

THE END OF A MODEL ?

**CRISIS AND TRANSFORMATION OF THE
GERMAN WELFARE STATE**

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Zusammenfassung

1997 überstieg die Zahl der Rentner, Arbeitslosen und Sozialhilfeempfänger erstmals die Zahl sozialversicherungspflichtiger Arbeitnehmer in Deutschland. Dies ist besonders auf den seit 1984 forcierten Vorruhestand und den Anstieg der Arbeitslosigkeit zurückzuführen. Das Problem steigender Sozialausgaben wurde nach 1990 durch den Umfang des Vorruhestandes und der Arbeitslosigkeit in den neuen Bundesländern verschärft. Versuche einer politischen Problemlösung beschränkten sich zunächst auf eine Erhöhung der Sozialbeiträge und Leistungskürzungen. Erst zur Jahrtausendwende wurden weitere Reformvorstellungen entwickelt, die jedoch am Problem abnehmender Handlungsfähigkeit der Politik scheiterten. Die 1990er Jahre offenbarten die Grenzen einer von drohenden Politikblockaden geschwächten bundesstaatlichen Verfassung. Gegenläufige Parteienmehrheiten in Bundestag und Bundesrat, die Zunahme der Zahl der Gliedstaaten und Landtagswahlen nach der deutschen Vereinigung sowie Veränderungen des Parteiensystems und des Parteienwettbewerbs haben die Krise im politischen System mit verursacht. Hinzu trat eine abnehmende Fähigkeit zum Interessenausgleich und zur Selbstregulierung der Arbeitsmarktparteien. Anders als in den meisten Industrieländern ist es daher in Deutschland bislang nicht gelungen, den Wohlfahrtsstaat dauerhaft auf neue Herausforderungen einzustellen. Die jüngsten Reformansätze (Riester-Rente, Rürup-Vorschläge und Hartz-Reformen) beinhalten jedoch Strukturreformen, die das deutsche Wohlfahrtsstaatsmodell auf neue Bahnen lenken.

Abstract

In 1997 the number old age pensioners, jobless persons and those receiving pauper relief exceeded the number of wage earners in Germany for the first time. This had been caused mainly by active early retirement policies starting in 1984 and by more than four Million unemployed. Problems of social spending have been worsened after 1990 due to a steep rise of unemployment and early retirement in the new Eastern states. Governments initially responded by raising social security contributions and benefit cuts at first. More fundamental reform measures were not discussed before the turn of the millennium. They failed, however, due to shrinking capacities to act on the federal government's part. Unified Germany has been plagued by political gridlock problems. Opposing majorities in the national Parliament and the Federal Council, an increase in the number of constitutional states and elections as well as a changing party system led to political near-immobility. Besides, the traditional corporatist consensus and the self-regulatory capacities of employer associations and unions declined. As a consequence Germany, in contrast to other OECD countries, has failed to meet the challenge of welfare state reform up to now. Though recent approaches like the so called Riester-pension, the Rürup-proposals and particularly the Hartz-reform package, broke new grounds for a modified welfare state model in Germany.

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Introduction

Since its very beginning in the late 19th century German welfare capitalism has been more than a social policy project. It did not target the impoverished but aimed at social integration of the working class. The main goal was to prevent social positions defined by occupational and financial status from becoming fragile in cases of sickness, occupational accidents, temporary unemployment and old age. After the Second World War, West Germany's economic success was said to rest on an all-embracing model of welfare policies and industrial governance promoting social peace and industrial productivity. It was not before the outset of the 21st century that the old-established *Bismarckian* concept of a work-based social security state was threatened with collapse. A closer look reveals, however, that critical factors for decline have already emerged in the early 1980s. In 1984 a vast parliamentary majority backed by a productivity coalition of Unions, Employers Associations and the Government agreed on a programme of massive early retirement in order to disburden the labour market. The same approach was adopted in East Germany on an extend scale from 1990 onwards when the still prosperous West German Federal Republic took over the crisis-ridden socialist German Democratic Republic.

As a general strategy the German social-security schemes have been used to compensate generously large parts of the workforce afflicted by industrial modernisation policies. In contrast to other industrialized countries Germany shifted its low-productivity workforce off into the welfare system instead of employing social workfare policies or active re-integration programmes. The Early Retirement Act of 1984 caused a rise of old age pensioners in particular. Most often, early retirement and reductions of working hours did not result in additional employment but intensified work processes and put more working stress on the remaining workforce. The welfare state, thus, ceased to act as a device for utilizing the workforce in a sustainable manner and to its full extent. It did no longer activate to work, but was used to get rid of parts of the workforce. As a result, the number of welfare recipients and the costs of social security increased, and eventually exploded after unification when the West German welfare state had been transferred to the de-industrialising new Eastern parts of the country. In 1997, for the first time, Germany had more welfare recipients than wage earners.

Of course, the German welfare state has been challenged by structural changes in the wake of globalisation and their impact on core areas of working life as well as by changing family structures, demographic developments and new attitudes towards redistributive policies. This, however, has been true for all industrialised countries. The following analysis¹ concentrates on factors

¹ I am indebted to discussions with the participants of various workshops of the Political Economy - Section of the German Political Science Association and to the Volkswagen Foundation for their support of one of these workshops. Special thanks are extended to Kenji Hirashima and the Social Science Research Institute of the University of Tokyo for their hospitality during a visiting appointment as well as to the participants of various lectures at Tokyo University, Waseda University, Sophia University and

which are more or less unique in the German case: misconceptions of the so called “Model Germany” approach, the failure of unification policies, and distinctive attributes of the German political system. Among the latter one finds constitutional defects of the federal system as well as particularities of party government and corporatist interest intermediation. The problem-solving capacities of the federal government have been highly restricted, whereas the once praised social partnership model suffers from declining associational capabilities in a less organized and less centralised society.

Since the late 1980s governments have failed to revive or only maintain the virtues of the traditional work-based social security system. As a result its different branches have been transforming slowly but steadily. Full coverage is no longer a principle but has been replaced by elements of self-provision. Market mechanisms have been added to the health system in particular. In a new approach the unemployment insurance scheme has been reorganized. Now status-protection is no longer the primary goal. The German welfare state appears to become redirected towards a basic needs concept and a broader financial base covering all tax-payers in the long run.

General characteristics of the German Welfare State

Peter Katzenstein (1987 pp. 168-92) portrayed the West German welfare state as a highly segmented polity governed by consensual politics, and offering generous social benefits. At first sight these fundamental features have not changed much during the last decades; however, closer inspection reveals a changing mode of social governance, fierce political conflicts over welfare reform issues and significant benefit cuts. Compulsory insurance for all employed persons is still provided by separate funds for pensions, health, unemployment, occupational accidents, and – since 1994 – nursing care. Subdivisions along regions and occupational status groups still complicate the system. Workers, employees, miners, and public servants are covered by different pension schemes. Several regional institutions are in charge of workers' pensions whereas employees' pensions are managed by a national insurance scheme. Civil Servants (*Beamte*) receive their old age benefits from current state budgets whereas public employees are covered by the national employees' insurance scheme plus a complementary insurance to put them on par with Civil Servants. Health insurance still rests on a multitude of local, regional and national institutions. Since 1996, wage earners have been free to choose their health insurance fund, so the status linkage has weakened. Accordingly, the government introduced a portfolio balance system to support those funds with bad risks, usually the old established local workers' general health funds (*Ortskrankenkassen*), which were founded in the 1880s as part of Bismarck's welfare initiative to attract workers

Ritsumeikan University. Werner Kampeter and Eun-Jeung Lee helped me to understand some peculiarities of the German welfare state compared to the Japanese model of social policy. The paper is part of a comparative project on policy responses to external shocks and economic slowdown in Germany and Japan.

away from trade union-led health funds (Katzenstein 1987, p. 172). None of the insurance schemes is based on asset funds. They all rest on current inflows of social security contributions (Pay as You Go System). Therefore the system is particularly vulnerable to economic slumps which open up a revenue-outlay gap immediately.

