

Welfare State Reform in Germany from 1982 to the Present

Report for the 2002 WRAMSOC Conference

0. Introduction

This paper gives an overview of welfare state reform in Germany in the six fields covered by the WRAMSOC project. It starts in 1982 when the Kohl government took over. The paper is divided as follows: The first two parts – one on the political framework in the 1980s and 1990s (1.), one on the German welfare state and general trends in German welfare state reform (2.) – provide some background information. The following parts summarize the developments in the different fields. We start with pensions (3.) and then deal with care for the elderly (4.), women's labour market participation (5.), poverty and social assistance (6.), labour market policy (7.) and the financing of welfare (8.), respectively.

1. The Political Framework

Institutional Framework

Germany is a „multi-actor country“ (Schmidt 2000) with severe constraints on executive authority:

- German electoral law on both the federal and the state level is based on proportional representation. As a consequence, coalition governments are the rule. Only once in the history of the Federal Republic (1958) has a single party gained an absolute majority of seats in the Federal Parliament.
- Germany is characterized by a peculiar type of federalism that does not vest the states (*Länder*) with much autonomy, but gives them a strong role in deciding upon and in implementing federal legislation. The states exercise their power through the Federal Council (*Bundesrat*), a second chamber which is made up of representatives of the state governments and can veto a broad range of legislation. The power of the Federal Council forces the federal government to accommodate state interests. Moreover, it gives the opposition in the lower house (*Bundestag*) the opportunity to block federal legislation if it commands a majority of votes in the Federal Council.

- Germany has a number of powerful ‚non-majoritarian institutions‘ (Majone 1996), most notably the Federal Constitutional Court and – with a diminishing salience since the creation of the European Central Bank – the Bundesbank. Benefiting from far-reaching legal competencies and strong popular support, both institutions have enjoyed a high degree of independence and have shown little ‚self-restraint‘ in their decisions.

Germany shows a high density of well-organised interest groups. These groups are not only consulted extensively in the process of legislation, but also benefit from an extensive delegation of competencies. Collective bargaining between unions and employers‘ associations covers a wide range of social issues. The ‚social partners‘ are also heavily involved in the self-government of the social insurance funds. Non-profit organisations still run the large majority of social services (from kindergartens to drug counselling and hospitals).

These features force the federal government to accommodate a broad range of interests, thus rendering the initiation and consolidation of controversial reforms difficult.

Political Majorities

As for political majorities, the last 20 years have been characterised by a high degree of continuity. From 1982 to 1998, Germany was governed by a coalition government made up of CDU/CSU and FDP and led by Chancellor Helmut Kohl.¹ It took until 1998 that the social democrats, which had formed a coalition government with the FDP from 1969 to 1982, managed to return to power. The continuing parliamentary majority of CDU/CSU and FDP notwithstanding, the political constellation between 1982 and 1998 differed over time.

- The government’s popularity was subject to changes. While the government enjoyed a comfortable lead in the opinion polls in the first half of the 1980s, it trailed behind the opposition in the late 1980s and during most of the 1990s.
- The CDU/CSU has always been a very heterogeneous party characterised by the tenuous co-existence of different wings and factions. The balance of forces within the CDU/CSU has changed over time. For most of the 1980s, the party was dominated by a coalition of the labourist wing (*Sozialausschüsse*), the women’s organisation (*Frauenunion*) and the youth organisation (*Junge Union*). In the 1990s, this coalition broke apart and the position of the business wing strengthened.
- The FDP took a more neo-liberal position and a more assertive stance after 1992.
- Majorities in the Federal Council changed considerably. During the 1980s, the government enjoyed a clear majority in the Federal Council. This majority got lost in 1991, so that the government became dependent upon support by state governments run or co-governed by the SPD.² In 1996, SPD-led state governments even gained a majority

¹ His 16 years in office have made Helmut Kohl the longest-serving German chancellor.

² Tradition has it that state governments support a proposal in the Federal Council only if all coalition partners agree. This means that there are ‚neutral‘ states on which neither the federal government nor the parliamentary opposition can count.

of seats, thus being able to block part of the legislation promoted by the the federal government.

The long period of conservative rule ended in September 1998 when CDU/CSU and FDP lost their parliamentary majority. For the first time in the history of the Federal Republic, a government was voted out of office.³ Since September 1998 Germany has had a red-green government. In the beginning, the Schröder government could count on a majority of states governed by the SPD or red-green coalitions. However, this majority disappeared as early as in 1999 when the state elections in Hesse and Saarland resulted in changes in government.

2. Welfare State Reform in Germany since 1982

The German Welfare State

The German welfare state is usually labelled as a conservative welfare state model (Esping-Andersen 1990, 1999; van Kersbergen 1995) or when focusing on gender relation as a strong breadwinner model (Lewis 1992; Ostner 1995). It is said to be characterised by the following elements:

- The German welfare state is predominantly built on social insurance systems; the basic principle is status-maintenance. The implicit norm is a ‚standard work arrangement‘ („Normalarbeitsverhältnis“, cf. Mückenberger 1985; Vobruba 1990). The benefits of the welfare state are therefore related to the previous labour market status of the recipients (in unemployment and pension schemes, less in health system).
- It is based on gender relations that attribute the sphere of gainful employment to men. Women have traditionally been supposed to be married and to be housewives caring for the household, children and frail and/or older family members. Women and children are mainly integrated into the welfare systems as dependents of the male household head.
- The German welfare state has a strong focus on financial transfers against social services.

The German system of social welfare is said to be unsustainable and has been in need for reform because of the following problems:

- The response of the conservative welfare states on the rising unemployment has been a policy of „labour shedding“ (Esping-Andersen 1996). The main approach to fight unemployment is to reduce the supply of labour by making alternative social roles more attractive. Esping-Andersen (1996) has stressed the German strategy against unemployment is not sustainable („welfare without work“) because the rising

³ The 1969 change in government was preceded by a „grand coalition“ of CDU/CSU and SPD. In 1982, the FDP changed sides two years after the SPD-FDP coalition had been confirmed by the voters in the 1980 parliamentary elections. The new conservative-liberal government then got a majority of votes in the extraordinary elections in 1983.

contribution rates caused by the strategy of ‚labour shedding‘ are themselves increasingly regarded as a major source of unemployment. It is argued that in particular low skilled workers are priced out of the labour market because of excessively high non-wage costs. This analysis is now widely accepted in Germany.

- The transfer-orientation of the German welfare state is regarded as a major obstacle to equal gender relations. For social services are not sufficiently available caring has to be done in an informal way by family members, mainly women.
- The system of social insurance reproduces the distributional effects of the labour market in the welfare systems and is therefore – given the rising numbers of non standard work and incomplete families – highly selective. Those not engaged in standard work arrangement and/or standard family arrangements are particularly vulnerable to social exclusion and poverty.
- Germany is said to be rather resistant against welfare reform. As Esping-Andersen argues Germany seems to be „locked into a self-reinforcing negative spiral“ (Esping-Andersen 1996: 68; Pierson 2001). Vivian Schmidt complements the argument by saying that Continental welfare state face particular difficult problems to adapt for they „could not justify new welfare policies .. through appeal to traditional welfare state values, given the unsustainability of a welfare state based on the traditional family ...“ (2000: 273).

Phases of Welfare State Reform since 1982

Post-1982 welfare state reform has gone through different stages (Bönker/Wollmann 2000a: 521-525; Schmidt 1998; Jochem 2001; Schmid 1998; Zohlnhöfer 2001):

- The first years of the Kohl government were characterised by short-term fiscal consolidation. While the new government announced a fundamental turn around (*Wende*), changes in the field of social policy were largely confined to minor cuts in benefits. The “breather” (Kohl) in social policy was more or less accepted by the general public (Alber 1989).
- When the economic and fiscal situation improved in the mid-1980s, the issue of consolidation lost salience. The government turned towards structural reforms such as the 1988 Health Care Reform and the “1992 Pension Reform” adopted in 1989. With the economy recovering and the deficit under control, the Kohl government expanded benefits in a number of fields. This expansion of the welfare state culminated in the transfer of the West German social policy institutions to East Germany and the introduction of the long-term care insurance scheme in 1994.
- After the end of the unification boom, social policy changed course and became geared towards retrenchment. As early as in 1993, two packages of fiscal consolidation brought first cuts in unemployment benefits. The mid-1990s then saw a series of improvised, but none the less substantial reforms in almost all fields of social policy, including pensions, health care, social assistance and labour market policy. Reforms were inspired by a neo-liberal discourse on the eroding competitiveness and viability of the German political

economy. Most of the reforms were strongly opposed by the Social Democrats which, under the chairmanship of Oskar Lafontaine, turned to the left. As a result, the mid-1990s were characterised by a high degree of polarisation and fierce controversies over the need for and the direction of reforms (Cox 2001: 489-495; Schmidt 2002: 182-184). Unlike in the past, far-reaching reforms were pushed through unilaterally and adopted without the consent of the parliamentary opposition.

- The red-green government which came to office in October 1998 had won the elections not the least because of the SPD's opposition to the cuts in social benefits. In line with campaign promises, the first initiatives of the new government aimed at reversing these cuts. Moreover, it increased child benefits and launched tax cuts for low-income earners. After the resignation of Finance Minister Oskar Lafontaine in February 1999, however, the government changed course and took a more neo-liberal position. Hans Eichel, Lafontaine's successor, put more emphasis on the consolidation of the budget and on tax cuts for enterprises. The government also came up with a pension reform that aimed at reducing the overall weight of the public pillar.

3. Pension Reform

Pension reform was a major political issue during most of the 1980s and 1990s. Since the mid-1970s, Germany has seen three major rounds of pension reform which culminated in the "1992 Pension Reform" in 1989, the "1999 Pension Reform" in 1997 and the most recent reform in 2001 ("Pension Reform 2000").

Traditional features of old-age protection in the Federal Republic

Germany's statutory pension scheme (*Gesetzliche Rentenversicherung*) was established by Bismarck in 1889 as the first formal pension system in the world. Originally confined to a small group of blue-collar workers, it was gradually transformed into a comprehensive scheme that provides retirement, survivor and disability benefits for essentially all workers. The main post-war reforms that shaped the *status quo* at the outset of the 1980s were adopted in 1957 and 1972.

- The 1957 pension reform brought the gradual transition from a fully funded to a PAYG system. Moreover, the annual adjustment of pensions, which had hitherto taken place on a discretionary basis, was linked to the development of gross earnings (*dynamische Rente*).
- The 1972 reform opened the pension schemes for the self-employed and offered generous terms for back-payment of contributions. It also eased the terms and conditions for early retirement. For those insured for at least 35 years, the statutory retirement age was reduced from 65 for men and 63 for women to 63 and 60 respectively. Unemployed and disabled workers were made eligible to the full pension even earlier. Finally, the 1972 reform topped up the past pension claims of low-income earners with a contribution

record of at least 25 years (*Rente nach Mindesteinkommen*). This measure primarily aimed at compensating women for wage discrimination in the past.

The key features of the „traditional“ German pension system, as it had taken shape by the mid-1970s, can be summarized as follows (Nullmeier/Rüb 1993: 93-115; Queisser 1996; Börsch-Supan 2000):

- Old-age protection has been dominated by a large first pillar. Public pensions have been supposed to allow pensioners to keep their living standard (*Lebensstandardsicherung*). According to estimates, they account for more than 80 per cent of all retirement income. Compared to other countries, both occupational pensions and capital income have played a relatively small role.
- The statutory pension scheme has been financed by a combination of social security contributions and a small federal grant. Social security contributions have been half paid by employees and half by employers.
- Benefits have been closely linked to contributions and, thus, to the employment record. Intra-generational redistribution is limited and takes place mainly through the award of non-contributory periods as well as through the fairly low benefit reductions for early retirement. Since the statutory pension scheme does not provide a minimum income, poor elderly people are dependent upon means-tested social assistance.
- The pension scheme has been based on a male breadwinner model. Derived benefits for survivors have been generous. Until the mid-1980s, widows and, with some qualifications, widowers were entitled to 60 per cent of the pension of the deceased spouse.
- The pension system has suffered from institutional fragmentation. Blue-collar workers, white-collar workers, miners, civil servants (*Beamte*) and certain professions have had their own systems. However, these systems increasingly have been subject to similar rules. With some qualifications, this even applies to civil servants whose pensions have been financed directly via the government budget.
- In legal terms, the statutory pension scheme has been self-governed by trade unions and employers' associations. However, benefit levels, contribution rates and all other key parameters are determined by law, so that the autonomy of the boards is largely confined to operational issues.
- The 1972 pension reform established generous provisions on early retirement. As a result, the average male retirement age fell from 61.5 years in 1972 to 59.5 years in 1993. In the same period, the labour force participation rate of men aged 60-64 more than halved and declined to a mere 34.5 per cent.
- Due to high replacement rates, generous survivor benefits and a small tax burden on pensions, retirement incomes have been relatively high. In 1998, average household incomes of pensioners were a mere 3 per cent below those of employees (Bedau 1999). Compared to other countries, poverty among pensioners has been low.

Reform Discourse

Pension reform has been a major political issue during most of the 1980s and 1990s. In the early 1980s, debates on pension reform focused on short-term issues and the reform of survivors' pensions, which had been on the agenda for a while. In the mid-1980s, a more fundamental reform debate set in (Nullmeier/Rüb 1993). By now, it had become clear that the economic assumptions underlying the 1972 pension reform had been overly optimistic. Moreover, the awareness of the coming demographic challenges grew. Finally, various social scientists pointed to the exclusionary effects that a pension scheme strongly based on earnings-related contributions tends to generate in times of structural unemployment and a de-standardisation of labour.

For the first time since the 1950s, radical alternatives to the existing pension system were formulated. Suggestions to introduce a flat-rate pension scheme, as they were made by greens and liberals alike, attracted the most attention. Other radical proposals that were voiced in the second half of the 1980s included the transition to a funded scheme and a differentiation of contribution rates according to the number of children.

While radical alternatives were discussed, key actors stuck to gradual reforms within the existing system. This applied to the Federal Ministry of Labour, the major parties, the social partners and most of the academics that were part of the policy community. These actors pointed to the weaknesses built into the radical reform proposals and argued that the problems could better be solved by immanent reforms such as changes in the pension formula, an increase in the retirement age or a higher state grant to the pension scheme.

The debate on pension reform re-opened in the mid-1990s. Compared to the 1980s, a number of changes in discourse can be identified:⁴

- As concerns over the size of contribution rates grew stronger, both the rising contribution rates in the mid-1990s and the contribution rates projected by the '1992 Pension Reform' came under fire. The new emphasis on „stable contribution rates“ (*Beitragssatzstabilität*) had different origins. For one thing, scholars and politicians from different camps increasingly subscribed to the view that high non-wage labour costs represent a major cause of Germany's high unemployment. For another, there was a growing concern with ‚generational equity.‘
- Inspired by reforms abroad (Chile etc.) and discussions in the US, an increasing number of economists began to advocate a strengthening of the second or third pillar or even a full-blown transition to a funded system as a desirable and feasible option.
- The consensus among the advocates of the traditional system eroded. The labourist wing of the CDU/CSU and the SPD no longer agreed upon the direction of reforms. While

⁴ For the debates on pension reform in the mid-1990s, see Hinrichs 1998; Meyer 1998; Nullmeier 1997; Richter 2001.

Blüm regarded cuts in future pensions as unavoidable, the Social Democrats argued that such cuts could be avoided by a further increase in state grants, a broader coverage of the statutory pension scheme, a reform of survivors' pensions and a better overall economic policy.

The discourse on pension reform changed once more in mid-1999. After the red-green government had temporarily abandoned the indexation of pensions on net earnings, the very need for retrenchment was no longer controversial. Even more important has been the growing consensus on the need for a new balance between the three pillars. While views on the relative weight of the three pillars and the optimal way of promoting the second and third pillar differ, all major actors have discovered the economic and political advantages of promoting occupational pensions and private savings.

From the 1982 Change in Government to ‚Pension Reform 1992‘

When the Kohl government came to office in 1982, its plans for pensions were unclear. The new government announced an overhaul of the pension scheme in the medium-term and adopted a number of short-term measures that primarily aimed at consolidating the federal budget and at shifting part of the burden of unemployment from the Federal Labour Office to the pension scheme (Nullmeier/Rüb 1993: 131-138). By postponing the scheduled adjustment of pensions from January to July 1983 and by raising the contribution rate from 18.0 to 18.5 per cent in September 1983, the government managed to reduce the federal grant to the pension scheme and to lower the contributions to the pension scheme paid for the unemployed by the unemployment insurance scheme.⁵ In addition, the introduction of a (small) health insurance contribution for pensioners improved the fiscal position of the health care funds.⁶

The first more far-reaching reform was the reform of survivors' pensions and the parallel introduction of credits for child rearing in June 1985 (Nullmeier/Rüb 1993: 144-161). The reform of survivors' pensions had been put on the agenda by a decision of the Constitutional Court in 1975 that had urged the government to reform social benefits for women and survivors within the next decade. The 1985 reform put an end to the differential treatment of widows and widowers and granted both groups the same entitlements. At the same time, it reduced derived pensions by introducing deductions for survivors with higher incomes.⁷

The reform of survivors' pensions was accompanied by the introduction of credits for child rearing (Götting 1992; Nullmeier/Rüb 1993: 158-161). Proposals to introduce such credits

⁵ Contributions were no longer based on gross income before unemployment, but on the size of unemployment benefits.

⁶ The contribution rate was set to increase from 1 % in July 1983 to 5 % in 1985.

⁷ The survivor's pension was kept at 60 per cent of the pension of the deceased spouse. Deductions are limited by a relatively high income threshold indexed to the growth rate of pensions. Moreover, the counted income does not include capital income, rents, supplementary pensions and several social benefits. The new provisions did only apply to „new“ survivors.

had been around for some time and had been rejected by the CDU/CSU earlier on. According to the new provisions, the first year after the birth of a child became credited equivalent to 75 per cent of the average income. Two provisions limited the effects of the credits. At first, credits were confined to mothers born 1921 and later. This was modified after public protest in 1987. Moreover, the law restricted the cumulation of credits and other claims, so that working mothers were disadvantaged. The government praised the new credits primarily as a means to do justice to mothers. In contrast, demographic arguments, which played a prominent role later on, featured less prominently back then.

