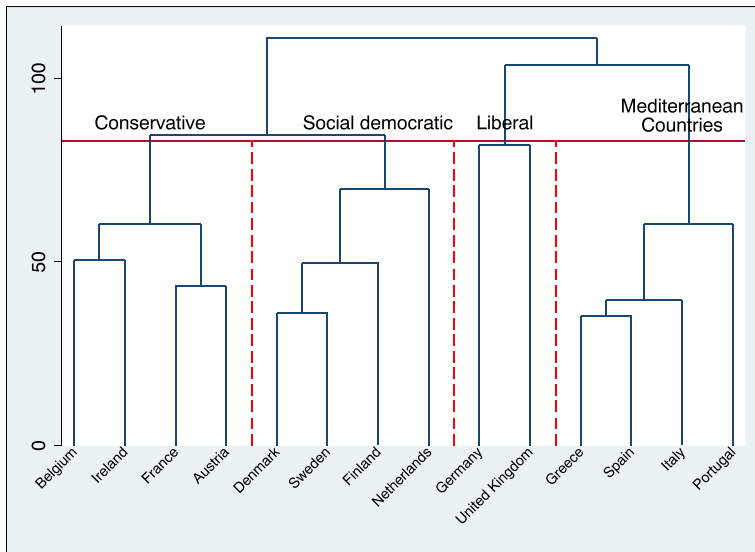
The data presented clearly corroborate significant paradigm shifts of the welfare state, leading to strong dualism with respect to social protection during old age and unemployment and a transformation of family policy largely supportive of a strong male breadwinner model towards a Scandinavian-style employment-oriented approach.

## Explaining Policy Change

How can we explain these policy changes? Within the comparative welfare state literature, power resources and partisanship have been identified as key variables determining social policy outputs and outcomes (Korpi 1983;

Figure 1

Country clusters by welfare state outcomes



Source: Ferragina *et al.* 2015

Esping-Andersen 1990; Huber and Stephens 2001; Brady 2009), whilst the *Varieties of Capitalism* (VoC) literature (Estévez-Abe *et al.* 2001; Mares 2003) has argued that the generous social protection system, especially with regard to the risk of unemployment, in Germany can be partly explained by the support of organized business and their interest in workers acquiring specific skills. Based on the veto player theorem (Tsebelis 2002) and the large number of veto players (Katzenstein 1987; Schmidt 2002), comprehensive policy reform in Germany would seem unlikely. The key social policy reforms since the late 1990s and early 2000s, however, have not followed any of these theoretical propositions, as the high number of veto players did not seem to block reform, a Social Democrat-led Government significantly retrenched the statutory unemployment and old-age insurance schemes and a Christian Democratic minister within a grand coalition Government enacted major family policy reforms.<sup>8</sup>

In this section I argue that socio-economic challenges unsettled previous policy approaches and preferences, and that ideational change<sup>9</sup> – to a significant degree advanced by employer associations – among the dominant political actors and political leadership have played a key role in determining new policy solutions (Bleses and Seeleib-Kaiser 1999, 2004; Stiller 2010). Highlighting the importance of ideational change in explaining policy change is not to negate that the processes of deindustrialization, globalization, an ageing society and the huge challenges associated with German unification played a role. Clearly, these were important processes that impacted on the economic and financial underpinnings of the existing social policy arrangements. For instance, increased deindustrialization, with a declining proportion of the workforce requiring specific skills, and an increasing female labour force participation, especially among those with high general skills, undermined the functional underpinnings of the welfare state, whereby the predominance of workers with specific skills required a comprehensive and generous unemployment insurance scheme and childcare services could be neglected, as these were to be provided by the non-working mother (Fleckenstein *et al.* 2011). In addition, an ageing society and very low fertility rates since the 1970s will inevitably lead to a significant population decline (without immigration on a massive scale) and impact the social insurance schemes (Deutscher Bundestag 2002). Moreover, specific political factors, such as a political scandal at the Federal Employment Office (Fleckenstein 2011), the influence of financial institutions (Hockerts 2011: 294–324) and electoral politics by the Christian Democratic Party (CDU) in relation to family policy reforms (Seeleib-Kaiser 2010), were important elements of the causal pathways leading to the specific legislative changes. The aim of the Christian Democrats to attract female voters and the demographic development as such can be considered as necessary, but insufficient variables to explain the policy change in the domain of family policies.