Both employees and employers still share most of the costs of social security by paying compulsory social-insurance fees in equal measure; however, state subsidies have steadily increased. In 1999, an eco tax was introduced to bolster the ailing old-age pensions budgets. Apart from work-related compulsory insurance schemes, a number of tax-financed social programmes implemented by state, federal and local governments can be found. These are meant to accommodate social needs that do not fall within the remit of the compulsory insurance funds. In addition to the poor, the long-term unemployed and asylum seekers, almost every citizen still benefits from some state allowances, such as those for children, accommodation, home construction, educational expenses, and saving (cf. Katzenstein 1987 p. 186). The share of general government contributions (that is, tax-financed contributions) to all kinds of social-security programmes rose from 26.9 (1991) to 32.5 per cent (2000). During this time, total employee contributions to social-security programmes remained constant at around 28 per cent of the total income for these programmes, whereas the total employers' contributions decreased from 42.5 per cent to 36.9 per cent (Eurostat 2003, p. 7). Despite the increase in state – i.e. tax-based – funding for these programmes, someone earning the average income has had to spend, from the mid 1990s onwards, more than 40 per cent of his or her gross income on statutory social insurance contributions (Hagen and Strauch 2001, p. 24). The subject of social-security contributions has become a hotly debated topic, as Germany is the only country that still levies such contributions on employers at such a level. It is argued that these non-wage labour costs have weakened the labour market, and continue to have a strong detrimental influence on the competitiveness of German companies. The aim to reduce the non-wage labour costs (i.e. the social-security contributions levied on employees and employers) has been one of the major goals of welfare state reform policies since the mid 1990s.

Throughout the 1990s, the German welfare state ran into deep trouble. Together with Japan, France, and Switzerland Germany experienced the lowest growth rates among the OECD-countries. Moreover it suffered from a welfare loss caused by the merger of West Germany with East Germany. In 1990 West Germany's Gross National Product amounted to 40.200 Deutschmarks per capita. The country was the second-richest in the European Union at that time. One year later GDP in United Germany had dropped by 6.000 Marks to 34.990 Marks per capita. The country fell back to the 6th rank in the European Union and to the 12th rank among the OECD member countries. To be sure, this was only a statistical effect. To unite a poor country with a rich country meant that all became poorer on average - simply because the number of inhabitants grew much more than economic output. As unemployment rose up to 20 percent in most East German regions, unification was one of the reasons for steep rises in

welfare state expenditures. 2.6 Million German re-settlers from the former Soviet Union, more than half of them old age pensioners or long-term unemployed, added to the social burdens resulting from unification.

Incremental remedial actions consisted of reductions in the costs and benefits of welfare programmes, and, in particular, of a shift towards greater tax funding for such programmes. Despite its persisting institutional structure the welfare state's mode of operation as indicated by financial flows, political-power structures, scope of services and general policy concepts has changed considerably. If the present situation is compared to Peter Katzenstein's portrayal of 1987, acute political conflicts and considerable benefit cuts indicate a welfare state in transition. Traditional features of social corporatism, party consensus, and work-related paternalism have been superseded by new forms of decision making namely techno-corporatist advisory commissions, issue-specific and, thus, volatile party alliances, the emergent use of market principles and a more universalistic approach to fund and deliver welfare benefits. Although this transition is no way complete, its driving forces, which will be addressed in the next section, are readily apparent.

The 'German Model' and the challenge of unification

To understand recent policy changes, a few contextual variables must first be dealt with. Among these variables, we find two distinctive features explaining peculiar challenges for the German welfare state. The one traces back to the so-called 'German Model' (*Modell Deutschland*) of forced industrial *modernisation policies*; the other stems from the *unification* of the economically weak socialist German Democratic Republic with the still prosperous Federal Republic of Germany. Of course the German welfare state also faces pressures caused by globalisation and demographic changes; these will, because of their general character, be mentioned later.

Since the late 1970s, the social-security funds have been used to compensate generously large parts of the workforce afflicted by industrial modernisation policies. Thus, in contrast to the American and British social workfare policies as well as the Scandinavian active re-integration programmes, Germany shifted its low-productivity workforce off into the welfare system. A corporatist productivity coalition of unions, employers and the state agreed to exploit the then prospering social insurance funds to finance cancellation agreements with older workers and to ease dismissals of those with poor qualifications and low productivity. An Early Retirement Act (*Vorruhestandsgesetz*) was passed in 1984, and a Law on Part-Time Work for the Elderly (*Altersteilzeitgesetz*) in 1988. In a collaborative effort, employers and works councils helped to implement the laws, and, thus, made it an overall success at first (see Table 1).

The Federal Labour Office (*Bundesanstalt für Arbeit*, BA) was given the task of financing both measures from its unemployment insurance funds and from some additional federal grants. As the financing arrangement with the Labour

Office was restricted until 1988, the pension schemes met a double challenge in the early 1990s, when they had to absorb large numbers of pensioners in western Germany who had retired early and – after unification – all pensioners in eastern Germany.

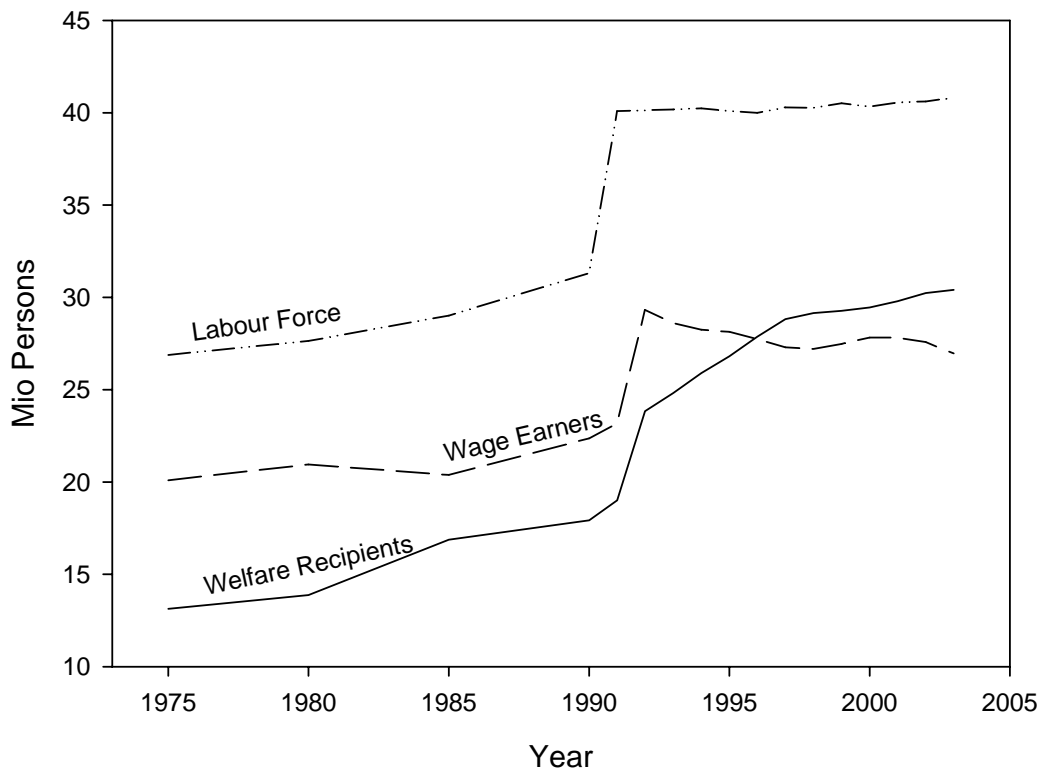
Table 1: Growth of Early Retirement (1975 - 1999)

Year	Average age of new pensioners retiring due to unemployability		New pensions for formerly unemployed persons as percentage of all new pensions				Percentage of unemployable early retirees related to all pensioners	
	Male	Female	West(ern) Germany		Eastern Germany		West	East
			Male	Female	Male	Female		
1975	56.3	59.2	3.7	0.7			3.5	
1980	54.7	57.7	8.4	1.6			4.8	
1985	54.8	54.3	11.9	1.1			7.9	
1990	53.9	52.6	13.7	1.8			10.7	
1995	53.5	51.4	24.2	3.4	60.2	6.4	8.7	10.2
1999	52.9	50.8	26.9	2.1	54.5	1.8	14.4	31.4

Source: Hagen and Strauch 2001, p. 17.