After the 1987 parliamentary elections, the government began to draw up a more comprehensive pension reform (Nullmeier/Rüb 1993: 185-223). After the CDU/CSU and FDP had agreed upon the basic design of reforms, the government sought the support by the Social Democrats. The „consensus talks“ that took place between November 1988 and February 1989 proved to be successful. The government made some concessions, and the SPD eventually consented to a joint draft law. On November 9, 1989, the „1992 Pension Reform“ passed parliament. Only the greens and one FDP MP voted against it. The reaching of a compromise was favoured by the general policy consensus. As has been mentioned above, the pension specialists within the three parties shared similar views on the challenges to the pension scheme and the direction of reforms. Ultimately, of course, political considerations were decisive for the cooperation. From the point of view of the government, the agreement with the SPD was a way of demonstrating its commitment to the common interest and of sharing the blame for the unpopular elements of reform. The SPD was able to claim the credit for the concessions by the government and did not have to fear the critique that it had obstructed reforms. Confident about winning the next election, the Social Democrats also hoped that the delicate issue of pension reform would be resolved before their own incumbency (Nullmeier/Rüb 1993: 201-214; Schludi 2001: 34f).

The ‚1992 Pension Reform‘ brought a number of substantial changes (Nullmeier/Rüb 1993: 224-292; Schmähl 1999: 100-105; Lamping/Rüb 2001: 12-14):

- Starting in 1992, the indexation formula was changed. While the replacement rate was left at 70 per cent, the annual adjustment of pensions was indexed to the change in average net earnings rather than to gross earnings. Given the expected rise in tax rates and social insurance contributions, this implied a major reduction in future pension claims. By translating higher contribution rates into slower pension growth, the change in the indexation formula shifted part of the fiscal burden associated with the ageing of society on the elderly.
- In order to stop the trend towards early retirement, the reform aimed at re-increasing the standard retirement age to 65 and at introducing deductions in the case of early retirement. However, the adopted measures were rather modest. Deductions remained below an actuarially fair rate and were scheduled to be phase in only gradually between 2001 and 2010. Moreover, alternative exit options, most notably disability pensions, were left untouched.

- Credits for child rearing were extended significantly. The number of years of contributions credited for each child was raised from one to three years.
- The federal grant was put on a new footing. A new formula made the size of the grant dependent upon the development of average gross earnings and the contribution rate. This implied an one-time increase in the size of the grant followed by its stabilisation at the level of about 20 per cent of overall pension spending.
- The reserve requirements the statutory pension scheme has to meet were lowered from 12 to 3 months of pension spending.
- The new formula for calculating the federal grant was part of a broader self-regulating mechanism which aimed at ‘depoliticising’ pension policy. The ,1992 Pension Reform‘ envisaged an automatic, non-discretionary ,expenditure-oriented revenue policy‘. By fixing the base level of pensions, their annual adjustment and the minimum reserve requirements it made the contribution rate the main fluctuating variable.

The adopted measures substantially reduced future pension claims. The implied reduction in the implicit pension debt is reflected by the substantial decline in prospective social insurance contribution rates. When adopted in late 1989, the ,1992 Pension Reform‘ was thought to bring about a decline in the projected contribution rate by 1.7 percentage points in 2000 and almost 10 percentage points in 2030 (Tab. 1).

Table 1: Projected Pension Insurance Contribution Rates

	2000	2010	2020	2030
1989 (without ,1992 Reform‘)	22.0	24.5	28.1	36.4
1989 (with ,1992 Reform‘)	20.3	21.4	22.8	26.9
1994	19.7	21.5	23.1	27.0
1996	20.4	21.6	23.2	26.2
1996 (with February measures)	20.1	20.6	22.6	25.5
1996 (with ,1999 Reform‘)	19.7	19.1	20.0	22.4
2000		19.6	20.5	23.6
2000 (with ,Reform 2000‘)		18.7	19.7	21.9

Source: Bönker/Wollmann 2001: 85

Pension Reform in the 1990s

When the ,1992 Pension Reform‘ was adopted, the general understanding was that no major additional reforms would be needed for at least a decade. The Coalition Treaties in 1990 and 1994 thus did not say much on pension reform. Starting in the mid-1990s, however, a new pension reform debate set in. The re-opening of the debate was triggered by the short-term fiscal pressures resulting from the high transfers to the East and rising unemployment in the West. Owing to the introduction of the long-term care insurance scheme, rising health care and pension insurance contribution rates, the overall social insurance contribution rate increased by 2.4 percentage points from 1995 to 1997. The pension insurance contribution

surpassed the psychologically important threshold of 20 per cent in 1997. In this situation, the pressure on the government to do something increased.

Unlike in the late 1980s, no consensus could be forged (Nullmeier 1996; Richter 2001). This was partly due to political-tactical reasons. With a view to the upcoming elections, the SPD rejected all calls for cuts in pensions. At the same time, the FDP opposed all concessions to the SPD. However, political considerations were only part of the story. The reaching of a consensual solution was also complicated by the fact that the views on pension reforms differed more strongly than in the late 1980s. As a result, the Kohl government, in an attempt to demonstrate its capacity to act, pushed through various reform measures unilaterally. In February 1996, the phasing in of the (higher) early retirement deductions agreed upon in 1989 was accelerated. In addition, the government reduced the maximum number of years of schooling credited without paying contributions. In summer 1997, parliament adopted more far-reaching reforms. The ‘1999 Pension Reform’, as it was called, comprised the following elements (IMF 1997: Chap. V; Schmähl 1999: 109-114):

- In order to limit future pension growth, a so-called ‘demographic factor’ was introduced into the pension formula. Accounting for the increases in the (further) life expectancy of people aged 65, this factor was to produce a gradual decline in the standard pension level from 70 per cent of average net earnings in 1997 to 64 per cent in 2030.
- The federal grant was raised once more. This raise was financed by an increase in the standard VAT rate by one percentage point in April 1998.
- Crediting for child rearing was further extended by raising the value of credits and by making it possible to add credits to other entitlements from the period of child rearing.
- Eligibility criteria for disability pensions were tightened. In addition, the government announced a reform of survivors’ pensions in the next term.

These measures implied a further reduction in future contribution rates. Compared to the projections on the basis of the measures adopted in February 1996, the contribution rate in 2030 was set to fall by another 3.1 percentage points (see Tab. 2).

Table 2: Effects of the “1999 Pension Reform” on Pension Insurance Contributions in 2030
According to Official Projections

introduction of the ‘demographic factor’	- 1.5 percentage points
changes in disability pensions	- 1.0 percentage points
increase in federal grant	- 1.0 percentage points
additional credits for child rearing	+0.3 percentage points

Source: Schmähl 1999: 114.

Pension Reform under the Red-green Government

In the run-up to the 1998 parliamentary elections, the SPD had campaigned massively against the unpopular '1999 Pension Reform.' When the red-green government came to office, it stuck to its campaign promises and suspended the introduction of the demographic factor and the reform of invalidity pensions. This suspension of a major pension reform was as unprecedented in German post-war history as the prior passage of reforms without the votes of the opposition.

In line with earlier announcements, the new government quickly implemented various measures aimed at broadening the coverage of the statutory pension scheme and at financing non-contributory benefits through taxes. It tightened the rules on dependent self-employment and on the so-called 630 DM jobs. Moreover, it raised the federal grant to the pension scheme. Part of the increase was financed by the newly introduced ecotax, a number of taxes on energy consumption. These measures made it possible to reduce the pension insurance contribution rate from 20.3 to 19.5 per cent in April 1999 and to 19.3 per cent in January 2000.

These early moves were accompanied by the vague announcement of additional 'structural' reforms to be effective in early 2001. A first outline was presented by Minister of Labour Walter Riester in June 1999 (Dünn/Fasshauer 2001: 267f.). The presentation coincided with the government's spectacular turn-around in fiscal policy after the resignation of Finance Minister Lafontaine. Like Hans Eichel's move towards a more restrictive fiscal policy, Riester's proposals marked a considerable change in the government's position and took most observers by surprise. The most controversial of these measures was the proposal to abandon the indexation of pensions to net earnings for two years and to index pensions on prices in 2000 and 2001. A second proposal that drew much attention was the introduction of a mandatory private pension pillar to be financed by employee contributions increasing from 0.5 per cent of gross earnings in 2003 to a total of 2.5 per cent by 2007. In addition, Riester announced the introduction of a minimum pension and an overhaul of survivors' pensions.

These proposals represented a substantial departure from the SPD's previous reform plans. The idea of making new groups subject to social insurance was dropped. The change in the indexation of pensions also meant a much steeper initial decline in the pension level than the plans of the Kohl government that had been fiercely rejected by the SPD-opposition.⁸ Likewise, the introduction of a private pension pillar implied a new public-private mix in old-age protection and a departure from the traditional proportional financing of social security contributions by employees and employers. What made Riester's proposals even more remarkable was the fact that the idea of a supplementary private pension pillar hitherto had

⁸ For a comparison of the effects of the '1999 Reform' and the temporary indexation of pensions on inflation on the different generations, see Thum/v. Weizsäcker 2000; Borgmann et al. 2001: 323-326.

not featured very prominently in German debates on pension reform and had not been considered by most experts close to SPD.

Riester's plans were highly controversial both outside and within the governing coalition. The obligatory character of the private pillar was attacked as illegitimate compulsion. The trade unions and the traditionalist wing within the SPD criticised the cuts in pensions and insisted that the private pillar should not 'replace', but only 'top up' public pensions. Moreover, the unions argued that the private pillar should take the form of occupational pensions subject to collective agreements between the social partners. The CDU/CSU seized the opportunity to capitalise on popular dissatisfaction with the government's pension plans. It criticised the temporary indexation on prices for its discretionary character and for imposing an unjust burden on current pensioners. It also rejected the government's plan for a reform of survivors' pensions and strongly opposed the idea of a minimum pension as a departure from the traditional contribution-related pension system and a blurring of the differences between pensions and social assistance. At the same time, the CDU/CSU quickly embraced the idea of supplementary private pillar, yet called for making state subsidies more generous and dependent upon the number of children.

Pension reform also featured prominently in a number of state elections that went badly for the government as a result of the opposition's attempts to benefit from popular discontent with the Riester plans. In this situation, the government stressed its interest in a consensual solution and agreed upon a series of talks with the opposition parties. These talks took place in the first half of 2000. They were complicated by the fact that the CDU/CSU lacked a clear reform concept and was absorbed by the fall-out of the scandal about its illegal financing practices.

At the end of May 2000, Riester presented a new and more detailed version of his plans (Dünn/Fasshauer 2001: 269; Rürup 2000). The new draft included a number of concessions to the critics. The government refrained from introducing a minimum pension and from making the private pension pillar obligatory. Moreover, fiscal incentives to take out a private pension were strengthened. At the same time, Riester renewed his commitment to indexing pensions on prices in 2001 and to the creation of a supplementary private pillar. In one important respect, Riester's new plans were even bolder than his original announcements. The new pension formula with which he eventually came up provided for a decline in the public pension level down to 61 per cent of net earnings in 2030. According to Riester, these measures would make it possible to keep pension contribution rates 22 per cent in 2030.

Riester's proposals did not put an end to controversies. Both the trade unions and the CDU/CSU continued to attack Riester's plans. As the government did not dare to push through a pension reform against both unions and the parliamentary opposition, a further round of concessions set in:

- The government once more changed the pension formula with a view to spreading the burden more evenly among different generations and to keeping public pensions in 2030 at a higher level.
- The government gave up its original plans to establish a minimum pension and confined itself to making the means-test for pensioners in the social assistance scheme less restrictive.
- The government modified its plans for reforming survivors' pensions.
- The government pleased the trade unions by making occupational pensions more attractive and by making concessions in the field of labour law.

In December 2000, the trade unions eventually endorsed Riester's plans.⁹ In contrast, the CDU/CSU continued to oppose the reforms. Together with FDP and PDS, it voted against it in the lower house. The CDU/CSU also tried to block the pension reform in the Federal Council, but did not manage to commit part of the "its" states to the party line.

The recent pension reform marks a major change which will transform old-age protection in Germany and will also influence other fields of social policy (IMF 2000, Ch. V; Lamping/Rüb 2001). This is largely due to the introduction of the private pension pillar. The bringing in of a state-backed privately-funded scheme means a first step towards a new public-private mix in old-age protection; it weakens the traditional proportional financing of social security contribution and provides new instruments and parameters for pension reform. Finally, the new private pillar will transform the policy arena by bringing new actors and interests (from banks and insurance companies to the Ministry of Finance and the Federal Council) in.

Prospects

Despite of the "Reform 2000", it is a safe guess that pension reform will remain on the agenda:

- The government's medium-term targets for contribution rates and pension levels are based on questionable economic assumptions. Therefore, it is rather likely that targets won't be met and future contribution rates will be higher than announced. The economic downturn in 2001/2002 has already rendered the government's short-term targets obsolete. Confronted with lower-than-expected revenues, the government was forced to retreat from its original plans to reduce the rate from 19.1 per cent in 2001 to 19.0 per cent in 2002. Without the lowering of the legally required reserves of the pension scheme in November 2002, rates even would have risen in 2002. In 2003, they will have to be raised. The

⁹ For the unions' eventual approval of the 'Pension Reform 2000', which was highly controversial among the rank and file, see the justifications by Engelen-Kefer 2001 and Standfest 2001.

higher-than-expected contribution rates are likely to reduce the trust in the government's pension reform and to provoke calls for further reforms.

- In a decision in April 2001 that declared the financing of the long-term care insurance unconstitutional, the Constitutional Court urged the government to check to what extent the other branches of social insurance discriminate parents. The government was quick to argue that the pension scheme is different and honours child-rearing through credits and higher survivors' pensions for parents. However, it is not sure that the judges will buy these arguments. In any case, the Court's decision has stirred a new debate on the design of the pension scheme (see, e.g., Borchert 2001; Krupp 2001; Ott 2001; Rürup 2001; Sinn 2002).
- A second decision of the Constitutional Court concerns the taxation of pensions. In a long-awaited decision in March 2002, the Constitutional Court declared the current way of taxing pensions unconstitutional and obliged the government to overhaul it until the end of 2004 (Nüssgens 2002).¹⁰ All major actors now agree upon a gradual move to deferred taxation. However, the details are controversial. Moreover, it is likely that the future taxation of pensioners will provoke debates on the level of public pensions.
- The new private pillar has grown slowly. This applies to collective agreements between unions and employers and even more to private pensions plans. Of the 35 mn people eligible, only 2m have so far signed up for private pension plans (Economist, August 3, 2002: 23). The weak demand for the new „products“ has been favoured by intransparent and bureaucratic provisions and the slow certification of products. The meagre results have led to calls for reducing the restrictions on private provisioning or for making it obligatory.

The future of pension reform depends on the outcome of the parliamentary elections in September 2002. While the governing parties have praised the “2000 Pension Reform” and have downplayed the need for further reforms, the CDU/CSU has announced that it would revoke large parts of the recent reforms.

4. Care for the Elderly

Care for the elderly was for long a subordinate issue of welfare state reform in Germany. This changed during the 1980s when the calls for some kind of public scheme for the support of elder people grew louder. These calls led to the introduction of the long-term care insurance scheme in 1994, one of the major social policy innovations in the 1990s.

The Traditional Structures of Care for the Elderly

The traditional structures of care for the elderly can be summarised as follows:

¹⁰ At present, part of the contributions and part of the benefits are taxed. Moreover, civil servants are subject to special rules.

- The German welfare state has been notorious for its transfer orientation and for a weakly developed infrastructure of social services. As a matter of fact, the provision of care facilities still lags behind other OECD countries (Schölkopf 1999: 253-256). This applies to both domiciliary and to institutional care.
- The bulk of social services has been provided by the so-called welfare associations (*Wohlfahrtsverbände*). These are non-profit organisations which finance themselves from fees for services, membership contributions, private donations, investment incomes and public subsidies. Their strong position is guaranteed by law. The famous principle of subsidiarity, enshrined in the 1961 Federal Social Assistance Act (*Bundessozialhilfegesetz*), has given the welfare associations clear priority in service provision and has obliged local governments to offer co-operation and support. Local governments are not permitted to engage in the supply of social services if these services can be supplied by the welfare associations.
- Compared to health care, care for the elderly has been characterised by weak professionalization. Quality standards for both institutional and domiciliary care have been modest or non-existing. No clear curricula for carers have existed. Finally, bad working conditions, low status and meagre wages have made care for the elderly unattractive, so that many jobs have been vacant.
- Until the late 1980s, Germany had no public scheme for supporting frail elderly people. The law drew a strict distinction between medical treatment and illness-related acute care on the one hand and long-term care on the other.¹¹ As the health care scheme did not cover the risk of requiring long-term care, frail people had to rely on informal care arrangement and/or to draw on their personal income and private assets. If these resources were depleted, they were became eligible to social assistance. This situation created a number of problems (Ostner 1998: 116-118):
 - The huge costs of institutional care made more than two thirds of all people living in nursing homes dependent on social assistance. Even people with above-average pensions thus became stigmatized welfare claimants left with mere ‚pocket-money‘ in old age. At the same time, social assistance, originally conceived of as a net of last resort for people with specific needs and problems, degenerated into a standard benefit for a broad group of the population.
 - The growing proportion of elderly requiring long-term care, along with increasing rates for care, contributed to a surge in social assistance spending. Between 1973 and 1993, real spending on social assistance for people in need of care increased by 370% (Roth/Rothgang 2001: 292). Accounting for more than a third of overall spending on social assistance, these expenditures put a

¹¹ In German law, ‚illness‘ is defined as a temporary condition and does not include chronic disability (Ostner 1998: 116). This definition goes back to the 1911 Imperial Insurance Act (*Reichsversicherungsordnung*) and reflects the strict distinction between the various social insurance schemes and the local welfare state which is characteristic of the German welfare state.

heavy burden on local governments, the tier of government in charge of financing the social assistance scheme in Germany.

- As the frail elderly often lacked the means to purchase professional care, the bulk of home care was provided informally by family members. This strong reliance on informal care strained family relations, reduced the quality of care and added to both the low female labour force participation and the meagre employment in personal social services in Germany.
- The heavy social assistance burden on local governments contributed to the low quality of professional care in Germany. Given the dire fiscal situation, the local authorities faced strong incentives to reduce social assistance payments by pressuring the non-profit organisations, which run most of the nursing homes in Germany, into accepting low rates. Moreover, local governments lobbied the states and the federal government not to rise the costs of care by promoting the professionalization of care.

Reform Discourse

From the mid-1970s to the mid-1990s, the discourse on care for the elderly focused on the pros and cons of different ways of covering the risk of long-term care (Götting et al. 1994; Haug/Rothgang 1994: 2-12; Meyer 1996: 153-170; Rothgang 1997: 12-17). In contrast, other issues such as the insufficient care infrastructure or the low quality of care played but a subordinate role. At the beginning, the case for reforms was made primarily by social policy actors, welfare associations and local governments. Later on, they were joined by the states and the opposition parties. Various proposals to address the issue were floated. Some of them envisaged a solution within the health care scheme; others aimed at the introduction of tax-financed benefits or the creation of a separate insurance scheme.