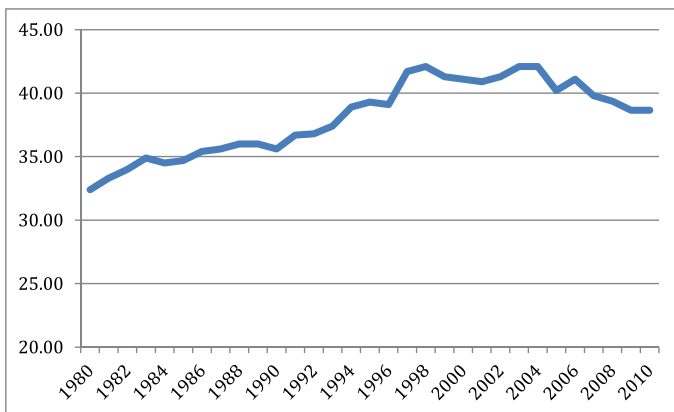
Notwithstanding the various socio-economic developments and the specific causal pathways relating to the individual legislative acts, crucial to explaining policy change of the contribution-based social insurance schemes has been the impact of German unification (Ritter 2007). As a result of low economic

growth and the collapse of the economy in former East Germany after unification, unemployment increased quickly, reaching more than 12 per cent in the West and almost 20 per cent in the former East Germany by the mid-1990s. As the social insurance schemes were extended to the eastern parts of the unified country, huge west–east transfers were, and continue to be, funneled through the social insurance schemes to fund the benefits for the unemployed and pensioners. For instance in 2014 (i.e. more than 20 years after unification), the surplus in the ‘west German’ pension system more than compensated the annual deficit of €16 billion in the ‘east German’ pension system. According to government estimations the ‘west German’ pension system will continue to subsidize the ‘east German’ pension system for years to come (BMAS 2014: 31–2). Without a change of the financing structure, for instance through a significantly higher reliance on general revenues, the high unemployment rate (in the Eastern part of the unified country) necessitated increasing social insurance contributions, which reached a level of more than 40 per cent of gross wages in the late 1990s, or significant cutbacks and retrenchment of unemployment insurance and pension benefits (see figure 2).

The high social insurance contributions were said to have a detrimental impact on employment growth and the overall competitiveness of the country as a place to do business in a globalized world. These increased costs contributed to fear among employers and politicians that Germany could be losing out in the global economic competition, should social insurance costs not be brought under control. The ensuing competitiveness debate dominated the domestic political discourse and roughly lasted from 1993 to the early

Figure 2

Social insurance contributions as a percentage of gross wage



Source: BMAS 2011: 7.7

2000s (Seeleib-Kaiser 2001). In other words, unification and the decision not to sufficiently raise taxes, but to fund the social dimension of German unification largely through the social insurance schemes, constituted a *critical juncture* for the social policy development in the domain of the earnings-related unemployment and pension schemes.

### Political Discourse and Interpretative Patterns

Political discourse and interpretative patterns (Gerhards 1995) are embedded in power relations. As Charles Lindblom (1977) pointed out a long time ago, employers enjoy a privileged position in the political decision-making process; moreover, they can act as protagonists, consenters or antagonists of policy change (Korpi 2006). As I show below, employers were crucial in promoting new 'interpretative patterns' justifying policy changes in all three domains, pension reform, unemployment insurance reform and family policy reform. Interpretative patterns 'combine various themes, set preferences among them, link the positions (pro and con) with the various themes, and set the various themes in relation to abstract values, which at the same time connect the themes on a generalized level' (Gerhards 1995: 224; author's translation).