A German-style ‘pay as you go’ system based on the immediate transfer to pensioners of wage earners’ contributions as cash benefits is particularly sensitive towards a relative decline in regular employment. For 2001, the Federal Statistical Office reported 27,817 million wage earners facing 26,735 million persons living from social-security income (Figure 1; BMGS, 2004). The number of welfare recipients includes old-age pensioners (*Arbeiter-, Angestellten und Knappschaftsrenten*), recipients of unemployment benefits (*Arbeitslosengeld und -hilfe*), recipients of accident annuities (*Unfallrenten*), social-assistance recipients (*Sozialhilfeempfänger*) and asylum seekers (*Asylbewerberleistungen*). In 1985, the respective numbers were 20,378 million wage earners contributing social-insurance fees against 13,485 million persons living on welfare. Hence the ratio of wage earners against welfare recipients dropped from 1.5 in 1985 to 1 in 2001.

In addition to Germany’s general economic problems, the peculiarities of the welfare state have themselves also been responsible for the declining number of wage earners. Until recently, employment policies focussed on measures, firstly, to create a skilled workforce, and, secondly, to enhance productivity rather than on job creation in low-skill areas, such as personal services. Although tax cuts for low-income groups had been introduced in 1996 following a Constitutional Court ruling, this did not create any work incentives for recipients of social assistance. If they earn an income, benefits are still withdrawn, and thus their overall effective income would remain the same or even drop for an extended family.

Figure 1: Labour Force, Wage Earners, and Welfare Recipients (1975 – 2003)

Notes: Labour Force includes all persons employed and all those unemployed but seeking work. Thus, it indicates a country's economic potential (paid employment, self-employment, unpaid family workers and job-seekers according to microcensus data, cf. BMGS 2004, table 2.3).

Wage earners: Number of employees paying compulsory social insurance fees (2002, 2003 preliminary data, cf. BMGS 2004, table 2.6A).

Welfare recipients: Persons living from social security income. Numbers include old age pensioners (*Arbeiter-, Angestellten und Knappschaftsrenten*), recipients of unemployment benefits (*Arbeitslosengeld- und -hilfe*), fully supported general welfare recipients (*Sozialhilfeempfänger*) and asylum seekers (*Asylbewerberleistungen*).

Not included are welfare recipients living on accident annuities (*Unfallrenten*) and students' grants as well as workers in Training and Job Creation schemes (BMGS 2004, tables 8.1, 8.16, 1.16B, 8.4., 8.7, Bundesagentur für Arbeit, Bundesversicherungsanstalt für Angestellte).

Source: BMGS (Bundesministerium für Gesundheit und Soziale Sicherung): Statistisches Taschenbuch. Arbeits- und Sozialstatistik, 2000, 2002, 2003. 2004, Berlin; Bundesagentur für Arbeit, Rentenversicherungsträger

Despite a declining number of wage earners subject to social insurance fees, the total labour force, that is the number of those who are economically active or seek work, has surged. This was due to the growth of population after unification in the first instance.² Labour force statistics indicate a country's potential output and standard of living. In post-unification Germany much of this

² Besides 16 Million East Germans joining united Germany in 1990, a steady inflow of 2,6 Million German re-settlers from the former Soviet Union contributed to the population increase during the decade.

potential lay idle. The rapid decline of wage-earners paying social security fees has been caused by job-losses mainly in East Germany from 1992 onwards. Besides millions of workers seized so-called *mini-jobs* free of social insurance fees or became *pro-forma self-employed*.

Since the mid 1990s, German labour and tax legislation has stipulated that marginal part-time jobs below 15 hours a week and that do not result in a wage in excess of DM 620 or – since April 2003 - €400 per month are free of taxation, and free, or at least, since 2000, partly free, of social-security contributions and entitlements. According to investigations of the Cologne-based Institute for Social Research and Social Policy (ISG) the number of ‘mini-jobbers’ has expanded from 2.8 million in 1987 to over 4.4 million in 1992, to 5.6 million people in 1997, and to 6.5 million in 1999 (ISG 1999, p. 2). Women, mainly housewives, account for 70 per cent of them. More than 50 per cent are either younger than 25 or older than 55 (numbers are for 2002; BA, *Referat für Beschäftigungsstatistik*). Mini-jobs act as stabilisers of the *Bismarckian* social-insurance state that focuses on skilled, highly paid male breadwinners, and that results in a low female employment quota (Schmidt 1993).

During the 1990s, a growing number of pseudo self-employed persons (*Scheinselbstständige*) evaded the compulsory social-security schemes. Most of these self-employed persons still depend on an ‘employer’. For instance truckers became formal owners of a truck financed and operated by a freight company or carrier. Despite governmental restrictions pseudo-self employment is still growing in a number of service industries. Estimations range between 1 and 1.4 millions pseudo self-employed persons in 2001. The overall number of 7 million mini-jobs and pseudo-employed persons has to be seen as a consequence of steeply rising non-wage labour costs in the aftermath of German unification

The disproportionate rise in welfare recipients and – as a consequence – non-wage labour costs exploded in 1992. Figure 1 clearly shows that this was mainly an effect of the so-called ‘unification shock’ (Sinn and Sinn 1993; Schluchter and Quint 2001). On 3 October 1990, the former socialist German Democratic Republic joined the Federal Republic of Germany. On the same day, German GDP dropped by DM 6,000 to DM 34,990 per capita. This was simply because the number of inhabitants grew more than economic output did. Additionally, whilst eastern Germany experienced massive job losses in the aftermath of a historically unique de-industrialisation process, the western German economy, which remained strong, had to shoulder the resulting social costs. Total net financial transfers to the new eastern states (special federal grants, EU grants, fiscal equalisation schemes, federal supplement grants, and social-security contributions minus taxes and social-security contributions raised in the east) amounted to almost 10 per cent of GDP in the early years, and fell to four per cent towards the end of the decade. Sinn and Westermann (2001) report a current-account deficit of the eastern *Länder* of 50 per cent of their GDP. Thus, their dependency on resource imports is much greater than that of the south Italian *Mezzogiorno*, which is often referred to as the classic example of an

essentially parasitic economy (Sinn and Westermann 2001, pp. 36-7). Two thirds of the current account deficit of eastern Germany have been financed by public transfers; the remaining third has been met by private capital flows. More than half of the public transfers have been spent on social security and only 12 per cent for public infrastructure investments (Sinn 2000).

Figure 2: Social Expenditure Ratio (1980-2002)



Source: BMGS 2004, table 7.2; cf. Czada 2002, p. 160.

The social expenditure ratio (i.e. public welfare expenditures as a share of GDP) rose sharply after unification (Figure 2). Before unification, the social-security funds were in excellent condition, and, thus, seemed to be well prepared to shoulder the immediate social costs of unification. In 2003, the reserve shrunk to a historic low of half of one month's expenditure, and, thus, reached, for a 'pay as you go' system, a critical limit. This 'shrinkage' occurred despite the fact that social-security contributions had been raised several times in Germany when all her neighbouring countries managed to cut them.

Due to the costs of welfare, the difference between wage costs paid by employers and the wages taken home by employees is excessive. In 1999, the 'average' production worker took home less than half of what it costs to employ him or her (net income plus employer's and worker's social security contributions plus taxes), compared to about 70 percent in Britain or the US (OECD 2000). Growing welfare expenses and rising labour costs retarded the demand for labour as well as disposable income growth. During the 1990s, real compensation per employee increased by two per cent whereas after-tax real wages per

worker rose by just 0.3 per cent annually. Consequently, the trade unions' moderate wage policies in the second half of the 1990s did not translate into stronger employment figures, but only reduced the growth of disposable income. Thus, private consumption has been squeezed, growing by just 1.5 per cent annually (1991-2001) well below that of other industrialised countries.