Until 1990, however, the very need for a comprehensive new scheme remained controversial. The federal government, along with the employers and many economists, opposed comprehensive reforms. The sceptics argued that such reforms were likely to undermine the readiness to provide informal care and to induce a switch from domiciliary to institutional care (*Heimsog*), thus creating a high and unbearable fiscal burden (see, e.g., Bundesregierung 1984). Instead of a comprehensive new scheme, the government advocated a number of minor measures.

When in 1990/91 the government surprisingly changed its position and eventually committed itself to the introduction of a new scheme, the discourse changed. For one thing, parties took over and began to dominate the debate. For another, the main issue was no longer *whether* to engage in reforms, but *how* to design them. By and large, the following positions can be identified:

- The labourist wing of the CDU/CSU, represented by Minister Blüm, and the SPD favoured the setting up of a social insurance scheme similar to the traditional four branches of social insurance. Both pointed to the problems of tax-based and funded solutions. While they shared a preference for a social insurance scheme and broadly agreed upon the level of benefits and the size of contributions, both parties held different views on membership. Unlike the CDU/CSU, the SPD wanted to go beyond the status quo in health by bringing higher-income earners and the self-employed into the public scheme.
- The FDP, the business wing of the CDU/CSU and most economists argued for making private care insurance compulsory (Wilke 1999). They maintained that the risk of requiring long-term care was not related to gainful employment and thus should not be treated like the risks of old-age, illness, unemployment and industrial accidents. Moreover, they warned against a further increase in non-wage labour costs, emphasised the advantages of a funded scheme and argued that a „traditional“ solution would be a bad signal at a time when an overhaul of the welfare state was on the agenda.
- The Greens had supported a tax-financed scheme in the 1980s. In the early 1990s, they changed their position and opted for a social insurance scheme. Compared to the proposals of CDU/CSU and SPD, however, the plans of the Greens provided for more generous benefits and a much higher contribution rate. The only party in parliament that stuck to a tax-financed solution was the post-communist PDS.

After the creation of the care insurance scheme, debates on long-term care lost salience. On the one hand, the scheme as such is now broadly accepted. Occasional calls for the move to a tax-financed, means-tested scheme notwithstanding, the long-term care insurance scheme is more or less uncontested. On the other hand, there has been a general understanding among major policy makers that there is no scope for improving benefits by raising contributions. As a result, debates on the long-term care insurance scheme in the late 1990s largely focused on what to do with the larger-than-expected fiscal surpluses. While a broad coalition of SPD, Greens and the labourist wing of the CDU/CSU argued for a modest expansion of benefits, the FDP and the business wing of the CDU/CSU called for a reduction in contribution rates.

The Road to the Long-Term Care Insurance Scheme

When the Kohl government came to office in 1982, it reacted reluctantly to the calls for a better coverage of the risk of requiring long-term care (Meyer 1996: 159-163). In a 1984 White Paper, the government warned of the fiscal consequences of the suggested schemes and committed itself to a bundle argued against bold reforms and announced minor measures (Bundesregierung 1994). The single most important of these measures was the introduction of a benefit for the chronically disabled within the framework of the 1988 Act on Health Reform. The new law obliged the statutory health care funds (*Krankenkassen*) to pay chronically disabled members 400 DM per month for home-based informal care and 750 DM for professional care.

Given the government's long-standing preference for small steps, it came as a surprise when Norbert Blüm announced the introduction of a new social insurance scheme providing care for the elderly in the run-up to the 1990 elections. The passage of reform was complicated by the fact that the governing coalition was split on the issue. While a broad majority within the CDU/CSU favoured a social insurance model, the FDP and the business wing of the CDU/CSU preferred a private insurance solution. At the same time, the government lacked a majority in the Federal Council, thus being dependent upon the support by states governed by the SPD. The interplay of both conflicts made for a protracted „two level game“ which took until April 1994 (Götting et al. 1994: 297-304; Meyer 1996: Chap. 6). Owing to the haggling between the different actors, the passage of the law was at the brink of failure several times. At the end, however, the government and the SPD arrived at a compromise, so that the law could be passed before the end of the 1990-1994 term.

The Long-Term Care Insurance Scheme

The main characteristics of the long-term care insurance scheme can be summarized as follows (Ostner 1998: 120-122; Schulte 1996: 161-164; Mager 1999; Rothgang 1997: 25-38):¹²

- The statutory long-term care insurance scheme (*Soziale Pflegeversicherung*) forms a separate (,the fifth') branch of the social insurance system. Membership conditions are similar to health care. Insurance is compulsory for the entire population. Depending on employment status and income, citizens either are obliged to enter the statutory scheme or can choose between private coverage or voluntary participation in the statutory scheme. The statutory care insurance funds, which cover about 90 per cent of the population, insure family members with no, or only a small, income free of charge.
- Benefits are universal. They are neither means-tested nor related to contributions, but depend on the degree of care dependency and the chosen institutional arrangement. The degree of care dependence is assessed by doctors affiliated with the health insurance funds (*Medizinischer Dienst*) twice a year. The law distinguishes three grades of care dependence and three types of institutional arrangements (Tab. 3). In the case of domiciliary care, those eligible can choose between cash benefits (*Pflegegeld*), in-kind benefits and a combination of both. Benefits are not indexed and are not supposed to cover all expenses.

¹² The long-term care insurance scheme was implemented in a stepwise fashion. Contributions were levied from January 1995 onwards, whereas the paying of benefits started only in April 1995 (domiciliary care) and July 1996 (institutional care). Until July 1996, a reduced contribution rate of 1.0 per cent was levied.

Table 3: Types of Benefits Paid by the Care Insurance Scheme (per month)

	Informal Domiciliary Care (Cash Benefit)	Professional Domiciliary Care (In-kind Benefit)	Institutional Care
Grade I (,considerable need of care‘)	205 €	384 €	1023€
Grade II (,severe need of care‘)	410 €	921 €	1279 €
Grade III ^a (,extreme need of care‘)	665 €	1432 €	1432 €

^a In especially severe cases, benefits can be topped up modestly. However, the number of such cases is strictly limited.

- Benefits are financed through earmarked earnings-related contributions. The contribution rate is 1.7 per cent. As with health care, the size of contributions is limited by an income ceiling. Contributions are equally shared between employers and employees. In order to reduce the burden for employers, however, one public holiday was abolished. The law put heavy emphasis on the stability of contribution rates. Unlike in health care, the latter takes legal precedence over the quality of care.
- The statutory long-term care insurance scheme is a PAYG scheme. However, the law requires a minimum reserve equivalent to 1.5 months of spending. In addition, there was a general understanding that the care insurance should accumulate higher-than-required reserves in the first years in order to allow for an unchanged contribution rate until 2010 or so.
- The law aims at improving the conditions for domiciliary care and treats institutional care as a last resort. In order to make informal domiciliary care more attractive, informal helpers are covered by the statutory accident insurance and the pension scheme. The statutory care insurance funds also provide relief nurses when informal helpers are on holiday. Conversely, benefits for institutional care are paid up to the maximum amount only if doctors regard institutional care as necessary.¹³ The quality of informal care is controlled by regular visits by professional care providers.
- The law on care insurance calls for competition in the provision of services. The accreditation of service providers only depends on the fulfilment of certain quality standards. Unlike the providers of hospitals, they do not have to demonstrate that there is a need for further services. The statutory care insurance funds are obliged to enter into contracts with all accredited service providers. According to the law, the welfare association do not enjoy any privileges vis-à-vis commercial providers.

¹³ The phased introduction of the benefits for domiciliary and institutional care also aimed at tipping the balance in favour of domiciliary care.

- The formal responsibility for the provision of a sufficient infrastructure of services rests with the states. At the same time, however, the states are not obliged to finance or to subsidise investments.

The Long-Term Care Insurance Scheme: The Last Step or A First Step?

What remains controversial is whether the introduction of the long-term care insurance scheme marks the completion of the „old“ welfare state or is the harbinger of a „new“ one (Landenberger 1994; Hinrichs 1995; Rothgang 1997; Evers 1995). The decision for a social insurance solution suggests the former. In various respects, however, the design of the long-term care insurance scheme differs from the older social insurance schemes and has anticipated subsequent changes in health care and pension.

- The heavy emphasis on the stability of contribution rates contrasts with the emphasis on the quality of care in the case of health care and the defined benefit schemes in the pension system and the unemployment insurance scheme.
- The fact that the benefits paid by the care insurance scheme do not cover total expenses contrasts with the broad coverage in health care and the idea that public pensions should allow pensioners to maintain their pre-retirement standard of living.
- The compensation of employers achieved through the abolition of a public holiday signals a departure from the traditional way of financing social insurance through equally shared contributions.
- The equal treatment of welfare associations and commercial providers means a break with the corporatist structures that have characterised the provision of social services in Germany since the 1920s (Bönker/Wollmann 2000b).
- The liberalisation of market entry and the reduced role of the states in financing investments transform the role of states and local governments in the provision of social services.

Effects of the Long-Term Care Insurance Scheme

- At present, about 1,8 mn people receive care insurance benefits (Tab. 4). This is largely in line with expectations. The share of those assigned a grade of III is slightly higher, the share of those with a lower grade slightly higher than originally assumed (Schneekloth/Müller 2000: 15-18).

Table 4: The Long-Term Care Insurance Scheme: Recipients and Benefits

	1995	1996	1997	1998	1999	2000	2001
Total Number of Recipients	1061418	1546746	1660710	1738118	1826362	1822104	1839602
o/w Grade I		40,1 %	43,9 %	46,3 %	47,8 %	49,0%	49,8 %
o/w Grade II		43,3 %	40,7 %	39,3 %	38,3 %	37,5 %	36,9 %
o/w Grade III		16,6 %	15,4 %	14,5 %	14,0 %	13,% %	13,2 %
Domiciliary Care	100 %	76,9 %	73,2 %	71,6 %	71,4 %	70,07 %	70,03 %
Institutional care	-	23,1 %	26,8 %	28,4 %	28,6 %	29,3 %	29,7 %
Domiciliary Care							
o/w cash benefit	84,3 %	79,6 %	77,9 %	75,8 %	74,0 %	72,9 %	72,6 %
o/w in-kind benefit	7,8 %	9,0 %	9,5 %	10,6 %	11,5 %	12,2 %	12,2 %
o/w mix	7,8 %	11,4 %	12,6 %	13,6 %	14,4 %	14,8 %	15,2 %

Source: www.bmgesundheit.de

- As Tab. 4 also shows, the introduction of the long-term care insurance scheme has not led to a dramatic increase in institutional care or an erosion of informal care. While the share of those in need for institutional care has increased modestly over time, the vast majority of recipients still receives domiciliary care benefits. Likewise, the bulk of domiciliary care still is done in an informal fashion.
- The long-term care insurance scheme has been more successful in reducing the social assistance burden of local governments than in reducing dependence on social assistance. As Tab. 5 shows, social assistance payments to people in need of care fell by 65 per cent from 1994 to 1998. While the overall decline in social assistance payments was largely in line with expectations, the number of recipients of social assistance declined more modestly than expected

Table 5: The Impact of the Long-Term Care Insurance Scheme on Social Assistance

		Expected Changes	Actual Changes
Institutional care	spending	-60	-67
	no. of recipients	-75	-40
Domiciliary care	spending	-94	-51
	no. of recipients	-81	-67
Total	spending	-65	-65
	no. of cases	-77	-51

Source: Roth/Rothgang 2001: 303, Tab. 12.

- The fiscal situation of the care insurance scheme has been better than expected (Tab. 6). Up to 1998, revenues exceeded expenditures. In the late 1990s, the accumulated reserves substantially exceeded the legally required level. Dire scenarios of quickly evaporating reserves have not materialised yet. However, most estimates suggest that reserves will be run down at the end of the decade.

Tab. 6: The Fiscal Situation of the Long-Term Care Insurance Scheme (bn €)

	1995	1996	1997	1998	1999	2000	2001
Total Revenues	8,4	12,0	15,9	16,0	16,3	16,6	16,8
o/w ContributionsI	8,3	11,9	15,8	15,8	16,1	16,3	16,6
Total Expenditures	5,0	10,9	15,1	15,9	16,4	16,7	16,9
Balance	3,4	1,2	0,8	0,1	-0,1	-0,1	-0,1
Reserves	2,9	4,1	4,9	5,0	5,0	4,8	4,8
- Months of spending	3,9	3,0	3,8	3,7	3,6	3,4	3,3

Source: www.bmggesundheits.de

- Care services have expanded. According to the Ministry of Labour and Social Affairs, the introduction of the long-term care insurance scheme created about 67,000 new jobs in social care in 1995 and 1996 (Ostner 1998: 127; Pabst 1999). Studies for individual states find that the number of carers continued to grow at two-digit rates in 1997 and 1998 (Roth 2000). The available evidence suggests that commercial providers have substantially increased their market share (Gerste/Rehbein 1998).

Policy Developments after 1994

After the implementation of the care insurance scheme, long-term care has not been a major political issue. Changes have occurred in three main fields:

- A first major initiative to improve benefits by making eligibility rules less restrictive was started in 1998. However, the adoption of this proposal was vetoed by the FDP, which would have preferred a reduction in contribution rates (Rothgang/Vogler 1998). The red-green government re-submitted the proposal in 1999. In 2001, it further extended eligibility. Together both laws have led to additional spending of approximately 383 mn € per year.
- The surpluses of the long-term care insurance scheme have invited attempts to shift costs from the health care scheme and the unemployment insurance scheme. In order to reduce the federal grant to the Federal Labour Office, the red-green government reduced the long-term care insurance contributions paid by the Federal Labour Office for the unemployed. This has lowered the annual revenues of the long-term insurance scheme by about 205 mn €
- The red-green government has adopted a number of laws that aim at improving the quality of care. In 2001, it amended the law on nursing homes (*Heimgesetz*) and passed a law on the quality of care (*Pflege-Qualitätssicherungsgesetz*). Both laws are supposed to improve the supervision of nursing homes, to make contracts more transparent and to strengthen the participation of the clients. Building on long discussions, the new government has also tried to introduce a national curriculum for carers. However, this initiative has been

opposed strongly by the state of Bavaria. The latter regards a national curriculum as an infringement on states' rights and has filed a suit. This has led the Constitutional Court to suspend the enactment of the new law (*Altenpflegegesetz*).

Prospects

In the coming term care for the elderly will again become a major political issue. This is because the Constitutional Court has put an overhaul of the scheme on the agenda. In a decision in April 2001, the Court declared the way the long-term care insurance scheme is financed unconstitutional (Rothgang 2001; Ribhegge 2002). According to the Court, the construction of the scheme does not take sufficiently into account that parents contribute to the sustainability of the scheme not only by paying contributions, but also by "producing" future contributors. The decision urges the government to reform the long-term care insurance scheme until the end of 2004. Remedies discussed include a differentiation of contribution rates and special subsidies for parents. At present, however, the key actors do not seem to have strong positions on the issue. Given the fiscal problems of the long-term care insurance scheme in the long-run, it is likely that the debate on how to react to the decision of the Constitutional Court will turn into a broader discussion on the design of the whole scheme.

5. Women's Labour Market Participation

Traditional system and challenges

With regard to gender relations the German welfare state is characterised as a "strong breadwinner model" (Lewis 1992; Ostner 1995) or a "conservative welfare state" (Esping-Andersen 1990, 1996, 1999). These characterisations refer to a division of duties between the sexes where men are responsible for gainful employment whereas the role of women is caring for the household and children. This division of labour was sanctioned by the family norms of the civil law. The equality act of 1957 for example allowed wives to go to work only on the condition that their duties in marriage and family were not hurt (§ 1356 BGB a.F.). Until the family law reform in 1977 a wife couldn't work without the consent of her husband. These orientations formed the basis upon which the welfare state was constructed after WW II (Leitner/Ostner 2000):

- A possibility to split the family income between husband and wife for taxation was introduced in 1958 which privileged male breadwinner families.
- Social security systems were organised as insurance systems closely relating the position in the labour market to the welfare system. The division of labour within the families was therefore reproduced within the social welfare system (Vobruba 1990).
- Wives and children were integrated into the system as dependants of the husband. They received derived benefits once the breadwinner had deceased (*Hinterbliebenenrente*).

- The provision of social care service had therefore not been regarded as necessary for the wives were supposed to care for their children and older family participants (cf. Table 7).

Thus the strong male breadwinner model developed. The employment rate of women¹⁴ between 1950 and 1980 was around 30 per cent (Statistisches Bundesamt 2001: 88). The employment rate of unmarried women was almost as high as for men while the employment rate for married women was significantly lower (BMFSFJ 2001: 123).

The traditional division of labour is undergoing major changes posing serious challenges to the traditional system of work and welfare.

- There is an increase in female labour market participation. The employment rate of women has been rising from 30 per cent in the mid-70s to 40 per cent in 1999 (West Germany; Statistisches Bundesamt 2001: 88). Around 60 per cent of all women between 15 and 64 have a job in 2000 (70 per cent of those 25 to 54 years). The majority of the non-employed women in west Germany are housewives (62 per cent in 1998 against 76 per cent in 1988). By contrast non-employed women in east Germany are mostly unemployed (37 per cent) or already retired (27 per cent) (Statistisches Bundesamt 2001: 481)¹⁵.
- The characteristics of women's employment are comparable to other countries: women are predominantly working in the service sectors, they earn in general less than men and they are working part-time (Maier 1993). Indeed, the overall volume of working hours of women has remained constant: the increase in the numbers of working women is exclusively due to the expansion of part-time work. Around 40 per cent of all women have been working part-time in 1998, whereas men continue to work full-time (96 per cent, Auth 2002: 73). The rising employment rates of mothers reinforce the issue of reconciliation of work and family.
- Cultural changes erode the legitimacy of the traditional male-breadwinner model. Women are now as well educated as men and they want to overcome the gender-segregated labour market: they increasingly want to play an *equal* role in society and in the labour market (Auth 2002: 77-81).
- The fertility rate in Germany is decreasing (BMFSFJ 2001: 99-102). The number of children per woman declined from over 2.3 in 1960 (East and West) to 1.3 in 1996 (W: 1.4; E: 0.9). It may be assumed that there is a link to the insufficient reconciliation of work and family.
- This development poses huge problems for the „generation contract“ between young and old people. The population at large is declining in numbers and getting older. There will

¹⁴ Employed and unemployed women in relation to all women. Comparative data are provided by the paper of PTG and more extensively by Daly (2000).