Both major political parties, namely the CDU and the Social Democratic Party (SPD), largely accepted the employers' interpretation to reduce costs, which was embedded in the larger political discourse about the declining international competitiveness of German companies in the 1990s. Although Social Democrats and Greens initially were very skeptical about the argument advanced by employers and the then Christian Democratic–Liberal coalition Government, they eventually accepted that social insurance contributions had to be stabilized, if not reduced. The debates on globalization were strategically interwoven with arguments emphasizing the need for more personal responsibility, private provision and market reliance. These interpretative patterns guided much of the labour market and pension reforms of the late 1990s and early 2000s (Seeleib-Kaiser 2001; Marschallek 2004). Whilst globalization 'mandated' a reduction in social insurance contributions and can thus be characterized as a 'causal belief' (Goldstein and Keohane 1993), which was used as an ideational weapon (Blyth 2001), supporting families and providing them with more choice emerged as a new dominant interpretative pattern and was shared by the mainstream political parties by the 1990s. Subsequently, the ideational support by employers to develop a more employment-oriented family policy was crucial for the reforms in the early 2000s (Bleses and Seeleib-Kaiser 2004; Seeleib-Kaiser 2010; Fleckenstein and Seeleib-Kaiser 2011).

Starting in the 1980s and more forcefully since the 1990s, employers have actively pushed for a more dualized social protection system, while unions have supported a more universal approach (Naczyk and Seeleib-Kaiser 2015). Within the realm of social protection in old age, employers emphasized the necessity to reduce costs of the public pension system, starting in the late 1980s and more forcefully in 1990s, as the high costs were said to be undermining the competitiveness of German firms (Seeleib-Kaiser 2001;

Brosig 2014: 272–7), eventually acting as protagonists for significant benefit reductions and comprehensive changes of the system (Hegelich 2006). Employers' associations more or less unconditionally promoted the idea of expanding private and occupational pensions on a *voluntary* basis to partly 'compensate' for the benefit reductions in the statutory scheme (Deutscher Bundestag 2000). The unions opposed the proposed benefit reductions and claimed that it was possible to maintain the public guarantee of the achieved living standard within the statutory pension system (DGB 2000).

The governing Red-Green coalition justified the subsequent comprehensive pension reform of 2001 by using the argument of 'equity among the generations' as well as the necessity to reduce the level of social insurance contributions. The Social Democratic Labour Minister Walter Riester stated in Parliament:

As necessary and as painful as it was in the past to indicate that the statutory pension system alone can no longer guarantee the achieved living standard ..., we can declare today that those who participate [in private or occupational plans] will have a significantly higher overall old-age income (cited by Seeleib-Kaiser *et al.* 2011)

Overall, the Social Democrats justified the 2001 pension reform by arguing that it 'promoted individual responsibility, stabilized social insurance contribution rates, avoided poverty, [and] increased the income security of women during old age ...' (cited by Seeleib-Kaiser *et al.* 2011). The Christian Democrats fully supported the general reform path (cf. Brosig 2014).

In the realm of unemployment insurance, employers voiced concerns about 'lax' suitability criteria and costs of the unemployment insurance ever since the mid-1970s (Webber 1982). However, during the 1990s, the employers' associations forcefully argued for a significant retrenchment of the unemployment insurance scheme (cf. Murmann 1995) and called for limiting the maximum duration of unemployment insurance benefit receipt from 32 months for older workers to 12 months. They argued that the main goal of social policy reform must be the reduction of social insurance contributions, i.e. costs, while at the same time it was necessary to increase the incentives for the unemployed to take up jobs (FAZ 1997). Some representatives of employers' organizations were even calling for further cuts, such as limiting the duration of unemployment insurance receipt to six weeks for younger workers and six months for older workers. For the long-term unemployed, i.e. those in receipt of unemployment and social assistance, the President of the German Employers' Federation (*Bundesvereinigung der Deutschen Arbeitgeberverbände* [BDA]) demanded to lower the benefit level even below that of the general social assistance programme in order to increase the incentives to take up work (SZ 2003). In the words of its Chief Executive, 'It is still the case that it may be more beneficial for a skilled worker [*Facharbeiter*] to receive unemployment or social assistance than to take up work' (*Berliner Zeitung* 2002; author's translation).