The quest for a new welfare consensus

Before unification, one could hardly see any serious attempts to reform the welfare state. Although the Conservative-Liberal government was in favour of a more flexible labour market, and implemented moderate cutbacks in social-security spending, only minor changes were made. Just before the fall of the Berlin Wall, the *Bundestag* passed a pension reform bill to correct future imbalances that, it could be assumed, would be caused by demographic developments in West Germany. The law was backed by a broad coalition of parties, trade unions, and employers, and, thus, followed the traditional consensual model of welfare politics.

In a major change in policy, the government planned, from 1990, to cut taxes and social-security contributions. Despite slow growth rates and moderate unemployment figures, public deficits had shrunk during the previous decade. There had also been a sharp rise in corporate profits. In 1989, the compulsory pension funds noted that their cash reserves were at their highest since the introduction of the pay as you go scheme. The Economic Advisory Council's 1989 report – issued a few weeks before the fall of the Berlin Wall – encouraged trade unions to switch the emphasis in their work-related demands away from issues of *quality* to issues, such as wage bargaining, of *quantity*. They did this in order to raise private consumption by improving the worker's share of the prior explosion in corporate profits (SVR 1989, p. 166). The idea was to trade-off a growth and employment strategy based on lower taxes, lower social-security contributions, and higher wages with the labour unions' willingness to deregulate the labour market. Thus, the government intended to implement a corporatist strategy similar to that of the Netherlands, which eventually led to the widely praised 'Dutch miracle'.

After unification, these plans failed for two very special reasons. The reconstruction of the eastern German economy called for an increase in public spending and private investment. There was no longer any room for a higher wage share, and – even more important – the *Bundesbank* had to raise interest rates to a historical high in order to curb inflationary tendencies. These had been caused by a short unification boom and billions of newly printed Deutschmarks replacing the East German currency, the *Ostmark*. Moreover, Germany, once among the world's major net exporters of capital, had to redirect capital outflows of DM 200 billion per year in order to finance what the government called the 'boost to the east' strategy (*Aufschwung-Ost*). Interest rates remained high, and public debts doubled within a decade. Thus, the de-

mand-led growth strategy of the late 1980s was no longer viable for simple economic reasons.

There was another political barrier against welfare-state reforms. Unification policies started from the general assumption that one should not change West German governance institutions when they were being transferred to the east (Schäuble 1991, pp. 115-16). Based on the principle of 'institutional transfer' (Lehmbruch 1992, p. 41) the whole legal and organisational system of the West had been transferred to the new eastern German *Länder*. To cut a long story short, a number of West German institutions showed particular weaknesses in dealing with the imminent task of transforming a socialist command economy into a capitalist market economy. In response, the federal government initiated a series of legal amendments that were soon called 'repair laws' (*Reparaturgesetze*). Most remarkably, all these laws and consecutive amendments had been passed with vast parliamentary majorities despite their far reaching redistributive character.

Throughout the 1990s, German politics was, before political elites recognised a need for a more coherent reform of the country's redistributive policies, characterised by permanent agenda shifts. Before the unification crisis, only a few considered the interregional redistributive effects of social security funds and its consequences. Mackscheid (1993) reports that these effects have exceeded the German federal equalisation schemes since long. Whereas the latter had always been a highly controversial issue, the manner in which social-security funds were channelled from prosperous regions to poorer ones was a sort of hidden agenda. Interregional redistributions had, since the mid-1970s, functioned as tacit means by which to support the industrial reconstruction of old industrial regions. Massive resource transfers to the new *Länder*, however, threatened to overburden this generally accepted system. Thus, the task of increasing public revenues as well as social-security contributions, whilst simultaneously cutting benefits became the top priority in fiscal and welfare policies.

Instead of cutting taxes and social-security expenditures, the government delayed and, eventually, reversed its plans. Moreover, it became clear that the welfare state needed to be reformed fundamentally, if its collapse was, in the long run, to be avoided. Though the West German pension reform of the late 1980s already provided for some effects of a decline in population that was not expected to have an impact before 2015, unification drastically changed this forecast. Due to high rates of unemployment and early retirement in the east, a stagnating portion of economically active persons had to pay for a rapidly growing number of pensioners much earlier than originally expected.

From the mid 1990s onwards, governments tried to forge alliances within the party system and with trade unions, business groups, and employer associations in favour of welfare-state and labour-market reforms – most of which met with defeat as will be shown in the next paragraph. It was not until the 2000s that all relevant political parties as well as the trade unions and employers' associations arrived at the conclusion that high labour costs in terms of

taxes and social-insurance fees had been hampering employment and economic growth. Consequently, welfare-state reforms have now become a top priority not only of the federal government, but also of employers' and business associations as well as of labour unions. In 2003, the government introduced its so-called Agenda 2010, a comprehensive social-policy reform package designed to solve the long-term problems of the German welfare state.

An examination of declining individual welfare entitlements and social expenditure ratios, could lead to the assumption that retrenchment policies framed a hidden agenda for welfare policies ever since the mid-1970s, and have only been exacerbated as a result of the unification crisis. Seeleib-Kaiser (2002) in a lucid analysis argues that contrary to the notion of a political logjam, a long series of retrenchment measures have accumulated towards a retreat from the public guarantee of the achieved living standard. This principle of *Lebensstandardsicherung* had been 'the major achievement and *leitmotiv* of post-War policy ever since the historic 1957 pension reform' (Seeleib-Kaiser 2002, pp. 31-2). At the same time, family support programmes have expanded considerably. The shift towards family support measures is shown by increased child allowances and tax credits for families, a rising number of childcare facilities and other entitlements like parental leave.³

Decline of party accommodation and corporatist concertation

Policy making in West Germany proved to be slow and incremental due to high consensus thresholds based on the legislative veto of the *Bundesrat* and macro-corporatist concertation (Katzenstein 1987, Lehmbruch *et al.* 1988). In addition, social policies have been characterised by numerous bipartite (union, employers), tripartite (state, unions, employers) and multipartite (insurance schemes, service providers, expert councils, professional associations) sectoral bodies since the beginning of the Federal Republic. Only a grand coalition in social policy making allowed for major changes in this system (Katzenstein 1987, Lehmbruch 2000). An analysis of the policy-making process in the areas of employment, health, and pensions reveals a rapid decline in party accommodation and corporatist concertation during the last decade.

Employment policies

Apart from small successive changes in labour-market law (*Arbeitsmarktförderungsgesetz*, AFG), the general course of employment policies remained stable throughout the 1980s. In 1993, the newly amended AFG allowed unemployment insurance funds to be channelled into huge job-creation

³ According to section 45 of the Social Security Code, parents are entitled to parental leave to nurse their sick children. For every child disabled or below 12 years of age, both parents can claim up to ten days' paid leave per year each; single parents are allowed 20 days. During this leave, parents receive 70 per cent of their regular income from sickness funds; these funds have had to reduce a multitude of medical benefits. If labour contracts do not exclude parental leave (as is usual in older contracts) even wage continuation applies respectively.

schemes in the east – critics called this a sin against market principles. During the 1990s, the unemployment insurance contributions had to be raised several times, and, simultaneously, the corporatist Federal Labour Office, which administered the funds, could considerably increase its power in the field of labour-market policies. In 2002, however, the government started to re-organise the Federal Labour Office as a result of a scandal surrounding rigged employment statistics. The newly established Federal Employment Agency is based on a managerial approach aiming at less corporatism and less bureaucracy compared to the old Labour Office.