¹⁵ These data show that the different institutional settings in west and east Germany resulted in different cultures and values as well. According to the survey the status of a „housewife“ is almost non-existent in East Germany – as it is for men (Statistisches Bundesamt 2001: 481).

be a shortage of people in working age in the long term. The employment rate therefore needs to be raised, especially for women¹⁶.

- There is a pluralisation and individualisation of life styles (Beck 1986). The standard life styles as assumed in the social security institutions (marriage and standard work arrangement, *Normalarbeitsverhältnis*) don't correspond any longer to the changed attitudes and behaviours of huge parts of society. In particular the rising number of incomplete families such as lone-parents poses a problem for the traditional family based system.
- Another major challenge arises from German unification. In the GDR women were supposed and enabled through the supply of public child-care facilities to work. Thus the women's employment rate was significantly higher than in West Germany. After unification the east German economy collapsed and the demand for female labour declined. The unemployment rate for women in east Germany was in the early 1990s almost twice as high as the rate for men (21 per cent to 11 per cent in 1993). At the end of the 1990s the numbers and rates converged (Statistisches Bundesamt 2001: 98).

Reform discourse

The challenges described pose rather serious questions for the traditional 'strong male-breadwinner model'. The discourse has mainly been reflecting two broad issues:

- The first question concerns the relationship of family and gainful employment, involving mainly the question of who is responsible of the education of small children and the caring for old people: Should it be the market, perhaps supported by tax relieves (liberal solution), the state (social-democratic) or the family (Christian-democratic)? Closely related is the question whether women should join the labour market or stay at home as housewives.
- The second question points to the equal position of women *within* the labour market. Given the tradition of the male bread winner family women are underrepresented in many jobs, especially in technical and leading jobs. The question is whether the state should intervene into the market to achieve greater gender equality. While the view of the liberals and the Christian-democrats would traditionally be that there should not be more intervention than guaranteeing formal equality, social democrats and greens agree to the need for public intervention.

The west German welfare state has mainly been built up by the Christian democratic party and therefore it mainly reflects the family oriented values of that party. The view of that party in the 50 and 60s was that the place of a women was to stay at home caring for children and the household. The main focus of the policy was on the traditional family as an institution which has a right on its own (Bleses/Rose 1998). There was a change in the policy approach resulting from a general cultural change after 1968 (new women's movement) when the

¹⁶ An alternative or complementary strategy to deal with the falling numbers of people at workable age is to increase inward-migration.

CDU/CSU accepted that gainful employment was regarded as normal and important by women. Kohl declared in his inaugural speech that neither gainful work nor work in the household is normatively preferable. The approach of the government was to increase choices for women (*Wahlfreiheit*). The “womens’s” party congress in 1985 finally adopted guiding principles for a new equal partnership between man and woman. The CDU states in the preamble: “The CDU is convinced that a human society is only achievable when women participate on all levels and in all sectors” (CDU 1985: 229). The major concern of CDU was however not the insufficient supply of public care facilities. Instead the priority of the Christian democratic approach was to improve the financial situation of mothers who stayed at home to care for their children.

By contrast the policies of the SPD-led government in the 70s were mostly concerned with the relationships within the family. Their policy has therefore been called family member policies. The rhetorical focus was on emancipation of the weaker members of the family, women and children (Bleses/Rose 1998: 136). Integration into the labour market was regarded as the appropriate way to strengthen the autonomy of women. The women's association of the SPD (*Arbeitsgemeinschaft sozialdemokratischer Frauen, ASF*) managed in 1977 to achieve a declaration of the party towards a partnership of equals including an equal division of labour (Auth 2002: 189). This approach was reinforced by the basic programme of the SPD (1989) where it called amongst others for a reduction in working time to 6 hours per day to allow both parents to work and care for the family. In the late 90s when the SPD formed a coalition with the greens - which most strongly fought for a policy towards gender equality - the government committed itself to an active policy of promotion of both women’s participation on the labour market and equality within the labour market through public intervention.

Policy trajectory

As mentioned the policy approach of the CDU-FDP government from 1982 onwards did not involve a major effort to raise women’s participation in the labour market (Schunter-Kleemann 1992: 159). Chancellor Kohl stressed in his augural speech in 1982 that „for us work is not just salaried work. Work within the household and caring for children is of equal worth; it needs to be respected“ (Kohl 1982: 430, my translation, CDU 1985). According to this principle the main efforts of the Kohl-government had been (1) the introduction of a parental leave system („education holiday“ including an „education allowance“) and (2) the promotion of part-time work. In addition, labour market policies aimed at (3) supporting the return of mothers into the labour market. In the 1990s two further major changes need to be stressed. In the course of the unification process the new regulation of the abortion law provided the opportunity to include (4) some major policy changes in the social service area - most important the right to get a kindergarten place - into the overall package and (5) a federal equality act was ratified with a view to increasing equality within the labour market.

While the Kohl government didn't have any serious political strategy to increase women's employment the red-green coalition committed itself to the target of an increased women's employment rate as proposed by the European Union.

Table 6: Policies to increase women's employment, the most important decisions

Year	Measures
since 80s	promotion of part-time employment for women and mothers
1986	introduction of parental leave system; replaces "mothers' holiday"
1992	<i>Schwangeren- und Familienhilfegesetz</i> ; right on kindergarten place for all children between 3 and 6 years from 1996 onwards as part of abortion package
1994	federal equality act
1999	programme "Woman and employment";
2000	"parent's time" = parental leave reform general right on part-time job equality reinforcement act

The Kohl government

The most important measure of the Kohl government in family policy was the introduction of the *parental leave system* in 1986 (Auth 2002; Bleses/Rose 1998; Schneider 2002). The roots of the act date back to the 70s when the CDU/CSU opposition introduced a parental leave act into the parliamentary process. This initiative was meant as an alternative to the liberalisation of the abortion act that was announced by the then governing SPD/FDP coalition. The idea was taken up by the coalition which introduced a „motherhood holiday“ scheme in 1979. However this scheme was heavily opposed by the opposition because the allowance was only available for working mothers who left their jobs for 6 months „mothers holiday“. When in government the CDU/CSU/FDP coalition reformed the act it introduced a parental leave system which included an allowance of 600 DM for *all* parents. At the beginning the parental leave and the allowance were available for 10 months. During the following years (until 1992) both have been extended: the parental leave to 3 years and the allowance to a maximum period of two years.¹⁷ While in the first six months the allowance was given to all parents¹⁸ it was made conditional on a means test for the additional time. During the „holiday“ the employee is allowed to work part-time up to 19 hours/week. With regard to the reconciliation of work and family it is significant what happens after the parental leave. This question had been the main conflict within the coalition for the social wing of the CDU called for a job guarantee whereas the FDP and the economy wing of the CDU/CSU strongly opposed this proposal. In the end the coalition agreed on an employment guarantee but the employers were therefore not obliged to give the employee the same job as before.

The act was – in contrast to the law introduced by the SPD – kept gender neutral. Either father or mother could use the parental leave act. Nevertheless the scheme has almost exclusively been used by the mothers (around 90 per cent). The introduction of the allowance reflects the

¹⁷ In 1994 a rather high income ceiling for the first six months has been introduced. Some states have introduced an own state education allowance which provides for the third year (Auth 2002: 196).

basic idea that the child needs at least in its first years the caring of the mother (or the father). Even though the act was meant to guarantee „free choice“ for the parents the available financial resources have been used to support mothers who want to stay at home with their children. By contrast the expansion of public childcare facilities had not been a priority to the government. In 1987 there were facilities for only 3 per cent of all children in the age to three years.

Table 7: The supply of facilities in the pre-school sector
(no of places as % of the age-group)

Year	0-3 years	3-6 years
1965		33
1975		66
1980		79
1985		80
1987	3	
1994		91
		3-8 years
1993	9.9	72
1995	7.7	70
1998	7.4	78

Source: Alber 2001: Table 9

The *promotion of part-time work* had been mentioned by the government Kohl as another way to reconcile work and family and reduce unemployment figures. At the federal level the possibility to reduce working time had been first introduced in the late 60s for female civil servants who had to care for children or other household members. This possibility was gradually expanded with the effect that between 1972 and 1988 the expansion of part-time work was limited to the public sector. In the mid 80s the government tried to promote part time work in the private sector through legislation. In 1985 the state legislated minimum standards for part time workers for the first time. In the course of the next years the government gradually tried to make part-time work equal to full time work. Active labour market instruments like job creation schemes or training courses have increasingly been supplied on half time basis as well. The reform of the Employment Promotion Act of 1997 introduced the status of a „part-time unemployed“. In the 1990s the expansion of part-time work was the theme of a public campaign. Overall the promotion of part time work was supported by rather soft means such as the reduction of the discrimination of part-time work against full-time work and by persuasion (Auth 2002: 150). Whether due to the political activities or not the number of women working part time has been increasing constantly.¹⁹

A third way to influence women’s labour market participation since in the 80s had been *labour market programmes* which focused on mothers who wanted to re-entry the labour

¹⁹ Auth argues convincingly that at least some of the measures that are based on to the particular situation of women (parental leave allowance, promotion of part-time) are ambivalent from a perspective that calls for gender equality: while the support is to be welcomed it nevertheless reinforces the existing unequal division of labour among the sexes (2002: passim).

market after a family period. These women were given a privileged access to the measures of the employment agencies such as training or making work pay schemes. However evaluation studies show that the success of the measures have been rather limited (Schmid, G. 1998: 158). The reform of the Employment Promotion Act in 1997 reinforced the task of active labour market policy to contribute to „equality between women and men in the labour market“ (§8 I S.1 AFG i.d.F. von 1997). In particular it ruled that women should be integrated into active labour measures according to their proportion among the unemployed (§8 II) and that the specific living conditions of caring persons need to be respected (§ 8 III).

In the process of unification of the two German states gender equality became an issue on the agenda. Efforts to transform the German basic law (*Grundgesetz*) of west Germany into a reformed constitution for the new Germany had been initiated. A commission had been set up and the adjustment of the equality article (Art 3 GG) was one proposal that was finally accepted. While the old GG simply called for equality of men and women the new GG added one sentence calling on the state to actively promote social and not just legal equality of the sexes (Art. 3 II S. 2 GG) (Berghahn 1999). Implementing the new task several states and finally in 1994 the federal state reformed or introduced new *equality acts*. The main purpose of the equality acts was to increase gender equality within the public sector including an official commitment to promote women to jobs where they are underrepresented (provided for that they have similar qualifications). Some of the states acts included a quota for the promotion of women to specific kinds of jobs. The federal equality act²⁰ included as article 1 a women's promotion act with the following main elements:

- the aim of the act is to promote women and allow for a better reconciliation of work and family within the public sector,
- the main instrument of women's promotion is the elaboration of a „women's promotion plan“ in each federal agency every three years in which the situation of women within the agency is to be described and measures to promote women are to be detailed; targets for the promotion of women are to be fixed in the plan,
- a women's representative is to be elected by the women of all agencies with more than 200 members,
- the task of the representative is to supervise the implementation of the women's promotion act in the agency, she has the right to participate in all decisions that have implications for women in particular recruitment decisions and to give her the necessary capacity she has to be freed partly (depending on the size of the agency: completely) from her other duties,
- the agencies themselves should introduce working time arrangements that allow for a reconciliation of family and work.

Perhaps even more important is that the reform of the abortion regulation in Germany provided for the opportunity to strengthen *child-related services and transfers*. The east and

²⁰ „Gesetz zur Durchsetzung der Gleichberechtigung von Frauen und Männern“ BGBl I 1994, S. 1406-1415.

west German legal systems treated abortion in a different way: while in west Germany abortion was restricted to some cases it was basically liberalised in east Germany. This difference was one of the few issue that couldn't be managed between the two governments in the unification treaty and thus the decision was postponed (Berghahn 1999). In 1992 a compromise was finally found by a group of female parliamentarians of all parties in parliament which succeed and combined a new regulation of abortion with enhance support for families to avoid abortions²¹:

- most significantly a right on a kindergarten place was guaranteed for all children from 1996 onwards; given the fact that just a few years ago in the reform of the „child's help act“ (*Kinder- und Jugendhilfegesetz* 1990) a similar proposal was made but could not be pushed through, this is a major progress in Germany, the states and the municipalities have been forced to expand massively the supply of kindergarten places (Table 7); due to interventions by the municipalities and the states the implementation was postponed in 1995 to the year 1999 (Auth 2002: 240-249)
- a rather weak commitment is included to allow for childcare services for children younger than three years according to need
- the Employment Promotion Act is changed: the instruments to support mothers returning to a job are strengthened, e.g. a mother returning to work has now a right to be supported by wage subsidies,
- for lone mothers claiming social assistance the benefits have been topped up.

While the debate was mainly on the regulation of abortion there was no dispute with regard to the complementary social help to mothers. All parties agreed to the need for more support to mothers and families. Introducing the care issue into the general package allowed for a progress previously not possible because of the involved costs.

The red-green coalition

The red-green coalition has adopted an explicit commitment to the reduction of disadvantages of women and promotion of gender equality (SPD/B'90-Grüne 1998; BMAS 2002: 22, 225f.). The aim of the government is „an equal (*gleichberechtigte*) participation of women in the labour market with sufficient incomes“ (SPD/B'90-Grüne 1998: 1522). Under the heading of a programme called „woman and employment“ the coalition treaty announced a number of policy initiatives.²² The programme finally further introduced the principle of „gender-

²¹ „Schwangeren- und Familienhilfegesetz“ vom 27.7.1992, BGBl I, S. 1398

²² The coalition treaty listed the following measures: 1. an effective equality act which also includes obligatory rules for women's promotion in the private sector, 2. promotion of equal chances for women in the labour market, 3. an increase of women's participation in the labour market programmes according to their share of the unemployed, 4. support for enterprise start-ups by women, 5. promotion of flexible working time and better conditions for part-time work, 6. promotion of service agencies, 7. a better framework for the expansion of child care facilities, 8. making public procurement conditional on women's promotion, 9. the implementation of the principle equal wage for equal work and finally 10. the promotion of the participation rate of women in the scientific community.

mainstreaming“ as guideline for the action programme and translated the ideas of the coalition treaty into concrete proposals. While the coalition treaty almost exclusively focused on women the final programme also announced a campaign to promote a new gender role for men (BMFSF 1999: 31). In addition to the programme „woman and employment“ the coalition treaty announced a reform of the parental leave system to increase gender equality in the care of small children and affirmed the need for an expansion of social infrastructure. Finally, the reorganisation of work to increase the reconciliation of family and employment was said to become one of the issues of the „Alliance for Jobs“.

While the coalition treaty didn't mention any concrete target the government supported the idea to include a target for the employment rate for women within the European Employment Strategy. At the summit of the European Council in Lisbon (march 2000) the member states agreed that the number of women in employment should be raised to more than 60 per cent by 2010.²³

During its incumbency the government tried to implement its programme (BMAS 2002; Klenner 2002; Fuhrmann 2002).

In June 1999 the government introduced the principle of *gender-mainstreaming* into the common procedural rules of the governmental departments (§2 GGO). All departments are now obliged to take heed of the principle of gender mainstreaming and have to assess each decision and measure against the implication for women and gender relations. Currently a working group is trying to transform the general principle into an effective administrative procedure (BMFSFJ o.J.)

The *parental leave* system has been reformed in 2000 and renamed parent's time. The new name avoided the former expression „holiday“ which was increasingly criticised. The reform tried to stress the responsibility of both parents. Several changes have been introduced:

- the parental leave has been made more flexible: the overall period of three years may now be taken by both parents simultaneously and the parent's time allows for a working time of up to 30 hours a week for both,
- the allowance is raised to 900 Euro if the claimants take the parental leave for just one year,
- for the first time since 1986 the income ceiling has been increased,

The reform aims at reconciling employment and family and at giving fathers more incentives to care for their children.

²³ The European Employment Strategy calls for the following policies: (1) gender-mainstreaming, which means that all policies need to be assessed with regard to their impact on the gender relations, (2) reduction of gender specific differences on the labour market, (3) policies to allow for the reconciliation of family and work and (4) promotion of return to work after family phase.

The new *law on part-time and short-term work* which has been agreed upon in 2000 tries to achieve the same aim. The intention of the law is the promotion and protection of flexible work patterns and its most important elements include a right to reduce working-time (§ 8 TzBfG) and a non-discrimination rule for both types of atypical work.

The most important parts of the programme „woman and employment“ were the up-dating of the *equality act* for public employees and the adoption of a similar act for private enterprises. With regard to the promotion of gender equality in the public sector the 1994 act was regarded as ineffective. Several changes have been introduced to make the act more effective in its effort to promote women where they are underrepresented („Gleichstellungsdurchsetzungsgesetz“, DGleiG). However the labels have been changed from women’s promotion to equality promotion. The changes against the 1994 act are as follows:

- all offices with more than 100 (formerly 200) employees need to have an equality representative,
- the equality representative will have an own budget and most important
- the equality representative has increased participation rights in decision-making: the equality representative is involved in any recruitment decision and she may postpone decisions and even appeal to the external administration court (*Verwaltungsgericht*) if she doesn’t succeed within the administration,
- the equality promotion plans are incorporated into the general organisation plans of the administrations, thereby hopefully strengthening the weight of gender equality in the organisational development. The plans shall include specified targets and measures to promote gender equality within the respective agencies (§11 DGleiG).²⁴

The initial proposal of the red-green coalition was to legislate a similar act for the private sector of the economy (Fuhrmann 2002). The responsible department published cornerstones for the reform in 2000. The proposal confined itself to some procedural rules and the establishment of minimum standards if there was no agreement within the companies. The employers and their organisations strongly opposed any legislation in this area and preferred a self-obligation of the enterprises. Therefore they proposed a joint declaration of the government and employers organisations to strengthen equality within the private sector of the economy. In the end the employers were supported by the chancellor and the government accepted this procedure²⁵. In July 2000 the agreement was published. The employers organisations promised to promote equality measures among the enterprises aiming at a „significant increase of women’s employment share“. A working group consisting of representatives of the government and employers organisations has been set up to monitor the implementation. In 2003 a first report of this working group on the progress of gender equality in private companies will be published. This agreement is generally considered to be

²⁴ A specific programme of 60 Mio DM each year has been elaborated to raise the numbers of women at the universities.

²⁵ Because of resistance of the employers organisations the proposal to make public procurement conditional on equality promotion was never seriously tried to implement (Fuhrmann 2002).

a failure for the government because it's neither legally binding nor involves any concrete targets (Fuhrmann 2002; Klenner 2002: 202f.).

The same criticisms is applied to the „*Alliance for Jobs*“. Gender-issues or the promotion of equality have hardly played any role in the Alliance (Klenner 2002: 203). The only outcome was a report by the government on its activities in the area of gender-equality (Bundesregierung 2001). In other policy areas such as the provision of social infrastructure or wages policy the federal government doesn't have any formal responsibility.