By the early 2000s the 'modernizers' within the SPD had largely accepted the arguments put forward by the employers. At the forefront of the ideational turn was SPD Chairman and Chancellor Gerhard Schröder, who acted as a policy entrepreneur stressing the principle of self-responsibility of the unemployed and stated in 2001, 'There is no entitlement to laziness in our society. This means: every unemployed person who rejects a suitable job offer should face benefit reductions' (cited by Buhr 2003: 157; author's translation). A major political scandal at the Federal Employment Office surrounding statistical reporting created a political opportunity to advance a comprehensive unemployment insurance reform. The Red-Green Government appointed the Hartz Commission to propose reforms for the administration and governance of the Federal Employment Office. The report of the commission however also included far-ranging proposals to reform the unemployment compensation scheme (Fleckenstein 2011, 2013). In the spring of 2003, Chancellor Schröder stated in a widely received parliamentary speech called 'Agenda 2010':

... it will be inevitable to cut benefits . . . With our policies for a renewal of the social security system we will reduce the additional wage costs by reducing the social insurance contributions (cited by Seeleib-Kaiser and Fleckenstein 2007: 438)

The Confederation of German Trade Unions (*Deutsche Gewerkschaftsbund* [DGB]) opposed the reduction in duration of benefit receipt and argued – in line with VoC approach – that the comprehensive unemployment protection had a positive effect on skill formation. Furthermore, they emphasized that from an international comparative perspective Germany did not have a very generous unemployment insurance scheme regarding benefit duration, as the maximum duration was significantly longer in Denmark, France and the Netherlands. In short, the unions demanded that the system be kept unchanged (DGB 2003).

Within the domain of family policy a new interpretative pattern had emerged during the 1980s and 1990s, whereby families needed more support. Core to the interpretative pattern was the concept of parental 'choice', which included an expansion of measures to improve the reconciliation of family and work (Bleses and Seeleib-Kaiser 2004). After the Red-Green coalition Government had lost the 2005 elections and a new grand coalition Government was formed, the Christian Democratic Family Minister Ursula von der Leyen accelerated the speed of reform towards an employment-oriented family policy, which had only been timidly pursued by the Social Democrats. The policy change among the Christian Democrats can be considered as part of their electoral strategy to attract more female voters. Von der Leyen used ideational leadership (Stiller 2010) and 'brute' political force effectively to push through reforms against opposition from the conservative wing within the CDU, its Bavarian sister party and parts of the Catholic Church (Seeleib-Kaiser 2010). She argued that a reformed family policy would have a positive impact on fertility, improve human capital formation through early childhood education and provide mothers with more and better opportunities to re-enter the workforce after a short parental leave. Framing the

reform policy as a 'necessity' to increase the fertility rate and to ensure the long-term stability of the economy and the social security system was in line with the interpretative patterns put forward by the employers. Organized business emphasized that it would be greatly beneficial if mothers returned quickly to work after giving birth, as long-term leave policies would lead to a de-qualification of parents. In 2005, the President of the German Employers' Association stated, 'Based on the increased scarcity of skilled employees, we can no longer forgo the potential of highly qualified women and mothers' (FAZ 2005). The peak employers' association BDA (2008) supported the policy of expanding childcare provision, including the planned introduction of an entitlement to childcare for children older than one year in 2013, as part of its strategy to promote employment of skilled women, thereby providing vital political backing for the 'modernizers' within the CDU (Seeleib-Kaiser 2010).

Core to the political discourse in the 1990s and early 2000s was to limit, and eventually reduce, the level of social insurance contributions after they had increased significantly in the wake of German unification. However, political actors did not explicitly link the increase of the social insurance contributions to German unification, as this might have been perceived as questioning their support of the unification process (Ritter 2007: 52–5). As has been shown, employers were able to effectively push for a new interpretative pattern, whereby the primary aim of social policy was no longer to maintain status protection and provide earnings-related benefits at a level supporting the achieved living standard, but cost control with the aim of reducing the social insurance contributions as a necessity to stay competitive in a globalized world. Although the employers were clearly the protagonists in the process of redefining the interpretative pattern, the political parties had to accept it for it to become dominant. After many years opposing the interpretative pattern, the Social Democrats and Greens finally accepted it during their tenure in government. The story with regards to the changing interpretative patterns within the domain of family policy differed somewhat. Initially, the Social Democrats had developed an interpretative pattern, whereby an employment-oriented family policy was beneficial, if not crucial, for the success of the German economy in an era of skill scarcity, which was eventually accepted by the modernizers within the CDU. Once the employers had signed up to the new interpretative pattern for an employment-oriented family policy, it had the potential of becoming dominant, as it provided the necessary legitimating support for the modernizers within the CDU.