During 16 years of the Kohl era, 'labour-market reforms remained a process of incremental coping mostly with imminent financial problems' (Schmid and Blancke 2003, p. 217). It was not before 1998 that a newly elected Social Democratic-Green government coalition tried to introduce a comprehensive reform programme. To this end, they, initially, tried the traditional macro-corporatist concertation approach. Chancellor Schröder set up an 'Alliance for Jobs, Vocational Training, and Competitiveness' (*Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit*) – a permanent tripartite body composed of the government, employer's and business associations and trade unions. The Alliance for Jobs largely missed its original targets. In 2003, trade-union leaders declared the tripartite talks a failure. They stated that this was due to unbridgeable differences between their own policy concepts and those of the employers' organisations. As a matter of fact the differences had been reinforced by the all-embracing character of the talks. Whereas in some issues unions and employers agreed on certain reform measures, others caused an increasing number of controversies. It also turned out that the segmented welfare administration was not able to co-ordinate itself with the top-level Alliance structure. Additionally, the government lost its *Bundesrat* majority unexpectedly soon after the Alliance for Jobs had been established. Thus the Alliance suffered not only from a broad policy scope incompatible with an institutionally segmented polity (Lehmbruch 2000, p. 98) but also from inadequate state capacities to act as a third-party guarantor of corporatist agreements (Czada 2003).

Before the Alliance for Jobs talks ended, the government appointed a new circle of leading unionists and employers to discuss a more specific topic. The so called 'Commission on Modern Services in the Labour Market' (*Hartz Kommission*) led by Peter Hartz, head of the personnel executive committee and member of the board of directors of *Volkswagen*, former labour director of the steel concern Dillinger Hütte-Saarstahl and a long standing member of the metal worker's union, was set up in 2002 to develop proposals for a new employment exchange service and for employment programmes geared towards competition and entrepreneurship. To this end, the Hartz Commission proposed 13 separate modules. Among the most important we find the so-called Personal Service Agency; these have been introduced in all of Germany's 181 unemployment offices. The proposal envisaged unemployment offices or private temporary jobs agencies employing those unemployed who have been unable to find work within six months. The increased use of temporary job agencies has been expected to neutralise the traditionally strong protection against

dismissals. Moreover the commission proposed merging unemployment offices and social welfare offices into so-called 'job centres', with unemployment and social-welfare payments merged into a single system of payments. The latter has become a highly controversial part of the Agenda 2010 reform package.

To convert unemployment benefits into social assistant payments for the long term unemployed will not only force them to accept jobs in income groups lower than what had been considered as just and reasonable before. A more far reaching consequence pertains to the labour unions bargaining strength. They cannot longer bank on the welfare state's willingness to accept the costs of their high wage policies. The federal government will no longer absorb the victims of high wage policies in a generously endowed welfare system but re-establish and strengthen the labour-market instead. The unions, however, perceived this strategy as an attack against free collective bargaining in Germany.

An additional proposal by the Hartz Commission aimed to facilitate self-employment, the so-called '*Ich AG*'. With an annual income of between 15,000 to €20,000, these self-employed pay a fixed rate of tax between ten and 15 percent. Many of the proposals contained in the Hartz report came from reformist trade unionists. Walter Riester, a former deputy chairman of IG Metall, who became, for a time, government minister for labour, established the commission and appointed Hartz as it's head. Another major German trade union, Ver.di, was also represented in the Hartz commission while additional members included managers of DaimlerChrysler, BASF, Deutsche Bank and the business consultancy firms Roland Berger and McKinsey. Other members of the commission were Peter Gasse, regional head of IG Metall in North Rhine-Westphalia (NRW), and his predecessor Harald Schartau, who went on to become minister of labour in North Rhine-Westphalia.

What we can see here is the replacement of corporatist negotiations at the peak level of labour-market associations and the state by a newly established policy network based on SPD affiliation, reformist orientation, personal reputation, experience and expertise. Simultaneously the concentration of a rather narrow set of problems replaced the broad scope of issues dealt with in the former corporatist arena. In any case, the SPD-Green government has stuck to an open style of consensus mobilisation focused on 'friendly' experts who are loosely associated with the incumbent parties. In contrast, Kohl, when in power, utilised his personal networks, the so-called *Kohl-Maschine* as well as 'fire-side' talks with high ranking representatives of industry and labour. Chancellor Schröder seemed to prefer a similar style at first, when the media used to refer to him as the 'chancellor of the bosses'. Negative experiences with the Alliance for Jobs as well as with the business elite who switched sides to his challenger Stoiber (CSU) in the run-up to the 2002 federal election caused Schröder to refocus his attention on experts from the party and or academia.⁴

⁴ Schröder, as one his close associates disclosed in a personal talk to the author, felt personally hurt and 'left out in the rain' by both business and union leaders to whom he had tried to provide confidence.

In terms of success, the new approach of ‘government by commission’ has not yet produced results. Within the Agenda 2010 framework, the duration of unemployment benefits will be shortened and benefits for the long-term unemployed probably amalgamated with social-assistance payments. Both had been run separately by the Federal Labour Office and local authorities. Now a new interface between labour-market institutions and municipal poverty-relief programmes seems to have emerged. This will probably result in further reforms, not least, towards a comprehensive reform of municipal finances and the federalist system that has entered its first stages as a municipal finance reform commission and a commission on the reform of the federal system have been set up.

Health care

The German health-care sector is still an extraordinary example of semisovereignty. Federal and state governments share legislative authority. Hence the *Bundesrat* has been involved in all fields of general health legislation. In addition, a large number of other actors dominate the field, such as various organisations of insurers, service providers (doctors and hospitals), pharmaceutical producers, consumers and their respective peak associations (cf. Döhler and Manow 1967). The process of formulating health policy has always been guided by networks of experts, many of them linked to the main peak associations. A host of advisory bodies, commissions, and consultative meetings are part of the decision-making process. Thus, the incremental ‘muddling through’ approach of most health-care reforms starts at an early stage in the policy cycle, and is, in no way, determined by constitutional vetoes embedded in the federal structure. In fact, most legislation during the last decades did not implement any institutional restructuring of the relationship between health insurers, providers and the insured. Modest co-payments for medications, dental treatment, hospitalisation, and other items were introduced in 1982. These payments were further increased by the Health Care Reform Act of 1989 and again by the Health Care Structural Reform Act passed in 1992. The latter introduced new regulatory instruments, firstly, to monitor more closely access to medical practice, secondly, to re-organise health-funds governance, and, finally, to cap medication costs and prospective hospital payments. In addition, it proposed measures to overcome the separation between ambulatory medical care and hospital care that prevailed in the old FRG, and it introduced a free choice of health funds for the insured (Blanke and Perschke-Hartmann 1994). Politically, the law rested on the famous *Lahnstein compromise* forged in the small town of Lahnstein between the Christian Parties (CDU/CSU) and the Social Democrats (SPD) that excluded the liberal Free Democrats (FDP), although the latter were part of a government coalition with the CDU/CSU. The reform was a partially successful attempt to change the vested rights of the medical profession and the pharmaceutical industry, both of which have been protected by the Free Democrats. The Lahnstein compromise was part of a stream of informal consensual policy making that was characteristic of the immediate post-unification period (Manow 1996). Afterwards, a period of intensified conflict, conceptual volatility and political stalemate caused what has been called the German *Reformstau* (reform logjam).

Most of the reforms passed between the mid 1980s and 2000 attempted to redistribute the increasing cost burdens between the various stakeholders. There was no approach, as there was in old-age pension policies, to alter the balance between public and private insurance schemes. Though the health sector is characterised by fierce competition between hospitals, doctors and pharmaceutical companies, and though a number of new competitive elements have been introduced, a health-care market based on privately financed products and services has never developed. Moral hazard, information asymmetries and cherry-picking has become even worse after the strict corporatist order had been loosened, and insurance funds as well as the insured were able to exercise, thanks to the 1992 reform act, some more free choice.

There is, at the moment, a common understanding that fragmentation, duplication and overlap have caused inefficiencies of the health-care system. Recent health-care reform acts have tried to integrate the different levels and sectors of care. Free contracts between sickness funds and rehabilitation clinics have been allowed and even encouraged in order to overcome one part of the divide namely between funding agencies and care providers. The health system still rests on the assumption that everybody should be entitled to receive all the necessary services, and that the doctors decide what a necessary service is for their specific patients. It is only recently, that priority setting has become an issue. The long established 'Federal Committee of Panel Doctors and Sickness Funds' is now supposed to specify authoritatively measures of quality assurance and criteria for the appropriateness of certain diagnostic and therapeutic services. However, its pharmaceutical directions have been declared unlawful due to violations of European cartel laws following a complaint of the pharmaceutical industry. In 2003, plans to establish a National Centre for Medical Quality met with fierce resistance from physicians and the pharmaceutical industry, who called the plans a way back to GDR socialism. Traditionally, quality issues were the domain of individual physicians and organisations. Recent debates on quality issues have to be seen in the context of a renewed growth in health-care expenditure – mainly due to the abolition of spending caps for medicines. The corresponding rise in contribution rates from 13.5 per cent to 14 per cent of pre-tax income brought cost containment back onto the agenda in 2002.