Even though there is long discourse on the negative employment effects of certain rules of the taxation system the red-green coalition didn't try to reform these rules (Leitner/Ostner 2000). The most important single programme discouraging female employment is the taxation of spousal incomes (*Ehegattensplitting*). The income of spouses may be divided for the purpose for taxation leading to significantly lower taxation if the incomes of the partners are unequal. The strongest effect occurs when one partner has no income at all. The taxation system in Germany is therefore strongly discouraging employment of married women (Daly 2000: 495-498). The relief resulting from tax splitting rose in the 1990s from 23.4 bn DM in 1990 to 28.6 bn DM in 1995. In the five years to 2000 it even rose more strongly to around 44 bn DM. The overall expenditure for the function „marriage and family“ amounts to 190 bn DM in 2000. The costs of the tax splitting system represents 1.4 per cent of the German GDP (BMAS 2002: 393).²⁶

Outlook: current proposals in the election campaign

In the current election campaign family policy plays quite a huge role. An important part of this policy concerns the possibility of women to enter the labour market. The reconciliation of family and employment is dealt with in all election manifestos. Most interesting is that all parties agree to spend more money in this particular policy area or increase tax relieves for this purpose (FDP). The differences of the various proposals are visible in the way the expanded budget should be used.

²⁶ The increase is mainly due to the tax relief for the existence minimum in 1996 that had been called for by the constitutional court. The constitutional court has also pushed forward tax reliefs for the child care costs: in 1982 it argued that lone parents were discriminated against parents because they could not use the tax splitting mechanism and called therefore for tax reliefs for lone parents (implemented in 1985 and 1992). In 1998 the constitutional court decided that the tax reliefs may not be restricted to lone parents but have to be expanded to all parents with children. This has been implemented by the red-green coalition in two stages: the introduction of a general tax relief for child caring in 2000 and a further increase in 2002 (Ostner/Leitner/Lessenich 2001: 42f., cf. the role of the constitutional court in family policy: Gerlach 2000).

The tax relief caused by splitting may be compared with the data provided by Peter in his paper on women's employment (Table 3). According to these data the public expenditure on family support amounted to 2.2 per cent of GDP consisting of 0.7 per cent for services for elderly and disabled people, 0.7 per cent family cash benefits and 0.8 per cent for family services. This comparison clearly demonstrates the bias in the tax/welfare state structure towards the traditional division of labour between the sexes.

There is a rather long history of announcements that the marriage splitting will be changed. Kohl announced in 1982 that the marriage splitting would be transformed into a family tax splitting system until 1984 (Kohl 1982: 430) and the Schröder government promised to curtail the splitting advantages to a maximum of 8.000 DM (SPD/B'90-Die Grünen 1998: 1527). Neither of both ideas have been implemented.

Chancellor Schröder has declared in April 2002 that the expansion of public child care services is the best way to allow for the reconciliation of work and family (Schröder 2002). Even though the competence for the provision of services lies within the municipalities and the states the federal government has announced an initiative consisting of an annual amount of 1 bn Euro for the next four years to be given to the states to expand all-day care for children of all ages.²⁷ In addition he called for a consensual approach to reorganise working time in a family-friendly way. The „Alliance for Jobs“ is still regarded as the most suitable institution within which these issues should be dealt with. However if there will be no progress the Chancellor announced political intervention by law.

In contrast to the proposal of the government the main emphasis of the chancellor candidate Stoiber is on the integration and increase of all family related benefits to a so-called „family allowance“ (FAZ 19.04.2002: 3). Children up to three years shall get 600 Euro per month, children older than 3 shall be entitled to 200 or 300 Euro and children older than 18 years 150 Euro. The clear preference of the Christian democratic parties is therefore still to increase the incentives for mothers to stay at home to care for their young children.

6. Poverty and social assistance in Germany

Introduction: Poverty and the traditional system of social assistance

There are different ways the state may act to reduce or avoid poverty in society beyond employment creation. One way is to ensure that the wages are sufficiently high. The state may regulate a minimum income. In Germany there is no such minimum income policy as wage setting in the private sector is the sole responsibility of the trade unions and the employers. The social partners even have a constitutional guarantee that the state may not intervene, the so-called autonomy of bargaining (*Tarifautonomie*). This explains why in Germany in contrast to other countries there is no discussion on a minimum income policy. Nevertheless the state has some capacity to influence the level of minimum income through its social assistance policy. The level of social assistance represents de facto some kind of minimum income. Another way to avoid poverty is to decrease taxes on low incomes. The German constitutional court (BVerfGE 82, 60) has judged that a minimum income must not be taxed and that the level has to be defined according to the level of social assistance. The constitutional court has criticised the first step of the Kohl government to implement the judgement in the tax reform act 1990 as insufficient leading to the final implementation in 1996. The role of the constitutional court in this reform has been characterised as “agenda-setter” or even “reform-enforcer” (Zohlnhöfer 2001: 366).

The social assistance scheme is crucial for anti-poverty policy in Germany: it officially defines the level of support someone is entitled to get from the state, it de facto represents the

²⁷ In addition to the reconciliation of family and work the expenditures are meant to increase the performance of the public school system. The OECD PISA study had found that in a comparative perspective the knowledge and abilities of German pupils are rather weak.

minimum wage on the labour market and it is the ceiling below which the state must not tax incomes. Therefore the following chapter focuses on the social assistance scheme.

The institutional setting of social assistance in Germany is the result of a long history in which the policies for workers have been separated from the policies against poverty (cf. Leibfried/Tennstedt 1985). The Bismarckian reforms have created contribution-based social systems which insured workers against some major standard risks of wage-earnership: old age, sickness and accident insurance. In the 1920s another insurance system against the risk of becoming unemployed has been introduced.

Those however who were in need and did not fulfil the conditions to get support by the social insurance systems were left in the traditional poor law system. In this system the municipalities are still responsible for the poor. The responsibility of the communities involved the administration as well as the financing of the social assistance scheme. This leads to a complex multi-level political arena: three different political levels, the federation, the states and the municipalities (and the voluntary sector) are involved in the politics of social assistance. Most important is that the municipalities have to bear the costs of social assistance while the legislation is primarily made at federal level where the municipalities are not formally involved in decision-making. Their interests are often represented by the states which have a veto position in this policy for their approval is needed in the Federal Council.

This separation of responsibilities has survived throughout the 20th century (v. Winter 2001). However, after WW II it seemed that all relevant social risks would successively be cared for by the social insurance systems. Embedded in an environment of full-employment and rather stable family relations most of the population got integrated into the social insurance systems (by their own as workers or as dependants, cf. Alber 1989, Schmidt 1998). Social assistance was expected to become a residual system in which personal help could be given to people with rather particular individual problems. This was the background of the introduction of the social assistance act in 1961 which introduced - at least - three basic innovations:

- the act introduced for the first time a right on social assistance for people in need, which means that they can appeal to the courts if necessary,
- it introduced a new system to define the level of need; a basket of goods and services was put together (the so-called *Warenkorb*) whose equivalent in money led to the standard benefit (*Regelsatz*); most important is that the only relevant criterion to calculate the level of support was the principle of need (*Bedarfsprinzip*), the support needed to live a life in dignity (§ 1 Bundessozialhilfegesetz, BSHG)
- it introduced a distinction between a rather general „assistance for living“ (*Hilfe zum Lebensunterhalt*, HLU) which was mainly financial support and an „assistance for particular living conditions“ (*Hilfe in besonderen Lebenslagen*, HLB) which offered financial help and services to those with particular problems such as illness, disability and so on; many of the recipients are living in institutions.

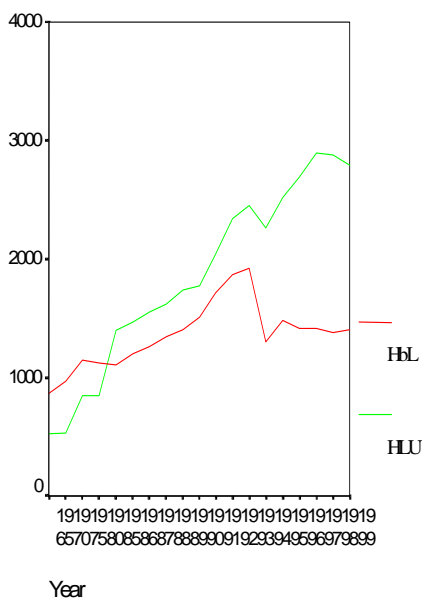
During the political process there has been a broad consensus with regard to the aims and measures of the social assistance act. The only conflict was on the respective roles of the municipalities and the voluntary welfare associations. While the municipalities and the social-democratic opposition called for a primary responsibility of the local political level the Christian-democratic federal government legislated a primary role for the voluntary associations (principle of "subsidiarity").

During the 1960s and early 1970s the level of benefits by social assistance rose continuously. The adjustment of the social assistance level was delegated to a private association, the „German association for public and private social assistance“ (*Deutscher Verein für öffentliche und private Fürsorge*) in which all relevant actors in social assistance are members. Their proposals to update the standard benefit were regularly ratified by the formally responsible administrations of the states.

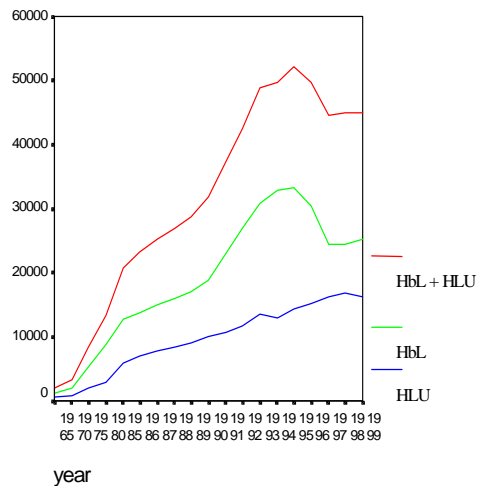
The challenges: rising costs and numbers of recipients of social assistance

When the social assistance act was ratified all actors thought that the system would further lose its relevance as the economy boomed and the primary social insurance systems expanded. The HLU was in particular expected to decline whereas the personal assistance through the HBL was expected to gain relatively more importance. However, as the „golden age of capitalism“ came to an end by the mid 1970s things changed. The development of the numbers receiving social assistance is visible in the following graphs:

Figures: Social assistance costs and recipients



Social assistance recipients in 1.000



Social assistance costs in Mio. DM

There was an (almost) continuous rise in the number of recipients of HLU from the very beginning: it rose from about 1 Mio people in the early 1980s to more than 2.5 Mio at the end of the 1990s. This means that the social assistance quota (recipients in relation to population) is about 3.5%. The number of recipients of HLB had been rising as well until the early 1990s. Even though the numbers receiving HLU grew faster than the numbers getting HLB the costs for HLB were higher and grew at a more dramatic rate. The decline in the 1990s of numbers and costs is due to the introduction of the care insurance which relaxed the situation. The costs had mainly to be carried by the local political level: the share of local finances devoted to social assistance rose from 3% in the 60s and early 70s to 6% in 1990. While the increase was temporarily stopped and even reduced by the German unification and the introduction of the special system for asylum-seekers the share of communal expenditure rose again to 6.3% in 1998 (Bundesregierung 2001b: 140).

The dramatic increase in the number of recipients of HLU is mainly due to three developments: rising unemployment, changes in family structures and migration.

- The most important single cause for rising numbers of recipients of social assistance is unemployment (Adamy/Steffen 1998; Bundesregierung 2001a). While in 1980 just one tenth of all HLU households mentioned unemployment as the reason for their claim, this number rose to one third in 1990. In the 1990s the number grew even further (Bundesregierung 2001a: 81). The most comprehensive study in Germany reported that in Bremen almost 50% of all recipients mentioned unemployment as a cause for their application (Leibfried et al. 1995: 85). However it is not the rise in unemployment in itself which is responsible for the growing number of social assistance but the selectivity within the unemployment insurance system (Vobruba 1990): persons who are unemployed but do not fulfil the conditions for support by the Federal Labour Office have to claim social assistance. The following table shows that a growing part of the recipients of social assistance are unemployed. In 1998 it is already 20% of all (officially registered) unemployed in West Germany and 11.8% in East Germany who have to claim social assistance.

Table 8: Unemployment and social assistance

	West Germany			East Germany		
	recipients social assistance (1.000)	Unemployed in social assistance scheme (1.000)	In % of all unemployed	Recipients social assistance (1.000)	Unemployed in social assistance scheme (1.000)	In % of all unemployed
1977	948	57	5.9			
1980	851	79	10.3			
1985	1.398	221	9.3			
1990	1.772	257	13.0			
1992	2.050	230	14.9	289	44	3.1
1994	2.017	335	12.9	241	53	3.6
1996	2.382	383	14.7	306	55	3.9
1998	2.467	563	20.6	412	146	11.8

Source: Adamy/Steffen 1998: 94; Bundesregierung 2001b: 123, 132, own calculations

- Other social groups that are increasingly claiming social assistance are incomplete families and families with many children. This process is often called „infantilisation of poverty“²⁸ for a growing number of children is poor and having (many) children raises the probability for families to get poor. The household type that is most often dependent on social assistance is lone mothers: one fourth of all households that receive social assistance are lone mothers (in numerical terms: 340.000 in 1998; this is one fourth of all lone mother households). With regard to the political responses it needs to be stressed that lone mothers with children under 3 years age are not legally obliged to work for §18 III BSHG rules a primacy for education against gainfully working.
- Even though the German government stopped the active recruitment of „guest workers“ in the 1970s as a response to rising unemployment there has been a continuous migration of various kinds of foreigners (the families of the "guest workers", asylum-seekers, refugees and so on) into Germany. Some of them are not allowed to work for their income (asylum-seekers), others have problems with the German language. In addition the second and third generation of „guest workers“ has difficulties to succeed in the German education system and later on in the labour market. 20% of all ‚foreign‘ (most of them are born in Germany) school leavers don't have any school leaving certificate. Thus a part of the foreign population is receiving social assistance. While the overall social assistance quota is 3.5%, it is 9.1% for foreigners (percentage of all foreigners). One fourth of all social assistance recipients are foreigners (cf. data: Bundesregierung 2001).

Contradictory discourse: „workfare“ or „needs-orientation“ in social assistance

The rising costs of the social assistance scheme and the worsening financial situation of the municipalities have been the major driving force for the debate on social assistance. The focus of the discourse was therefore on cost-containment and recommodification as the most suitable way to save costs.²⁹

The most disputed issue in the discourse was and still is the level of social assistance and its effects on the labour market. Reducing the complex situations of the most vulnerable social groups and their specific problems and needs the public discourse focused mainly on the relationship between unemployment and social assistance. There are two contradictory positions in the German discourse which may be related to the existence of two "advocacy coalitions": the first coalition stresses detrimental effects of the social assistance scheme on

²⁸ The social assistance quota for children younger than 7 years is 8.6%; for children of foreigners it is even 15%. The main political instrument of the fight against "child poverty" is the steady increase of child allowances and tax exemptions for children. Child-related allowances have been rising by around 200 per cent from the early 80s to the late 90s (Schmid, J. 1998: 99).

²⁹ At the beginning of the 1990s there was a strong nationalistic discourse arguing that many asylum-seekers were attracted to Germany because of its generous social welfare system. Xenophobic sentiments in the general public were noticeable which even led to some dramatic electoral victories at state level for parties of the extreme right. When in 1993 the constitutional rules regarding the treatment of asylum-seekers were changed and a special social assistance scheme for asylum-seekers was introduced the issue again lost much of its relevance in the public discourse. However the social situation of migrants in Germany returned on the agenda when recently the red-green government introduced new rules for migration.

the labour market; it might therefore be called the "liberal" coalition; the second coalition stresses the rights of the affected people to live a worthwhile life and might therefore be called the "rights coalition".

The *liberal coalition* argues that the level of social assistance establishes some kind of minimum income which hinders the development of low paid jobs in the private service sector of the economy. According to several studies this sector is underdeveloped in Germany. Usually the example of the USA is referred to as a proof of the employment capacities in the area of personal services. However it is argued that the development of this sector needs lower wages than possible in Germany because the level of social assistance guarantees a minimum income without work. It is claimed that the social assistance scheme creates a "poverty trap" (e.g. Scharpf 1995: 76; 1999)³⁰. In addition the social assistance scheme is attacked for creating "welfare dependency" (Kommission für Zukunftsfragen 1997). Implicitly and explicitly the unemployed were blamed to be responsible for the employment crisis. The "liberal coalition" therefore calls for a cuts in the level of social assistance to increase the incentives for work (Kommission für Zukunftsfragen 1997: 22; Sinn et al. 2002). According to the most recent debates - initiated by the Chancellor Schröder who argued that "there is no right to laziness" in 2001 - only those people in need who actively demonstrate their will to work should be entitled to benefits.³¹

By contrast the *rights coalition* argues that the only relevant criterion for the level of social assistance is need. The advocates of this coalition criticised the German governments under Kohl as well as under Schröder for not doing enough against poverty and the process of social segregation in Germany. Welfare associations such as the "Paritätische Wohlfahrtsverband" or the German Caritas published poverty reports and argued that a growing section of the German population is living in poverty. These welfare associations were joined in the 1990s by the trade unions (esp. the DGB) and the churches (EKD/Deutsche Bischofskonferenz 1997, especially 72-74). These organisations appealed to the government to stick to the

³⁰ To do justice to Fritz Scharpf: According to his analysis the problem of the German political economy is that it neither provides jobs in the public nor the private service sector. The "Scandinavian" way of expanding the public services might be seen as preferable; however this option is ruled out because of the already dramatic budgetary situation in Germany. Scharpf therefore concentrates on the "American" way and reflects on how to organise a socially acceptable low-wage service sector. His ideas became part of the future report of the SPD near Friedrich Ebert foundation (Zukunftskommission der Friedrich Ebert Stiftung 1998) which was presented as the alternative to the neo-liberal future report of Bavaria and Saxonia (1996f.).