## Conclusion

This article has highlighted the need to take a long-term perspective when analyzing policy continuity and change. Incremental policy change occurs on a regular basis, and the social policy development in Germany for much of the 1980s was no different. By analyzing policy developments since 1980 it was possible to place the developments before and after German unification into perspective. German unification constituted a critical juncture, which eventually put Germany on a path for transformational change. Once the decision not to significantly increase general taxation, but to fund German

unification in large part through the social insurance schemes had been taken and widely accepted by the political parties, benefit cutbacks and ultimately comprehensive reforms of the pension and unemployment insurance became inevitable, as the rapidly increasing social insurance contributions were widely perceived to place pressure on the competitiveness of German companies. Globalization became a causal belief for the need to reform social insurance schemes.

Ideas and causal beliefs are core to explaining continuity and change, as a changed social construction and a reinterpretation of the economic costs and benefits of social policy have provided the causal legitimation. The empirical analysis of the political discourse and the interpretative patterns has unveiled that German employers no longer seem to require generous public unemployment or pension programmes for skill formation and retention, but have identified the potential pool of skilled female workers as core for the long-term success and sustainability of the economy.

The analysis has also shown that it is useful to compare various policy domains within one welfare state as these might follow different logics. Whereas the public pension system has undergone a process of layering, the unemployment insurance programme for a long time has been characterized by drift, as ever more unemployed became reliant on the unemployment assistance programme. Within the domain of family policy we have been witnesses of a comprehensive recalibration. These policy developments taken together make it no longer sensible to categorize Germany as a conservative welfare state. The dualized pension system for future pensioners looks remarkably similar to pension systems in liberal welfare states, such as the UK and the USA, where pensioners are largely dependent on complementary occupational (or private) provision in order not to be poor.<sup>10</sup> Also the unemployment insurance only provides somewhat adequate benefits for the short-term unemployed and no longer guarantees occupational status protection and the achieved standard of living. The percentage of the unemployed receiving earnings-related unemployment insurance benefits in the early 2000s declined below the level witnessed in the USA (Seeleib-Kaiser *et al.* 2012), in terms of replacement rates for the long-term unemployed the OECD tax benefit model identifies a decline to more or less the extremely low rates seen in the UK, and the suitability criteria relating to job offers is more or less identical to those found in liberal welfare states, as the previous occupational status is no longer protected. Family policy, however, has been transformed into a different direction and displays very similar elements to those found in Scandinavia. Although it is unclear how to label Germany after decades of social policy reform, it is clear that social policy has undergone a comprehensive transformation and no longer warrants labeling Germany a conservative welfare state.

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## Notes

1. However, it has to be highlighted that the calculations are all based on relatively optimistic assumptions and do not take into account possible cohort effects, due to the boom and busts on the equity markets.
2. The theoretical calculations are based on national parameters and rules applying in 2012. They relate to workers entering the labour market in that year at the age of 20.
3. In 2008, it was again increased to 24 months for older workers.
4. The Gini coefficient is commonly used to measure inequality and varies between zero, which reflects complete equality, and 1, which indicates complete inequality.
5. The overall employment rate has increased from 72.9 (2007) to 76.3 per cent (2011), with significant increases in the employment rate among older workers (aged 55–64) from 51.3 to 59.9 per cent (BMAS 2013: 482).
6. Variables included in the cluster analysis: poverty, Gini, child poverty, youth poverty, poverty among male workers, poverty among pensioners 75+, poverty among the unemployed. Proxy outcome indicators for policies addressing new and old social risks: pension replacement rate, unemployment rate, youth in education and female employment rate.
7. However, it has to be highlighted that this cluster analysis is quite sensitive to the choice of indicators and countries included.
8. I am unable to elaborate potential alternative explanations more fully due to space limitations (cf. Bleses and Seeleib-Kaiser 2004; Seeleib-Kaiser 2010).
9. For a theoretical argument relating to the importance of ideas in processes of policy change, see Hall (2010).
10. As already highlighted by Esping-Andersen (1990: 25–6), social protection dualism is a key feature of the *liberal* welfare state.

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