In 2003, a new informal 'grand coalition' on health evolved between the governing Social Democrats and the Christian Democratic opposition to cut health benefits again and further trim the sector's self government. The unions and employers' associations in a rare case of harmony even called for the abolition of the statutory regional associations of accredited physicians, which act as clearing houses between individual physicians and the statutory health funds, and, thus, prevent the funds from direct surveillance over the care providers. As the 1992 Lahnstein compromise has shown, a grand coalition in health politics can overcome the bicameral legislative veto and also withstand pressures from well-organised groups, such as insurance funds, physicians and pharmaceutical firms. Once again, however, the new inter-party consensus, led neither to institutional reform nor to the prioritisation of certain treatments and medicines. It will introduce new market-like incentives instead. Sickness allowances

will be removed from the bipartite – employee- and employer-financed – compulsory schemes. Sick-leave insurance for periods longer than the obligatory six-weeks wage continuation period has to be provided on a private basis according to these plans. Patients will have to pay a co-payment of €10 per quarter to a general practitioner. Their gatekeeper function is expected to be strengthened since medical specialists must collect another €10 if patients cannot present a general practitioner's referral. Further plans pertain to additional co-payments for dentures, as well as reductions in maternity benefits and death grants, and benefit cuts for parents nursing their sick children (see footnote 2). In health politics, governments continued to rely on benefit cuts and incremental measures like budgeting, co-payment, and competitive incentives for the various stakeholders. Only recently have prominent politicians of all parties called for a more fundamental reform. They claim that a universal compulsory health insurance scheme for all citizens supplemented by voluntary private insurance contracts was the only way out of a permanent crisis in health policy. The chances to manage a fundamental systemic change are still small, not despite, but because of, recurring grand coalitions in health politics.

Pension politics

Pension issues often served as a test case for consensus-building capacities across party lines and between both sides of industry. Party concordance and corporatist agreements prevailed throughout the post-War era. However, pension politics became highly controversial after the mid-1990s. This was due to recurring financial crises caused by a decline in the number of contributors and a disproportionately growing number of recipients in eastern Germany. The unification effect is shown by the fact that huge surpluses in the west will have to compensate for deficits in the new eastern states until well beyond 2016 (Table 8.2).

In 2003, an estimated €13 billion deficit in the east contrasts with a surplus of €14 billion in the west. These savings in the west would have sufficed to stabilise the pension contributions of wage earners well below the level of 20 per cent of gross income in 2004. Apart from unification-related problems, demographic changes call for major modifications of the old established Bismarckian model. Starting with the 1992 reform, subsequent pension law amendments of 1997, 1998, 1999, 2001 and 2003 have cut future pension claims considerably, and, thus, paved the way for a new system of compulsory insurance combined with private retirement provisions.

The pension reform of 1989 (that took effect in 1992) was backed by a broad coalition of parties, unions, and employers, and, thus, followed the consensual model. Initiated before the fall of the Berlin Wall the reform was intended to correct future imbalances caused by demographic changes in the West German Federal Republic. Most importantly, from 1993 onwards pensions were adjusted to annual net income growth, and not, as had been the case previously, gross earnings growth. This measure prevented future pensions from exceeding 70 per cent of the average net income of active wage earners (net re

placement rate). In June 1996, an expert commission on the Further Development of the Pension System was established. Following its recommendations, the CDU/CSU-FDP government decided to reduce further the net replacement

Table 2: Net Balances of the Compulsory Pension Fund financed equally by Employees and Employers 1999 - 2016*

Net Balance (Expenses minus revenues) in billion €			
Year	Western States	Eastern States	Germany as a Whole
1999	9.3	-4.4	4.9
2000	6.5	-5.9	0.6
2001	6.5	-6.5	0.0
2002	9.7	-13.4	-3.8
2003	14.5	-13.2	1.3
2004	15.4	-13.6	1.8
2005	15.2	-14.0	1.3
2006	15.1	-14.2	0.9
2007	15.1	-14.2	0.9
2008	15.6	-14.5	1.1
2009	16.0	-14.9	1.0
2010	16.7	-15.3	1.4
2011	16.6	-16.0	0.6
2012	15.8	-16.7	-0.9
2013	17.4	-17.1	0.3
2014	18.8	-17.7	1.1
2015	19.4	-18.4	1.0
2016	20.9	-19.1	1.8

* 2002–16 expert estimations.

Source: Rentenversicherungsbericht 2002, *Bundestag*, printed matter 15/110 (15th legislative period 27/ 11/2002) pp. 62, 111, 112.

rate for standard pensions from 70 to 64 per cent, in a step-wise fashion, between 1999 and 2030; they did this in order to cope with the effects of unification, mass unemployment, and early retirement.⁵ This time, the Social Democratic opposition backed by the labour unions put up fierce resistance – not least because of the federal elections that were just ten months away. On 11 December 1997, the *Bundestag* (in which the CDU/CSU and FDP had a majority) passed the 1997/1999 pension reform bill, which was not subject to *Bundesrat* (in which the opposition parties had a majority) approval, solely on the basis of a chancellor's majority for the first time since the foundation of the Federal Re-

⁵ An additional 800,000 persons taking early retirement have resulted in pension funds having to pay out an extra DM 20 bn since 1992. Regular pension payments for 4 million pensioners in the new *Länder* amounted to DM 75 bn between 1992 and 1997. Thus, additional costs of DM 37 bn per year, which had not been anticipated in the foregoing reform, have had to be met by wage earners, pensioners and the state.

public. After their election victory in 1998, the SPD-Green government suspended the 1997 pension reform immediately. Again that was a novelty in post-War welfare politics that casts doubt on whether Katzenstein's (1987, p. 4, p. 35) portrait of 'policy stability even after changes of government' is still valid.

The politics surrounding pensions in 1997 and 1998 only foreshadowed future party dissent and programmatic volatility. The 'Jekyll and Hyde' years in German pension politics were still to come: in 1999 fiscal problems forced the SPD-led government to revert to the austerity measures of its conservative predecessors. Reneging on its election promises, the SPD planned to replace the wage indexation of pensions by price indexation for a certain period to lower the replacement ratio from 70 to between 67 and 68 percent. In 2000, the government issued another reform proposal, which not only exceeded the planned cutback of the previous CDU/CSU government, but was also likely to change the system's basic principles. Apart from a radical reduction in benefit levels, it introduced a private statutory pension scheme that was just right to amend the corporatist Bismarckian pay-as-you-go system to a fully funded one in the long run. The so-called *Riester-Rente*, or Riester pension, named after the then Minister for Labour and Social Affairs Walter Riester, met with a barrage of criticism from the Christian Democrats and the trade unions. Again, the broad and massive union support of a conservative party in a most controversial welfare policy issue was quite a new experience. The unions were up in arms against the fact that the shift towards a private mandatory pension fund would depart from the traditional scheme financed half by employees and half by employers. The parliamentary opposition initially even rejected those parts that were in line with their own former plans and pre-election statements. As a consequence, the government had to slim down the packet to bypass the *Bundesrat*. Even more, the SPD had to make substantial concessions to their left-wingers in order to get even a *Bundestag* majority.