³¹ Critics argue that the liberal analysis lacks sociological and empirical foundation (e.g. Adamy/Steffen 1998; Ostner/Leitner/Lessenich 2001). Economists often refer to rational choice models to demonstrate that huge disincentives are built in the social assistance scheme. However, Alber points to the results of the so-called dynamic poverty research (Leibfried et al 1995; Gangl 1998) and concludes that these studies contradict most of the liberal arguments. Social assistance recipients don't stay too long in the system, they are actively looking for employment and suffering from their social situation (2000: 21). Gangl concludes from his analysis that he couldn't find transfer-induced disincentives keeping social assistance recipients off the labour market (1998: 226). Individual resources such as qualifications and social situation (example: lone mothers) explain successful or failing transition to the labour market. In addition Alber (2001a), based on a comparative study of the OECD countries, couldn't find any statistical support for the argument that high social assistance rates prices out employment for low qualified workers. In view of these empirical findings the dominance of liberal arguments and political concepts in the political discourse is astonishing.

principle of need in the social assistance scheme, argued in favour of an official national poverty report as first step to introduce anti-poverty measures and called for reforms in the social welfare system. A reform of the welfare system should relax the financial situation of the social assistance scheme either through the introduction of a general minimum income guarantee or through the introduction of minimum levels within the primary social insurance systems.

Based on the diagnosis of an end of the “work society” (H. Arendt) there has been an extensive discussion on a minimum income scheme that is organised independently for the social assistance scheme in the 1980s (Vobruba 1990; Opielka/Vobruba 1986). Even though this proposal became part of the party programmes of the then-opposition parties of the SPD and the Greens in the 1990s (Nissen 1990) the discourse lost much of its public resonance during the 1990s (Lessenich 2000). However there are still some academics (the so-called BIEN group led by van Parijs) and welfare associations that call for a minimum income guarantee.

During the 1990s the discourse has changed its focus on the ‘infantilisation’ of poverty (Hauser 1995). Increasingly it was criticised that the state socialised the costs for the older people through the social insurance system but left the costs of child-care to the families. Political demands to change the welfare and tax system to support families and children have repeatedly been expressed.

Policy trajectory

Reforms in the 1980s and 1990s had focused on the need to lower the costs for the municipalities through a series of measures:

- some reforms have created separate schemes for special groups in order to transfer the costs to other or new institutions (care insurance, the special system for asylum-seekers),
- the increase of the standard benefit has repeatedly been limited voluntarily which meant a departure from the principle of need,
- "welfare to work" arrangements have been strengthened. Irrespective of the party composition of the government "integration into the labour market" is regarded as the best way to save costs (Bundesregierung 2001).

Several proposals to update the social assistance act according to new needs have been made in the early 1990s. The government even published first thoughts for a such a reform but these ideas were buried when in 1993 a new need for budgetary consolidation became obvious (cf. Schulte 1995; v. Winter 2001). The reform of the social assistance act in 1996 was therefore motivated by the need to save costs. It introduced a new way to define the level of benefits and strengthened the "welfare to work" mechanisms.

Setting up new schemes

The rising costs of social assistance could be seen as functional deficits of the primary social insurance systems. One possible way of alleviating the situation of the social assistance scheme was therefore to strengthen these systems or transfer the responsibility for specific groups to other institutions. This was done twice in the 1990s:

As part of the consolidation package *in 1993 a special scheme was introduced for asylum-seekers, refugees and foreigners without permanent residence rights*. While those social groups were formerly treated in the same way as Germans their benefits have been reduced to a level of about 80% of the social assistance standard. The official argument for this measure was that the social assistance provided a socio-cultural minimum. As temporary residents these groups did not need to integrate into the German society and therefore their need was lower. This new scheme was a response to the growing numbers of asylum-seekers - in the early 1990s almost half a million asylum-seekers came to Germany - which were suspected to be attracted by the relatively generous level of support (*Wirtschaftsflüchtlinge*). Today about 500.000 people are supported by this special scheme.

Another important source for rising costs for the social assistance scheme were the expenses for *care services*. The introduction of the long-term care insurance relaxed the social assistance scheme significantly.

Adapting the level of benefits

The process of defining and adapting the level of the benefits of the social assistance scheme had been characterised by the non-parliamentary way the rates were defined. It was the *Deutscher Verein* who defined the level and its only criterion to elaborate the standard benefit was need. In fact both characteristics changed since the early 80s (Jaedicke et al. 1991; Adamy/Steffen 1998; v. Winter 2001).

The basket of goods (*Warenkorb*) which tried to establish an almost objective way of defining the necessary socio-cultural level of existence was heavily disputed throughout the 1980s and finally substituted by a new procedure. In the beginning of the 1980s the representatives of the municipalities refused to update the standard benefit. As a result the traditional way of defining the level of social assistance was vetoed and the political-administrative authorities had to decide on their own. This change in the governance structure has been characterised as "Etatisation" by v. Winter (2001). Several times the authorities of the states and the federation limited the increases of social assistance to a rate of 1 to 3% in a rather arbitrary way. Usually these measures of cost-containment occurred as part of large consolidation packages: in the early 1980s, in 1993 ("federal consolidation programme") and again in 1996 ("growth and employment programme"). The main argument of the government was the need to save costs. According to the government each percentage point less increase would save about 150 to 200 Mio. DM. The social assistance reform act of 1996 finally introduced a new way of defining

the level of assistance which changed the point of reference from the principle of need to the factual consumption patterns of low income households. As the relevant statistical data were not available in 1996 the act foresaw for a period of three years an increase according to the wages. In 1999 the new red-green coalition postponed the date for introducing the new system to 2003. Currently the standard benefit is about 270 Euro for each adult household member. The current need of a family with two children in West-Germany (overall expenses including rents and one time supports) is calculated with 1.400 Euro (1997).

Comparing the development of the social assistance scheme with other sources of income Jens Alber (2000: 254f.; 2001: 24) concludes that the increases in social assistance have been comparable to that of other social groups such as workers or pensioners. He therefore argues that the burdens of cost-containment have been shared quite equally in Germany. Nevertheless the governing principles have been changed gradually. By limiting the increases and changing the rules the Kohl government slowly departed from the major principle of need-orientation. Against this principle the current budget situation and the income distance to low wage groups became more relevant. The purchasing power of the social assistance benefits has consequently declined since 1993 (Schneider 2001). Although the distance of the social assistance benefits to the incomes of low wage earners had been guaranteed ever since this issue became prominent in the political discourse. The consolidation package in 1993 and the social assistance act of 1996 explicitly called for a lower rate for social assistance recipients against low income groups (*Lohnabstandsgebot*) to increase work incentives (Adamy/Steffen 1998).

"Welfare to work" and social assistance reform act 1996

The social assistance act had ever since ruled that recipients are obliged to use their labour to live independently from assistance (§18 BSHG). Social assistance is "help to self-help". Welfare to work arrangements are part of this "help to self-help". The municipalities had various possibilities: they could themselves provide temporary regular work either with or without labour contract and social insurance (§19 I and II BSHG). The work had to fulfil some condition (it had to be additional and socially beneficial) to avoid that regular private enterprises were discriminated against. However in the environment of full-employment this possibility was meant as individual help in rather singular cases and rarely used. As the number of unemployed recipients increased the municipalities more often referred to this instrument. After the end of the employment measure - provided it was a regular job with social insurance according to §19 I BSHG - social assistance recipients could apply for unemployment benefit. The costs for unemployment were re-transferred to the unemployment insurance scheme.

In the 1990s the government introduced new measures to make work pay and increased the pressures on the unemployed to accept work independent of former qualifications and earnings. In 1993 the federal consolidation programme introduced a new possibility to subsidise employers who hired a social assistant recipient ("integration allowance",

Eingliederungsgeld), it urged the social assistance agencies to use the possibility of "work obligations" to test the work willingness especially of young people (Art. 20)³² and legislated a reduction in benefits if someone refused work. The need for an income distance to low wage groups was stressed (Adamy/Steffen 1998; Zohlhöfer 2001).

The social assistance reform act of 1996 had explicitly been presented by the government as a cost-cutting measure (Bundesregierung 1996; v. Winter 2001). Besides the limitation of increases of the benefits the main aim of the act was to strengthen welfare to work mechanisms:

- the integration allowance was formally integrated into the act;
- to make work pay the social assistance agency could subsidise the recipients as well if he or she found an employment on the private labour market (§18 IV BSHG);
- the way of defining the distance between social assistance and low wage incomes was modified and thereby made more restrictive;
- recipients who refused work opportunities (§19 BSHG) or obligations (§20 BSHG) lost their right on social assistance and the municipalities were obliged by law to cut the benefits at least by 25%.

Using these possibilities the municipalities largely increased their involvement in active labour market policies - partly co-financed by the German states and the EU. The 1990s saw a huge increase in local employment policies. While in 1993 the number of people in employment measures was about 110.000 (Heinelt 1998: 640) it rose to 200.000 in 1996 and even further to 400.000 in 2000 (Bundesregierung 2001c). This represents about 40% of all able-bodied welfare recipients. 50% of these local employment opportunities are regular jobs with labour contract and social insurance. Expressed in monetary terms: Since 1994 the finances of the municipalities devoted to the integration of social assistance recipients into the labour market has doubled to 1 bn Euro in 2000. According to the red-green German government the fall in the numbers of HLU recipients since 1998 is due to the expansion of activating measures (Bundesregierung 2001). In addition the increased duties let a substantial part of the claimants to withdraw their application. The government claims that about 20-25% redrew their claim or were sanctioned because of their refusal to work (2001: 190).

The currently most salient issue in Germany is the institutional separation between social assistance and unemployment insurance. Several attempts had been made at the local level to strengthen the co-operation in the treatment of the unemployed. Co-operation is however rather difficult to implement for the recipients of assistance and unemployment benefits have different rights and duties. In addition the costs have to be borne by different institutions. The social assistance reform act in 1996 tried to provide access for social assistance recipients to

³² "Work obligations" are no regular work: the recipients have no labour contract and they don't earn a wage but a rather small amount of money to cover the expenses. The government initially tried to enforce the municipalities to provide work opportunities according to §§ 19 and 20 BSHG for all unemployed recipients. Because of the costs for the local governments this was vetoed by the Federal Council.

the services of the Federal Labour Office. In the end the government did not succeed because there was no agreement on who was to pay the costs. The red-green government finally started a pilot-programme in which the federal department of labour gives financial support to regions and municipalities which agree on a closer co-operation between the institutions of social assistance and employment. These projects are still in operation (called MoZart). The most important elements of this pilot-programmes are that recipients have only one agency they have to contact and that social assistance recipients have access to the services of the employment agencies. It is already clear that there will be major changes in the institutional setting. Two governmental commissions are currently dealing with different aspects of a closer co-operation: the Hartz-commission had the task to develop ideas on the integration with labour market policies (see below) and a commission on the reform of the financial system of the municipalities is dealing with the question of finances.

There is a widespread agreement that the co-operation needs to be strengthened. Almost all parties agree to this. However there is a some discrepancy in which way the co-operation should be strengthened and whether it should end up in a formal institutional integration.

Political process and coalitions

Throughout the 1990s the reforms and cost-containment measures had to be approved by the Federal Council in which the social-democratic opposition most of the time had a majority. Through the institution of the Federal Council two opposing groups could be represented. The states do have their own institutional interests in social assistance and therefore refused several times efforts by the federal government to change the balance of power in this policy area. Most of the time they represented the interests of the municipalities. In addition the Federal Council was used by the opposition party - the SPD - to contradict federal policies. At that time the SPD parliamentary group fought against reductions in the social assistance scheme. On the contrary it called for a broader coverage of the social insurance institutions and access of the social assistance recipients to the labour market programmes of the Federal Labour Office. However when the SPD could have vetoed reductions and cost-containment in the Federal Council its interests and final voice was dominated by the financial interests of the - social democratic - local and state governments leading to compromises with the government (v. Winter 2001: 1600).

The parliamentary groups of the SPD and the Greens have announced a reform for the next legislation period with should strengthen the principle of the activating state in the social assistance scheme. In addition it asked the government to think about - a rather weak formulation has been used - a minimum income for children and young people outside the social assistance scheme (SPD und Bündnis 90/Die Grünen 2001: 3).³³

³³ For the concepts of the red-green government are quite close to the policies of the former Kohl it isn't clear whether it makes sense to use the "advocacy coalitions" approach of Sabatier in this policy-area because the existence of such coalitions with constant opposing 'core beliefs' is disputed. Thomas von Winter argues that there are no such coalition but cross-cutting lines of conflict with temporary coalitions (2001). Heinelt and

Effects on poverty

The level of social assistance is often regarded as an official poverty line. The former German government under Chancellor Kohl had always argued that social assistance means „fought poverty“. Those receiving social assistance are therefore not any longer poor. However it is necessary to construct an indicator that is independent of the politically defined level of social assistance. The EU has proposed to regard those people as poor who are living with an income of less than 50% of the national average. This indicator has been widely accepted by now. Taking a brief look at some statistics that use this measure it can be seen that the proportion of people living in relative income poverty has increased since the early 1980s. The Luxembourg Income Study reports an increase from 5.3% in 1981 to 7.5% in 1994. The recently published poverty report in Germany presents a large range of different poverty quota for the period 1973 to 1998 which all agree that a rising number of people is living in relative income poverty. According to this source the poverty rate has increased from 7.7% in 1983 to 10.9% in 1998 in the old states. While the proportion is lower in the new states it is rising, too (1998: 4.4% of the 50% income in east Germany, Bundesregierung 2001a: 26).

Compared to the social assistance quota the proportion of people living in relative income poverty is higher which follows from the fact that the benefits given to those entitled to social assistance are below the 50% threshold. From this point of view people receiving social assistance are still poor. In addition there are still many people who might be entitled to public poor relief but do not claim it. There are estimates that only half of those entitled are claiming support (Alber 2001: 15).

Looking at the German figures from an international comparative perspective the German socio-economic system seems to produce rather equal results. This is due to the relatively small degree of wage dispersion in Germany which means that there is no big problem with working poor and the relatively generous welfare system. The redistributive effects of the German transfer system (taxes and social benefits) are illustrated by the following data (for 1998): while according to the market income about 30% were to be classified as poor in West Germany the quota fell to 10.8% if you looked at the disposable income. The redistribution in east Germany is even stronger: poor by market income were 37% while looking at the disposal income „only“ 4.5% remained below the 50% threshold (Bundesregierung 2001a: 23).

Weick (1998) use the advocacy coalition approach and differentiate between a liberal and a social democratic coalition. These labels are problematic as they themselves demonstrate that the SPD adapted to the positions of the liberal coalition. Therefore it would make more sense to speak of a hegemonic constellation instead of two opposing coalitions with different core beliefs. The concept of paradigm shift (Hall 1993) might be more suitable to what actually happened in German social assistance policy.

7. Labour Market Policy

Traditional System and Challenges

The foundations of the set of German labour market policies were laid during the ‘golden age’ of full employment. The original framework has been codified in the 1969 Employment Promotion Act (*Arbeitsförderungsgesetz*, AFG) and was then refined incrementally in reaction to the increase in unemployment that set in the mid-1970s (Schmid/Wiebe 1999). Roughly speaking, active and passive labour market consists of the following elements (compare the National Report 2000: 26ff):

- Germany has a two-tier system of unemployment benefits. Unemployment insurance benefits (*Arbeitslosengeld*) are usually to be paid for one year and financed from insurance contributions. When the unemployment insurance benefit is exhausted, people can claim a means-tested unemployment assistance benefit (*Arbeitslosenhilfe*) with unlimited duration which is financed through general taxes. Part of the unemployed who did not qualify for the unemployment insurance benefit were entitled to unemployment assistance, too (‘primary unemployment assistance’, *originäre Arbeitslosenhilfe*). If unemployed people do not qualify for unemployment assistance or if unemployment assistance does not make for a living, they can claim (additional) social assistance.
- Over the years, various schemes for promoting training and job-creation have been designed. In Germany, however, the use of such measures has never reached Scandinavian dimensions. From a comparative perspective, spending on active labour market policy, measured either as per cent of GDP or as share in overall labour market spending, has been slightly above OECD average (Martin 2000: 81-88).
- Similar to other continental European countries, German labour market policy reacted to the post-1973 rise in unemployment by limiting labour supply through early retirement (Esping-Andersen 1996; Manow/Seils 2000). Starting in the mid-1970s, a complex system of multiple ways out of employment was created. As a consequence, the share of employed among the men aged 60 to 64 years fell from 72 per cent in 1972 to 34.5 per cent in 1993, thus reaching a rather low level from a comparative perspective.

In the 1980s and 90s, the German labour market has undergone substantial changes. Germany has suffered from a lagging employment performance and has experienced a continuing de-standardisation of employment. The figures in Table 9 highlight Germany’s unemployment crisis. In the course of the 1980s, unemployment has risen from 3 per cent to 7.2 per cent in 1985. From 1985 to 1990 the unemployment rate fell to 4.8 per cent. After the end of the unification boom, the unemployment rate increased steadily from 1991 to 1997. This contrasts with the development in the other EU and OECD countries in which average unemployment has fallen since 1994. Part of this dynamics has to be explained by German unification. While it is true that the unemployment catastrophe in the east has pushed the German unemployment rate upwards, west German unemployment also increased by more than 50 per cent between 1991 and 1997. From 1997 to 2000 the labour market situation in Germany developed quite

favourable as it did in most of the other EU countries: the unemployment rate has been falling from almost 10 per cent to 8.3 per cent.

Table 9: Unemployment rate in Germany (Standardised Rates)

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Germany	2.7	7.2	4.8	5.6	6.6	7.9	8.4	8.2	8.9	9.9	9.4	8.8	8.3
(1)													
EU 15	5.8	10.0	7.7	8.2	9.2	10.7	11.1	10.7	10.8	10.6	9.9	9.2	8.4

(1) 1980-1990: data for west Germany;

Source: BMAS 2001: Tab. 9.14.

Table 10: Unemployment rate in Germany according to region and gender (national data)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
West Germany	6.3	6.6	8.2	9.2	9.3	10.1	11.0	10.5	9.9
East Germany	10.3	14.8	15.8	16.0	14.9	16.7	19.5	19.5	19.0
Germany	7.3	8.5	9.8	10.6	10.4	11.5	12.7	12.3	11.7
Men	6.4	7.1	8.6	9.5	9.6	11.0	12.2	11.9	11.3
Women	8.5	10.2	11.3	12.0	11.4	12.1	13.3	12.8	12.2

Source: Statistisches Bundesamt 2001: 98

Another indicator for the labour market situation is the employment rate. According to national data the employment rate (in relation to the whole population) rose during the 1980s from 45 per cent (1980) to almost 50 per cent in 1990. During the 1980s this increase has been largely due to the changed behaviour of women: while the rate for men rose by 1.5 per cent to 60 per cent the rate for women increased substantially from 33 per cent to 39 per cent in 1990. In the 1990s the employment rate was rather stable (49 per cent at the end of the 1990s). By contrast to the 1980s there has now been a continuous fall in the employment rate of men (to 56 per cent in 2000) while the employment rate for women has risen only slightly (BMAS 2001: Tab. 2.3)³⁴. In a comparative perspective the employment rate in Germany is slighter above the EU average but rather far away from the countries with the best performance. In addition, the labour market situation in Germany is still characterised by major structural problems:

- the employment situation in the new states is characterised by very high unemployment rates of 15 to 20 per cent, which is the result of the breakdown of the east German industry after 1990 (cf. Table 10);
- several social groups such as women, older people, low qualified workers, foreigners and handicapped are heavily underrepresented in the labour market;
- there is a high rate of long-term unemployed (almost 50 per cent of the unemployed) and
- finally there is a slow but continuous process of de-standardisation of employment which has been enabled and supported by various political deregulation measures throughout the 1980s and 90s (Zohlnhöfer 2001). The share of standard work now accounts for little more than 50 per cent of all employment while part-time employment accounts for about

20 per cent, fixed term contracts for about 10 per cent and self-employment for about 10 per cent (Commission 2001: 114)³⁵.

The most pressing challenge for the unemployment insurance scheme are the rising costs. The share of the overall social budget devoted to employment policies has grown from 6.9 per cent in 1975 to 8.5 per cent in 1982 and 12.5 per cent in 1998 (see chapter on financing for further details on the German social budget). During the red-green coalition the share fell to 9.5 per cent in 2000 (BMAS 2002: 431). While in the 1980s the expenditures have by and large been following the economic cycles German unification led to a massive increase in the years from 1990 to 1994. The share of expenditure for employment in relation in GDP had risen during that period from 2.5 per cent to 4.5 per cent. Since then the expenditure has largely remained at that level. This means that a share of more than 4 per cent of the GDP is now spent for unemployment compensation and active labour market measures (Alber 2001: Tab. 4; BMAS 2001, Tab. 7.2).

The growing costs of labour market policies which did not lead to a significant decrease of unemployment have provoked discussions on the effectiveness and efficiency of the labour market policy and its instruments.

Reform Discourse

The basic philosophy of the Employment Promotion Act (AFG) in 1969 which was accepted by all parties was the belief that the economic process could be managed by Keynesian macroeconomic policy to avoid unemployment (Bleses/Rose 1998; Schmid/Wiebe 1999). The role for labour market policy was seen to complement this policy by preventive and active measures such as education and training, counselling and job-guidance.

During the 1980s slowly a new concept of labour market policy evolved. Market mechanisms in the labour market became more prominent. However the most disputed conflicts in the discourse were not on the measures and expenditures of the EPA but on the issues of working time reduction and on labour market regulation. While the trade unions led a campaign to fight unemployment through a general reduction of the weekly working time to 35 hours the government preferred a policy of labour shedding and labour market reform (Schmid, G. 1998). In the academic discourse the institutional integration of passive and active labour market policies was criticised for it leads to a pro-cyclical „stop and go“ expenditure pattern. As the budget of the Federal Labour Office is mainly financed by contributions the budget increases in times of full employment but decreases along with rising unemployment. In economic recessions the benefits for the unemployed therefore crowd-out active labour

³⁴ Cf. additionally the comparative tables in the paper on labour market by Anne. The increase in employment rates between 1999 and 2000 in the data of the OECD (Annes paper) does not appear if one takes the overall German population as reference, as it is done by the BMAS.

market policies when it is most needed (Bruche/Reissert 1985; Schmid/Reissert/Bruche 1992). The authors of the study called for a separation of the two systems. The active labour market policies should be made independent from the insurance system by transferring the costs to the general tax system. This would lead to a stabilisation and antic-cyclical functioning of active labour measures. This reform proposal has remained on the political agenda ever since (Heinelt/Weick 1998)

In the process of German unification there had been a broad national consensus that the collapse of the east German economy had to be eased by labour market instruments. However growing deficits in the budget of the Federal Labour Office in 1993 led to a break between the government and the SPD opposition. This split in the political arena was mirrored by two opposing coalitions in the overall discourse: a ‚social-democratic‘ coalition who called for an updating of the labour market policies and a second ‚neo-liberal‘ coalition who preferred a more market-led way to reform labour market policy (Heinelt/Weick 1998: 102f.).

The *social-democratic‘ coalition* called for a reform of the EPA which was based on the belief that active labour market policies should play an important role. The distinguishing characteristic of that approach was that the financial resources for active labour market policies should be maintained or even increased. The publicly funded second labour market was defended to be necessary as the private labour market didn't provide enough jobs. The management and instruments, however, should be up-dated to allow for a better co-ordination of labour market policies with structural policies. Some academics and trade unionists formed the "working group EPA reform" (*Arbeitsgruppe AFG-Reform*) and pushed the issue on the agenda (Reissert 2001; Trampusch 2000: 358ff).³⁶ The SPD referred to these ideas and introduced a „EPA reform act“ into the parliamentary process in 1995 (SPD 1995) which was rejected by the government. Analysing the reform proposals Heinelt and Weick argue that this policy approach represents a traditionalist wing of the party while a modernist wing has already gained predominance within the party (1998: 176-182). Since the SPD entered the government in 1998 and Lafontaine as the major exponent of the traditionalist wing resigned the modernist wing clearly dominated the agenda. There has been a move to the right - a "neo-liberal turn of the SPD" (Taylor-Gooby 2001: 177) - involving a growing acceptance of

³⁵ cf. details on the most disputed forms of self-employment: the 620 DM jobs and the so-called „Scheinselbständigkeit“ (employees working formally as self-employed to save social security contributions) National report 2000: 8ff.

³⁶ Details of the proposal include: the reinforcement of full employment as political target; the stabilisation of active labour market policies; ‚activation‘, which means a primacy of active labour market policies against passive benefits; a better co-ordination of labour market policies, structural and regional policies; introduction of an individual right to participate in active labour market measures; promotion of women's labour market participation and finally the decentralisation in the organisation of the Federal Labour Office and the implementation of active labour market policies.

Another influential reform proposal has been made by Schmid (1994; 2000). He focuses on an adaptation and expansion of the instruments of labour market policy to various social life situations. He calls for „transitional labour markets“ that could ease the transit from various social positions to regular work: 1. transitions within the labour market between irregular forms of work and regular forms, 2. from unemployment to work, 3. from education and training to work, 4. between private households and gainful work and 5. finally from work to pension system. According to his calculations the expansion of measures to ease the transition between these spheres could result in an increase of employment of about 1.7 Mio.

market rules in the governance of the welfare state (Schröder/Blair 1999). In labour market policies there is now a prevailing discourse of a changing relation between rights and duties of the unemployed. Following the basic principle that almost any job is better than no job (Heinze/Streeck 2000: 258) labour market policies should reinforce the duties of the unemployed and enable them to succeed in the market („Fördern und Fordern“). The new agenda focuses less on public interventions through active labour market policies (second labour market, qualification) but calls for make work pay schemes (Scharpf 1995; Friedrich-Ebert-Stiftung 1998). The most prominent proposal for a reform of that kind has been made by the steering committee of the "alliance for jobs", Wolfgang Streeck and Wolfgang Heinze (2000). As they argue the traditional labour market policies have reached their limits and produce counterproductive effects ("welfare without work", conflict between insiders and outsiders). Instead of sticking to these outdated approach policies should focus on the development of the low-paid service sector. However they do not call for specific make work pay schemes but prefer to achieve the same effect by reducing social contributions and taxes on low paid jobs.

Since the second half of the 1990s *neo-liberal critiques* of labour market policies have become more vocal. On the empirical basis of evaluation studies in the new states the effectiveness and efficiency of labour market policies have been increasingly questioned. The critique focused on several aspects:

- institutional fragmentation of the labour market policies: while unemployment benefits and active labour market policies were financed by the Federal Labour Office, the unemployment assistance was financed by the federal budget and those unemployed who did not qualify for the unemployment insurance had to apply for social assistance;
- disincentives: increasingly it was argued that a growing tax wedge in Germany creates a „poverty trap“;
- effectiveness and efficiency of active measures: Several studies demonstrate that many of the labour market programmes (training measures, work programmes etc) did not achieve the official goal as stated in the AFG: transition of the participants into the (first) labour market (e.g. Hagen/Steiner 2000, Martin 2000). In particular work creation programmes have increasingly been criticised for they do not raise the probability for the participants to enter the labour market or even crowd out private enterprises out of the market.³⁷
- In addition it was criticised that there was no scientific evaluation of the programmes so that questions concerning effectiveness and efficiency could not be answered in a convincing way.

Just as the new concept of *Fördern und Fordern* these analyses call for a strengthening of the individual responsibility. However, the neo-liberal approach focuses on a reform of the disincentive structures that are provided by the welfare state (in particular: social assistance; duration and level of unemployment benefit). The probably most influential document of that

³⁷ More than 50 per cent of the participants are unemployed half a year after the Job Creation Measure.

kind has been the „Future commission of Saxonia and Bavaria“ (Kommission für Zukunftsfragen 1997) The future report argues that the German society is approaching towards a knowledge society in which the individuals will necessarily have to take over more responsibility for their work career and social protection. Their concept is normatively based on the individual „as entrepreneur of his labour and his social security“ (Kommission für Zukunftsfragen 1997: 7). With regard to labour market policies it is very sceptical about the effectiveness of public labour market policy. The future report prefers - as Heinze/Streeck (2000) do - the expansion of a low-wage sector in the labour market as the solution to the employment crisis. While the future report acknowledges that the promotion of low paid jobs leads to the problem of "working poor" it doesn't call explicitly for the possible solution of subsidies. The report argues that this issue has to be decided by the political authorities.

The similarities in the analysis of the employment problem of the future report and the steering committee are remarkable for they indicate a convergence process within the general discourse. While the future report was commissioned by two CDU state prime ministers, the report of Heinze and Streeck was a contribution to the negotiations in the „Alliance for Jobs“ of the SPD chancellor Schröder. Both, Heinze as well as Streeck are members of or at least close to the German SPD.

Policy Trajectory

Labour market policy is often taken as the most obvious example of the German „reform gridlock“ (*Refomstau*) (Esping-Andersen 1996; Manow/Seils 2000). However as the table on the development of labour market policies shows there has been some movements and reforms which at least allow for a question mark behind the conventional wisdom. While the 1980s may be characterised by continuity, the 1990s may be divided into three distinct phases: the unification consensus from 1990 to 1993, the move to neo-liberalism of the Kohl government in the years from 1993 to 1998 and finally the ‚new middle‘ policy of the red-green coalition.

Table 11: Main stages in German labour market policy

	Finances	Regulation
1982-83	budget consolidation cuts in benefits and active measures	
1984-89	expansion of active labour market policies	
1991- 1993 unification consensus	massive expansion of active labour market policies to ease the collapse of the economy in east Germany	
1993-98 move towards neo-liberal policy: „workfare“	1993 consolidation programme (1. SKWPG) 1996 growth and employment programme	1996 Employment Promotion Reform Act (EPRA)
98-02 „third way“	stabilisation of active labour market policy	Since 1998 „Alliance for Jobs“ 2001 Job Aqktiv act

1980s: „*Stop and go*“

The general approach of the Kohl government to increase employment was a supply side oriented economic policy. Parts of this approach have been a „breather in social policy“ (Kohl 1982) to consolidate the federal budget and a reduction of the labour supply to ease the labour market situation which focused on foreigners, older people and women (Zohlhöfer 2001: 60-68; Schmid, G. 1998: 153-157).

Expenditures of the Federal Labour Office were cut in the first two years of the Kohl government (Alber 1989; Schmid, G. 1998). The level of the unemployment benefits (assistance) was reduced for recipients without children from 68 (58) per cent to 63 (56) per cent of the gross income. Several minor changes (calculation of the benefits, tightening of conditions, reduction of active labour market policies, restriction of short time allowances) have been introduced in the EPA with the overall aim to reduce costs. In addition the contribution rate to the unemployment insurance has been increased in two stages from 3 per cent to 4.6 of the gross income. These changes led to a balanced budget of the Federal Labour Office. The government acted in a „stop and go“ fashion (Schmid, G. 1998) and used the available resources for a small decrease in the contribution rates but mainly for an expansion of the active labour market policy. In response to the unions call for a 35 hours working week the government introduced a new measure in 1984 giving unemployed of the age of 58 a pre-pension allowance to bridge the gap to early retirement (*Vorruhestandsgesetz*)³⁸. The duration of unemployment benefit has been increased for older unemployed from the one year to three years. Other innovations during the second half of the 1980s have been the introduction of wage subsidies for the employment of long-term unemployed and the promotion of self-employment through the Federal Labour Office. Both instruments have proved to be rather successful (Schmid, G. 1998: 158).

While the expenditure for labour market policies stagnated between 1983 and 1985 around 39 bn DM (falling as percentage of GDP from 2.5 to 2.1) it rose to 48 bn DM in 1989. In the second half of the 1980s the expenditure for active measures were growing faster than transfers (Schmid, G. 1998: 159).
As

³⁸ This possibility was used by 160.000 workers. In 1989 the act was substituted by a part time regulation for older workers.

Table 12 shows the numbers of unemployed participating in work programmes and training measures grew strongly. Save for the fact that a cut of the benefits would have been taboo for the SPD (Bleses/Rose 1998: 122) there mainly was continuity in the area of labour market policy. The status quo orientation of the Kohl government was not due to institutional factors such as veto players but to a lack of perceived reform pressures and a missing reform consensus within the CDU/FDP coalition (Jochem 2001: 218f; Zohlnhöfer 2001).

Table 12: Unemployed and participants in measures of active labour market policies in 1.000

	1975	1982	1989	1991	1992	1995	1997	2000
Unemployed (1)	1074	1833	2038	2602	2978	3612	4385	3889
Work programmes								
ABM	30	40	124	362	639	342	270	
SAM						140	94	
training allowance (full-time)	93	103	174	379	645	486	390	
Rehabilitation				38	46	34	35	
short-time work allowance	147	141	25	927	248	62	56	
winter allowance				33	31	40	3	
language courses				76	54	53	42	
programmes for older workers								
early retirement			50	388	307	34		
transition allowance				189	517	343	59	
part-time							1	
§ 428 SGB III (special unemployment benefit)				63	83	153	209	
sum: active measures (2)	270	284	373	2455	2570	1687	1159	865
relieve effect: 2 in % (1+2)	20,1	13,4	15,5	48,5	46,3	31,8	20,9	22

Source: Schmid, G. 1998: 160; data for 2000: BMAS 2002

Unification consensus

The unification of the two German states was accompanied by a dramatic decline of economic activity in east Germany. The institutions of the German EPA were transferred to the east German states covering a huge part of the adjustment costs. Insofar it may be argued that there was a „path-dependent“ response to a new situation (Manow/Seils 2000). As

Table 12 shows after unification there was a huge increase in the number of participants in active labour market measures. In 1991 more than 2.5 Mio people were involved in these measures; most of them (1 Mio) being registered as short-term workers working zero hours. After the first year work programmes and training courses were used as the main instruments to alleviate the labour market in the new states. In the first five years statistically 57 per cent of all east Germans in working age participated in at least one active labour market measure (Zohlnhöfer 2001: 309). In addition the pressures on the labour market have been reduced by the massive use of early retirement. During the years from 1991 to 1993 there was a national consensus of this kind of policy (Heinelt/Weick 1998).

At least two innovations at that time can be identified: the establishment of huge local „employment agencies“ (*Beschäftigungsgesellschaften*) which provided work and (re-)training for unemployed in east Germany and tried to integrate these measures into an overall structural policy for the region and the new §249h EPA (1993) which introduced a „wage subsidy east“ to allow for particular kinds work (especially environment protection and social services) instead of unemployment (Widmaier/Blancke 1997).

Neo-liberal turn: cost-containment and recommodification

Shortly after a new consensual programme – the „solidarity pact“³⁹ – was agreed upon in march 1993 between the federal government, the opposition and the states the situation of the Federal Labour Office worsened dramatically leading to a split between government and opposition. The Kohl government changed course and presented a consolidation programme which especially involved cuts in labour market policies. In 1996 the government ended another episode in consensual politics after a few months. The „alliance for jobs“ had been initiated by the trade unions and proposed a corporatist approach in employment policy and welfare reform. The unions had offered wage-restraint in exchange for a compromise in welfare policies (DGB 1996) – a political exchange that worked in other European states (Rhodes 1998). The government had to decide between social pact or neo-liberalism and reacted with another consolidation programme („growth and employment programme“) which was unacceptable for the unions. It preferred to act unilaterally (Bundesregierung 1996; Geißler 2001: 808f). The shift in policies was criticised by the political opposition and the trade unions. The social democratic opposition instead called for an increase of the financial resources of the labour market system to avoid cuts in the unemployment insurance scheme (Heinelt/Weick 1998; Zohlnhöfer 2001). It was also partly opposed by local governments which feared that cuts in unemployment benefits might translate into higher social assistance costs. In the Federal Council, the Social Democrats managed to block part of the envisaged reforms and forced the government into concessions.

³⁹ The solidarity pact provided mainly an agreement on the financing of the new states and distributed the burden amongst the federation and the (old) states. In addition it also provided more money for active labour market policies and fixed that social benefits should not be reduced.

Labour market policies underwent major changes after 1993 (Bieback 1997; Heinelt/Weck 1998; Schmid, G. 1996, 1998; Schmid/Rabe 1999; Sell 1998). Two developments stand out. First, unemployment benefits were cut. Secondly, a tightening of work requirements and a move towards a welfare-to-work approach took place.

The *cutting of benefits*, the first since 1982/83, set in 1993. As part of the government's consolidation laws, unemployment insurance benefits for unemployed without children were reduced from 63 to 60 per cent and unemployment assistance benefits from 56 to 53 per cent of previous net earnings. At the same time, the maximum payment of primary unemployment assistance was limited to one year. The 1996 Unemployment Assistance Reform Act (*Arbeitslosenhilfegesetz*) brought further cuts. The Kohl government had originally planned to limit the maximum duration of unemployment assistance. However, this suggestion was rejected by the Federal Council. So was the modified plan to make unemployment assistance degressive and to cut individual benefits by 5 percentage points after each year of unemployment. At the end, annual cuts were confined to 3 percentage points.

These cuts in benefits were accompanied by a *tightening of work requirements* and a compromising on employment standards. Policy towards unemployment was traditionally based on two premises. First, the jobs created by means of active labour market policy were paid in line with the regular public sector pay scale. Secondly, the unemployed were not obliged to accept every job they were offered. In the 1990s, both standards were given up.

- After 1993, requirements for unemployment assistance recipients to improve their employability or to carry out community-related work were tightened.
- The jobs created within the framework of the Job Creation Measures (ABM) are no longer paid in line with the public sector pay-scale. Originally confined to the east, this provision was extended to the west in 1994.