The pension reform 2000/2001 was an example of semisovereignty without consensus, which made the parties in government vulnerable to all kinds of pressure within its own ranks. Nonetheless, the reform initiated a mixed pension system, composed of a reformed pay-as-you-go compulsory pension scheme and a new private, but non-mandatory, pension the so-called *Riester-Rente*. The funded private component gives employees the option of contributing up to four per cent (in 2008; increasing from 0.5 per cent beginning in 2001) of their earnings into company or other private schemes. Employees can invest in a range of schemes offered by private insurers, including private-pension insurance organisations, investment funds, life insurance funds, and savings banks. All private pensions must meet certain criteria before employees are eligible for state subsidies and tax exemptions, and – contrary to the *Bismarckian* tradition – all benefits will be taxable. Incentives and subsidies for making contributions to private accounts are targeted at lower income individuals and families. Pension credits earned during a marriage can be shared equally by both spouses through a new pension-splitting option. The government also introduced reforms to improve old-age security for women, including revaluing

low earnings during child-raising years, and granting pension credits to mothers who could not pursue part-time employment.

Despite its deviations from the established model, the 2000 pension reform was, by a long way, incapable of solving the long-term financial problems resulting from demographic change. In November 2002, the so-called Rürup Commission (Commission for Sustainability in the Financing of the Social Security System) was set up in order to address the long-term financial aspects of the pensions and healthcare crisis again. Its recommendations included issues such as increasing the retirement age gradually, between 2011 and 2035, from the current 65 to 67, penalising early retirement, and reducing annual increases in pension payments. A majority of the 26 commission members – mainly chosen for their expertise and affinity to the SPD and the Green Party – backed the final report's recommendations to safeguard intergenerational justice and limit future pressures on the social-insurance systems. Only commission members affiliated to the trade unions opposed the proposals.

In August 2003, the Rürup Commission reported that the 1989/1992 pension reform already meant that, in 2030, pensions would be, in real terms, 30 per cent below what they otherwise would have been without the reform. The Riester reform of 2000 accounts for an additional cut of seven per cent. An increase in the actual retirement age will cause another three per cent. A comparison of the pre-1989 pension benefits with those of 2003 reveals that pensions to be paid in 2030 have already been cut by 40 per cent (BZ 2003, p. 29). Thus, private co-insurance has become a must for all below the age of 50. Cutting benefits together with an increase of general tax funding also meant that the insured have to pay less compulsory pension insurance fees: 22 per cent of a gross income in 2003 instead of 30 percent in 1992. This saving, along with individual state grants, is meant to be invested into private or company pension plans. Regarding pensions the Bismarckian welfare state with its all-embracing work-related compulsory insurance schemes geared at status security will regress in the long run. The public, however, is not yet aware of the new mix of compulsory and private provisions since it will only fully affect future generations of pensioners.

Erosion of self-governance and new forms of interest intermediation

The institutional segmentation of the West German political system has been emphasised, in particular, by Gerhard Lehmbruch and Fritz Scharpf. Lehmbruch pointed to incompatibilities of party competition and co-operative federalism (Lehmbruch 2002) whereas Scharpf's research on 'policy interlocking' and the 'joint decision-making trap' offered a key explanation of failed policy reform initiatives in different sectors (cf. Scharpf 1988). Peter Katzenstein's (1987) seminal work on 'semisovereignty' sounded a similar tune; however, he praised as a virtue what both Lehmbruch and Scharpf had called a fault in construction.

Mindful of the theoretical power of these explanations, it is questionable whether they can sufficiently explain the protective course of welfare-state policies during the 1980s, when a CDU/CSU-FDP government held a large majority in the *Bundesrat* throughout the decade. In terms of constitutional veto restrictions, the Kohl government, until the early 1990s, was the most sovereign compared to all its predecessors and successors in office. Even during the 1950s, the Adenauer government lost its *Bundesrat* majority for a few months (March 1956 – January 1957). The problem with divergent majorities in the bicameral legislature did not begin until the end of the Grand Coalition in 1972, and it increased after 1976. In contrast, the CDU/CSU-FDP coalition of 1982 held a majority of five to 13 votes in the *Bundesrat* throughout the 1980s; it was not until the election in Lower Saxony in 1990 that things changed. Thus, together with a vast *Bundestag* majority and with markedly weakened labour unions (after unemployment figures went beyond one million in 1981) Kohl was presumably the most powerful chancellor since Adenauer.

To explain policy making during the 1980s, one has to focus attention on a number of factors outside the domain of the constitutional veto structures. Zohlnhöfer (2001) has shed some doubts on the institutional explanation provided by Scharpf and Lehmbruch by pointing to the deep fears of the conservative-liberal Kohl government that welfare reforms could exert negative effects on its electoral performance. A second important reason was the strong anti-reformist influence of the labour wing within the Christian Democratic Union. It was led by Norbert Blüm, a well-known defendant of the welfare-state consensus. The trade unionist, Catholic minister in Kohl's cabinet from its beginning in 1982 acted as a powerful stalwart of the Bismarkian welfare state until the new Schröder government took over in 1998.

We know from neo-liberal strategy turns in the UK, Sweden and the Netherlands that problem load is an important predictor of policy change. The threshold of pain above which parties and governments in those countries felt forced to act, irrespective of their ideological backgrounds, had not been reached, by far, in West Germany. Keeping all that in mind – i.e. the solid majority of the Kohl government in both chambers, prevailing electoral considerations against benefit cuts, a powerful unionist pro-welfare state wing in the CDU, and the moderate problem load of the time – constitutional veto potentials cannot explain the course of welfare state reform during the 1980s. This becomes even more evident if one compares welfare policies of the 1980s with the following post-unification decade.

Again, in the early 1990s, an explanation that focuses on political veto powers fails to account for the delay in cutting social-security contributions and income taxes that the federal government had planned in 1989. On the contrary, the early 1990s have been characterised as the last triumph of corporatism, party concordance and co-operative federalism (Sally and Webber 1994, Lehmbruch 2000). The Kohl government grew even stronger as a consequence of its overwhelming electoral support in the new eastern states. Simultaneously, the *Länder* governments had suspended their constitutional rights in order to

approach unification problems in a unified flexible manner. The old West German Model was revived in March 1990 when the federal governments issued its 'Principles for the Co-operation of the Federal Government, New *Länder*, and Trust Agency in the Economic Upturn of East Germany' (*Grundsätze zur Zusammenarbeit von Bund, neuen Ländern und Treuhandanstalt für den Aufschwung Ost*). Simultaneously, the 'Chancellor's Round on Building-Up the East' with leading representatives of business, unions and the parliamentary opposition started to meet regularly on that matter.

Social Democrats (SPD), though in a minority position both in the *Bundestag* and in the *Bundesrat*, had been incorporated into the newly established unification policy network with the *Treuhandanstalt* (THA, see Busch in this volume) as its focal agency.⁶ Prominent social democrats like von Dohnanyi, Gohlke, Rohwedder and union leaders like Rappe, Steinkühler, Schulte had been appointed high ranks in the THA's executive, supervisory and operative structure. Thus, the early 1990s saw a revival of large-scale inter-party consensus and corporatist politics. The usual segmented policy making had been bypassed for a while, at least until 1992, when the first signs of a severe economic unification crisis called for an examination of the original concept of a market-led transformation process and institutional transfer.

The 1990s had, undoubtedly, been a most active period in regard of agenda shifts and health reform in particular (Kania and Blanke 2000). After decades of corporatist policy making and its last triumph in the immediate post-unification period the following years brought a crisis of consensus politics and corporatist self-government. To draw a conclusion from a political-science perspective, the German welfare state of 2003 was characterised by more state intervention, and more market elements than the one Katzenstein described in 1987. State regulation as well as tax-financed state subsidies increased just as co-payments of the insured and the share of private insurance-contracts. Simultaneously the share of the Bismarkian wage-related compulsory insurance fees decreased. Most remarkable, however, is the rapid loss of 'self-governability' and its requisite associational capacities. Germany is no longer 'a good example of how government can enact the rules and then leave the doctors and sick funds to carry out the programme with little intervention' (Glaser quoted in Katzenstein 1987, p. 184). The same is true for other fields of social policy due to increased conflicts among stakeholders over their share of a shrinking pie.

But still 'a closely knit institutional web limits the exercise of unilateral political initiatives by any one actor' (Katzenstein 1987, p. 192). Whether this encourages incremental policy changes any more, as it did in times of affluence, has become a moot point. The 1990s have been characterised by sequences of political stalemate and a deepening of state involvement rather than corporatist incrementalism. The latter depends not only on consensual policy making.

⁶ The *Treuhandanstalt*, a federal agency, was established in April 1990 as an institutional trustee (Trust Agency, or THA), to privatise, reconstruct or place in receivership more than 13,000 firms with more than 4 million employees in eastern Germany.

Making semisovereignty work requires strong commitments among and within organisational actors participating in sectoral self-governance. Without the peak associations being able to commit their organisational substructure and their individual members to make their resources available in support of corporatist arrangements, consensus is almost irrelevant since it cannot translate into viable policies. The creeping decentralisation of the industrial relations system seems to be one of the main problems in this respect.

During the 1990s, the membership density of DGB (the Federation of German Trade Union) unions declined from 28.1 (1990) to 17.3 (2000) per cent (net unionisation without retired members; Ebbinghaus 2002). Simultaneously the number of younger members below 25 as a percentage of all members sank from 11.5 to 5.3 percent. Membership density in employers' associations declined as well, and is particularly low in eastern Germany. It dropped from 45.2 per cent (1991) to 30.9 per cent (2000) in the metal and electrical industry. In eastern Germany, it was only 12.1 per cent in 2000. Regarding the number of employees instead of the number of firms, employers' associations still cover 63.3 per cent of the workforce in the west and 28.9 per cent in the east (Ruppert and Koch 2002, p. 19). Simultaneously, industry-wide bargaining declined. Less than half of the employees in the metalworking and electrical industries were covered by industry-wide contracts in 2000; this figure was only 27 per cent in the east (Ruppert and Koch 2002, p. 25). Industrial relations in Germany have moved towards a decentralised, enterprise-based system (Schroeder 2000, 2001). This transition has been accompanied by conflicts within and between unions and employers' associations, and causes a loss of associational power.

All in all, the Hartz reforms aimed at the re-establishment of the labour-market. This will furthermore weaken the unions' bargaining power which had been high despite high levels of unemployment. As the welfare state will no longer generously absorb the victims of high wage policies, the unions must consider the social costs of their high wage policies. Due to the Hartz reforms, the long-term unemployed have to eat up much of their savings before they receives social assistance. Thus, they will probably accept lower wages in order to get a job. As a consequence, the federal government awaits new jobs in low-skill, low-wage sectors and generally accepts increased pressures on middle and high-income groups to moderate their wage-claims.

Recent changes within the industrial-relations system suggest that the German combination of a 'decentralised state' with a 'centralised society' that was emphasised by Katzenstein (1987) is no longer valid. The German organised capitalism has decentralised very rapidly at least in regard of labour-market associations. Among the reasons for this, one finds repercussions of an industrial-relations crisis in the east as well as a new generation of business and union elites. Analyses of trends towards social disorganisation that have been sparked off by post-modernism, individualisation and the effects of globalisation (Zimmer 1999; Beck 1996) may be part of an explanation, but cannot account for some peculiarities of the German case. At first, such an explanation, neglects the reform plans of the pre-unification Kohl government that resem-

bled the Dutch or Swedish concepts, but could not be realised in the post-unification period. The German political economy and welfare state would look quite different if unification had not occurred. Secondly, global market pressures did not, usually, weaken, but sustained corporatist capacities in Germany and other European countries (Katzenstein 1972). Thirdly, the German industrial-relations crisis did not emanate from big global firms but from the small and medium sized industries of eastern Germany in particular. The export industry is still interested in industry-wide collective bargaining since it protects them against excessive wage demands. In contrast small firms often cannot afford wages paid in the big export industries, and, therefore, prefer bargaining at the enterprise level. That is why industry-wide bargaining persisted in big firms, and, thus, still covers a majority of the employed. When it comes to political representation, however, the small and medium sized enterprises are still strong mainly due to its privileged access on the state level of government and the statutory chambers of trade and industry.

In contrast to its centralised Swedish, Dutch, or Austrian counterparts, the German federal government failed to forge a corporatist deal with the industrial peak organisations because it was unable to guarantee that such an arrangement would be implemented appropriately (Czada 2003). Towards the end of the 1990s, unions and employers became increasingly aware that reform packages agreed in the corporatist arena would have been jeopardised in the legislative process.⁷ The *Bundestag* opposition, through its *Bundesrat* majority, could jointly govern the country alongside the elected government. Indeed, it tried to do so in the pre-election year 1997, and again, in particular, after 1998. One has to bear in mind here that it was easier to bypass such institutional gridlock in times of a 'two and a half' party system with only three possible coalition strategies. After 1990, in a system with five relevant parties, 16 constitutional states, and a situation of permanent campaigning, the conditions became much more complex and polarised.

Since the mid 1990s, corporatist incrementalism suffered from institutional segmentation, and decreasing capacities to act of the peak associations. Additionally the big parties lost their former consensus potentials to bypass these obstacles. Consequently chancellor Schröder choose new strategies to circumvent potential legislative vetoes as well as gridlocks in the corporatist arena. Even more, the government attempted to short circuit the established policy communities in health, pensions, the labour market and social assistance. The new strategy was geared towards consensus mobilisation through special commissions. Their use as advisory bodies in the German political system is in no way new. All major welfare reforms have, so far, been assisted by special commissions. The Schröder government, however, did not use them as an advisory instrument but as a device to channel the political debate, to test public

⁷ Associational leaders like Hans-Olaf Henkel, the then head of the German Federation of Industries (BDI), seem to have learned for the first time what semisovereignty meant, and means, in a situation of institutional stalemate with only minor chances of bypassing inter-party consensus politics (Lehmbruch 2000).

opinion, and to exert pressure on the opposition and state governments as well as on interest associations. The replacement of classic corporatism by expert and stakeholder committees appointed by the federal government might be an appropriate way to strengthen its authority in times of institutional and conceptual uncertainty. Given the implementation of the Hartz proposals and the influence of both the Hartz and Rürup commissions on the Agenda 2010 reform debate, the shift to government by commission has had a substantial impact. Like parapublic institutions, the commissions serve as 'political shock absorbers'. Moreover, the government's authority to set up, recruit, and dissolve them opens up ways to pull the strings much more than corporatist negotiations allowed for.

Government by commission also accommodates chancellor Schröder's preference for populist turns and authoritative leadership. Schröder cultivates his image as being a mover and communicator. 'In a media democracy, it is not an insult to be called a "media chancellor"' he is quoted as saying. Given this attitude, government by commission may result not only from the constraints of a less organised and less centralised society but also from a new style of political consensus mobilisation and governmental communication. This, however, is difficult to achieve and preserve in a semisovereign state. As Grande (2000) has pointed out, a media democracy is hardly compatible with the intimacy and discretion of corporatist policy making. Bearing that in mind, one should assume that a new government style of addressing the population will accompany the erosion of corporatist intermediation, and that both may reinforce each other in the long run. This is, of course, not related to unification, but points to a more secular trend that can be also observed elsewhere, for instance, in Koizumi's Japan, Blair's Britain, or Berlusconi's Italy.

Studies on the 'new politics' of the welfare state (e.g. Pierson 1996) emphasised the constraints in dealing with policy change, structural reform and retrenchment issues. Institutional path dependencies and the popularity of welfare programmes are said to result in the need for policy makers to take small steps, and to follow 'blame-avoidance' strategies. Semisovereignty, party concordance and corporatist intermediation as described by Katzenstein (1987) had long been best suited to that kind of incremental adjustment. And indeed the West German 'Bonn Republic' was quite successful in that respect. The new 'Berlin Republic', however, experienced a decline in social partnership, shrinking capacities of associational self-governance, and intensified party conflicts. Potential blockades and uncertainties of the policy-making process have resulted from opposing majorities in the national Parliament and the Federal Council at first. As a consequence successive elections in now 16 states attained national importance and, thus, created a situation of permanent campaigning. Changes in the party system, fluctuations in industrial governance, and new styles of political leadership and government add to the transformative tendencies. The latter include a re-invigoration of the regulatory state and governmental initiative to be found not only in social policy, but in many other policy fields as well (cf. Czada 2002).

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