The volume of active labour market measures in the new states should slowly be reduced to the west German level. As

- Table 12 shows the instruments of active labour market policy were reduced quite significantly. While in 1991 and 1992 around 2.5 Mio people were involved in measures financed by the Federal Labour Office the number fell to 1.1 Mio in 1997. The “relieve effect” for the labour market, the proportion of all labour market participants to unemployed, was brought down from almost 50 per cent to 20 per cent. Looking at the numbers for east Germany the erosion was much more dramatic: the numbers fell from 1.9 Mio in 1992 to 624.000 in 1997 representing a decline of the “relieve effect” from 67 per cent (1991) to 31 per cent (1997) (Schmid/Wiebe 1999: 374). This development contributed significantly to the rise in open unemployment from 1 Mio (1991) to around 1.3 Mio (1997) in east Germany.

- Table 12 also shows the effects of a gradual departure from the policies of „labour shedding“ with regard to older workers. In the 1990s political actors realised that the policies of early retirement could no longer be financed (Bönker/Wollmann 2000: 530f.). In fact the only agreement that the „Alliance for Jobs“ in 1996 had produced was an agreement to stop early retirement (Lehmbruch 2000: 100).

The new approach was finally consolidated in the Employment Promotion Reform Act (EPRA) in 1997 (Bieback 1997; Rabe/Schmid 1999; Trampusch 2000; Zohlnhöfer 2001). This act made clear that the responsibility for employment rests with the employers and the employees and that there is only a residual role for public interventions.⁴⁰ The main focus was therefore on increasing the obligations of the unemployed.

- ‘Acceptability’ criteria were redefined. Recipients of unemployment assistance are no longer allowed to decline jobs that do not correspond with their formal qualification and their previous occupation. Recipients were also obliged to accept a much stronger decline in income than it had been the case before. Finally, the ‘acceptable’ time spent for commuting was raised.
- Unemployed were obliged to prove their efforts to find new employment,
- various forms of wage subsidies for employers who hired a (long-term) unemployed were introduced,
- dismissal compensations by the enterprise should reduce the level of unemployment benefits and assistance,
- a new ‘integration treaty’ (as a substitute for a labour contract) between employer and employee was created which abolished dismissal rights for long-term unemployed for a period of some months,
- new public management elements were introduced (Reissert 2001),
- the reduction of the size and the costs of the second, publicly funded labour market was to be achieved by reduced subsidies to employing agencies,
- the second labour market was to be restricted to long-term unemployed: 95% of all measures should be given to LTU.

The EPRA was characterised as being some kind of ”workfarism” as the social assistance reform of Clinton in the USA and the “New Deal” of Blair in the UK (Rabe/Schmid 1999: 29). Therefore it is regarded as a major reform (Rabe/Schmid 1999: 29; Bieback 1997) or even as a reform of third order in the understanding of Peter Hall (Zohlnhöfer 2001: 297, 308).

With regard to the political process there has been the same conflicts as in earlier labour market reforms of the 1990s (Trampusch 2000: 356-371; Zohlnhöfer 2001: 292-309). The SPD and the trade unions opposed the reform proposals without having much influence on the

⁴⁰ The government mentions five targets of the reform act: 1. the employment chances of the unemployed should be enhanced, 2. the EPA should be updated, 3. the effectiveness and efficiency of the labour market policies

final outcome. The government simply split its reform and organised the more important aspects in a way that it could only be vetoed by a 2/3-majority in the Federal Council. The simple majority of the SPD could therefore be by-passed. Because of the self-governance principle in the Federal Labour Office the social partners were involved in the political process, but they didn't have any institutional veto-position to limit the government's manoeuvrability. More important to the political process were developments within the coalition and the political parties. The FDP became more influential in agenda-setting while the labourist wing of the CDU lost influence. Insofar as there have been adjustments to the reform proposals of the government they were due to the influence of the prime ministers of the CDU governed new states whose approval was needed in the Federal Council.

The new middle of the red-green government: „Alliance for jobs“ and „job-aqktiv“ act

When the red-green coalition entered government in 1998 its strategic orientation with regard to employment policies was not yet clear. Two contradictory directions within the SPD could be distinguished. The „traditionalist“ wing of the SPD, mainly represented by the party leader and Minister of Finance Lafontaine, called for a „policy change“. This strategic orientation tried to reverse the overall direction of the Kohl policies (Lafontaine/Müller 1997) calling for a stop of neo-liberal policy and more state intervention. Chancellor Schröder represented the modernist wing of the SPD (Schröder/Blair 1999; Hombach 1998). His approach is characterised by the famous statement that there is no more left or right but only modern economic policy. Obviously there was a strategic conflict within the government which was only resolved when Lafontaine resigned from his posts in 1999. Since then the modernist wing dominated the government and the party. However while in tax and pension policy the modernist approach is obvious, in labour market policies the approach of the EPA reform proposals of the mid 1990s is still visible. The government accepted the target of reaching full-employment and introduced several of the older proposals into the Job Aqktiv act. By contrast the proposal of the steering committee to develop the low paid service sector was reduced to some minor programmes because of resistance of the trade unions.

The officially proclaimed aim of the government was to reduce unemployment to 3.5 Mio until the end of its incumbency. In addition the German government also committed itself to reach the targets as set by the European Unions employment strategy which are:

- an employment rate of 70 per cent for 2010 and 60 per cent for women for 2010 (European Council, Lisbon 2000) which de facto meant the re-establishment of full employment as the main target,
- an immediate target of an employment rate of 67 percent and 57 per cent for women for 2005 (European Council, Stockholm 2001)

- an employment rate for older persons: 50 per cent for 2010 (European Council, Stockholm 2001).

Most of the changes in policies that were adopted under the Kohl government were rejected by the then-opposition. The new red-green coalition, however, has been reluctant to restore the status quo ante. While some restrictions were abolished, the Schröder government has left the bulk of the measures adopted by its predecessor untouched. Moreover, it has even introduced some of the measures it had successfully blocked in the past. This applies particularly to the eventual abolition of the primary unemployment assistance within the framework of Hans Eichel's austerity package. However, the red-green government had promised in its coalition treaty to stop the decline in the active labour market expenditures by consolidating it on the current level and to reform the EPA with a view to strengthen its activating capacities, to increase women's participation and to allow for a better combination with structural policies in the regions (SPD/Bündnis 90-Die Grünen 1998). With regard to the young unemployed it introduced a major new programme. Almost 100.000 young unemployed are participating in this federal programme (BMAS 2002: 37f). Although Job Creation Programme and more recently even training courses were increasingly attacked as being ineffective the government argued that these measures were at least necessary in regions with a lack of employment opportunities. However the numbers of Work Creation Programmes have already been reduced (BMAS 2002: 37) and in 2002 the new president of the Federal Labour Office, Florian Gerster, has publicly stated that these measures should be abolished in the future. The Schröder government has up to now refused calls by the opposition and the employers organisations to reduce the contribution to the unemployment insurance, even in 2000 when it seemed as if the budget of the Federal Labour Office would be in surplus because of falling unemployment figures. On the contrary the government elaborated a reform of the EPA involving new expenditures for the Federal Labour Office. During its incumbency the red-green government has largely fulfilled its promises with regard to finances: the expenditures of the Federal Labour Office were around 133 bn DM (67 Euro) in 2001 as it was in 1998. Thanks to the positive economic development up to 2001 the contributions increased while the numbers of unemployed fell. The red-green government was therefore able to consolidate active labour market policies and simultaneously to lower its grant to the Federal Labour Office from 7.7 bn DM in 1998 to 3.8 bn DM (around 1.9 bn Euro) in 2001 (BMAS 2002: 38f.).

Two aspects of the labour market policy of the red-green coalition do stand out. With regards to the policy the new approach was on an „*activating*“ and „*enabling*“ *welfare state* which would no longer act as „safety net“ but as an „enabling springboard“ (cf. Schröder/Blair 1999). This approach is mostly reflected in the major reform of the EPA, the so-called Job-Aktiv act (BMAS 2002: 44-48). The aim of the act is to reorganise active labour market policies in a preventive, anti-cyclical and almost self-governing way which respects the principle of gender-mainstreaming and also calls for more self-responsibility of the unemployed („carrots and sticks“, *Fördern und Fordern*, has been the major slogan). The main elements of the act are as follows:

- enhanced job-guidance („profiling“ of each unemployed to assess labour market opportunities; on this basis there shall be a contract defining the rights and duties of the unemployed and the support offered by the local Labour Office; a violation of the contract may be sanctioned with reduced benefits)
- prevention (waiting time for the pick-up of labour market measures is abolished)
- reconciliation of work and family (the number of women in labour market measures shall be raised according to their share amongst the unemployed, allowances for child services during training measures have been increased, part-time training has been introduced, child rearing is in some cases accepted as equivalent to monetary contribution to the insurance)
- introduction of „job-rotation“ (the Labour Office may finance 50 to 100 per cent of the wage of the substitute when an employee leaves the job for a period of qualification)
- integration of parts of the JUMP programme into the EPA (e.g. subsidies for employers engaging young unemployed)
- reforms in the organisation of Job Creation Measures to strengthen their compatibility with regional and structural policies.

With regard to the policy process a renewed „Alliance for Jobs“ (*Bündnis für Arbeit*) was regarded as the most suitable institutional framework for reform. The red-green government tried to pursue a consensual approach in labour market reform and it listed several items in its coalition treaty that should be dealt within the „alliance“. The general impression in Germany is that the „Alliance“ wasn't very successful. This impression has its roots mainly in the public conflicts between trade unions and employers organisation, in particular in response to the proposals by the steering committee in 1999 to create a substantial low wage sector in the German labour market (Heinze/Streeck 2000). The trade unions strongly opposed the ideas and proposals of the steering committee allowing only for some minor experimental programmes.⁴¹ In addition Lehmbruch has convincingly argued that the „Alliance for Job“ may not be the adequate institution for the overall reform of the welfare state for relevant actors of policy areas such as health policy are not represented within the „Alliance“ (Lehmbruch 2000).

However a detailed compilation of the results of the „alliance for Jobs“ and the final political outcomes shows that at least some changes in labour market policies have been agreed upon in a consensual way. Amongst other measures the apprenticeship system has been consolidated, statistically providing more vacancies than needed until recently. More important is that the „Job AQTIV“ act has been elaborated by the „alliance“

⁴¹ In response to the proposal of Heinze/Streeck an experimental minor programme, the Mainz Plan, has been agreed upon providing financial support for low-wage jobs in one state. Low-income employees receive a social security contribution subsidy and a child benefit supplement in addition to their regular wage. The programme was meant to generate some (more) experiences on subsidizing low wages to decide later on whether or not to extend the programme. However in the course of a public scandal on manipulated guidance efforts of the Federal Labour Office the Mainz Plan was extended to all states in January 2002.

(Bundesregierung 2002). Save for the creation of new Job Creation Measures (these had been refused by the employers organisation) the act has been approved by all involved actors.

Outlook: the „Hartz- commission“ and current election campaign

At the end of its incumbency the development on the labour market posed serious problems to the red-green government. The chancellor-candidate Schröder had promised to reduce unemployment to 3.5 Mio until 2002. In 2002, however, unemployment had reincreased to 4 Mio people. The opposition has already started to use this broken promise as a major element in its election campaign.

However a scandal in the Federal Labour Office, indicating that the office wasn't working effectively with regard to guidance and counselling, provided the opportunity to start another effort to reform labour market policies. Even though the new Job Aqktiv act had passed only recently a new approach to labour market policies was already looked for. In march 2002 a new commission chaired by Peter Hartz ("Hartz commission"), a VW manager close to the trade unions, has been set up with the task to develop new ideas for labour market policies. In August 2002 the Hart Commission presented its report: 13 modules are proposed to enhance the efficiency of labour market policy. The most important elements are as follows:

- A „personal service agency“ is to be created by each local labour office; this agency will hire unemployed and organise temporary work for them in private firms (*Leiharbeit*).
- A new local „Job centre“ will be set up to provide a single office for all unemployed, irrespective of their status as unemployed (Labour office) or social assistance recipient.
- The integration of the unemployment insurance and the social assistance scheme with regard to the benefits will be organised as follows: an “unemployment benefit 2” (the former assistance) will be given to all unemployed who are able to work irrespective of former contributions. Only those who are unable to work are to stay in the social assistance scheme.
- Self-employment will be encouraged through the creation of a so-called „Ich/Familien-AG“ („me-/family-corporation“) with an income tax of 10% for incomes less than 15.000 Euro. The idea is to create a new legal status for persons who are currently working in the „shadow economy“.
- The income ceiling for subsidiary jobs shall be raised to 500 Euro but remains limited to services within private households.
- „Bridge-system“: Unemployed who are older than 55 should be „bridged“ to early retirement and don't any longer need to be available for the labour market.
- “Job floater”: When a small or medium-sized enterprise hires an unemployed it will get access to additional credits by the semi-public KfW.

The commission claims that a full implementation of the reform proposals would lead to a reduction of around 2 Mio unemployed until 2005 without additional costs. The publication of

these proposals has initiated a heated debate on labour market policy. The Chancellor Schröder has welcomed the ideas. First cornerstones for the reform of the labour market have been agreed upon in the cabinet committing the government to an implementation of all proposals of the Hartz commission if re-elected in September.

The main opposition party, the CDU/CSU, has mainly criticised that the reform proposals are limited to a better functioning of the guidance and counselling functions of labour market policy whereas the real problem is the lack of employment. Therefore it calls in its election programme for

- an expansion of the low-wage sector by a raising of the level of subsidiary employment (*geringfügiger Beschäftigung*) to 400 Euro and establish an income range between 400 and 800 Euro with reduced social insurance contributions (which is promised to lead to 800.000 new jobs) and
- published a further initiative called Offensive 2002 which included a public investment programme of around 10 bn Euro (FAZ July, 13 2002).

The reform of the German labour market is on the top of the agenda and will certainly be pursued with an renewed vigour after the elections. The following table gives an overview on the proposed directions of reform as preferred by the political parties.

Table 13: Labour Market Proposals in the party election programmes 2002

	labour law	low wage sector	unemployment assistance and social assistance	ABM + SAM Work measures
SPD	no „hire and fire“ each employment sufficiently paid and insured	Mainz plan; "Hartz commission"	integration, against lowering of u.a. and tougher acceptability rules	at least in east G. necessary; additional programme for youth in new states
CDU/CSU	reversal of some labour laws; liberalisation of ‚time work‘; older workers should be allowed to do without labour protection	level of ‚subsidiary work‘ to 400 Euro; 400-800 Euro reduced social contributions	integration at the level of social assistance; introduction of an "experimental clause"	only in east Germany; to be concentrated on old workers
FDP	all workers should be allowed to do without protection; „Alliance for Jobs“ at enterprise level	level to be raised to around 600 Euro	cf. CDU; „citizen money“	unemployment benefit 12 months; privatisation of guidance; reduce ABM
Greens	flexible working time; old-age part-time to be made independent of age (5 years)	support for part time work		continuation
PDS	tax-financed minimum income for all unemployed; reduction of working time without income losses; reduction of overtime; public work; minimum income			

Source: FAZ 123, 31.05.02: 15, party manifestos.

8. The way in which welfare is financed

Traditional system and challenges

The welfare state is a major component in the mixed economy of Germany. As Table 14 shows social expenditures have been rising from about 20 per cent in 1960 to more than a third of the GDP in 1999. Taking a closer look reveals that there has been a huge expansion in the time from 1960 to the mid-70s, followed by a decline to 1990 and a renewed expansion after German unification. Since 1997 the share of social expenditures is falling again and is currently as high as it had been in the mid 70s. The overall social budget in Germany amounted to 1269 bn DM in 1999 (BMAS 2002: 468)⁴². The most important components of

⁴² The social budget (BMAS 2002, Alber 2001) which is published every four years is the most comprehensive official statement of social spending in Germany. It presents an overview on the official policy approach to social policy, the most recent policy changes and data on social policy expenditure. In contrast to the EU and the OECD data the social budget includes additionally, inter alia, benefits by the employers (occupational pensions, mandatory wage continuation). The social expenditure ratio in the social budget is therefore 3 to 4 % higher than the Eurostat and the OECD data on social expenditure (Alber 2001: Graph 1 for a comparison of the different data sources).

the social budget are provisions for old age and health which both account for one third of the overall amount. The expenditures for family and employment are both between four and five per cent. Though from a comparatively low level these measures have been the most dynamic elements in the social budget during the 1990s.

Table 14: Social budget. overall and according to main functions
(% of GDP)

	1960	1970	1975	1980	1989	1992	1996	1999
social budget	21.6	25.9	33.3	32.0	30.1	31.4	34.1	33.7
<i>of which:</i>								
old age	9.6	11.0	13.3	12.8	12.2	11.4	12.4	12.5
health	5.9	7.4	9.8	10.1	9.7	10.7	11.5	11.1
family and marriage	3.6	4.7	5.2	4.9	4.1	4.2	4.4	4.7
employment	0.6	0.9	2.3	2.0	2.6	3.9	4.5	4.2
others	1.9	2.0	2.7	2.3	1.5	1.2	1.3	1.2

Source: BMAS 2001 tab. 7.2

According to its Bismarckian roots the German welfare state is mainly organised as a social insurance system providing for five social risks: old age, accidents, illness, unemployment and care need (Alber 1989; Schmidt 1998). The bulk of social insurance benefits in Germany have therefore traditionally been financed by earmarked social insurance contributions. In 1998 the social insurance schemes accounted for more than 64 per cent of the social budget. Formally, these contributions have been born equally by employees and employers. In contrast, general tax revenues have played a subsidiary role.⁴³ Table 15 gives a more detailed account of the composition of the finances of the German welfare state over time.

Table 15: The changing financing structure of social expenditure
(Total receipts by sources in per cent)

	1960	1970	1975	1980	1990	1998
Insured	20.7	22.6	24.3	25.2	28.8	30.9
Employers incl. employers benefits	34.4	35.8	34.5	37.4	38.6	33.4
public subsidies and grants	42.6	39.7	39.2	36.0	30.9	34.4
(of which: federal g.)	(25.1)	(23.6)	(24.4)	(22.3)	(18.6)	(20.0)
other	2.3	1.9	1.9	1.4	1.7	1.3

Source: BMAS 2001: Tab 7.3; 7.4

Several long-term developments are worth mentioning:

- the contribution by the insured has been rising continuously since 1960 from 20 per cent to 30 per cent in 1998,

⁴³ The social budget beyond the insurance system consists of: 8% for social security for special groups (mainly civil servants), 5% means-tested schemes (mainly social assistance), 5% family allowances, 3% for public services (mainly youth support), 5.8% indirect tax subsidies and 7% employers benefits such as wage continuation and occupational pensions

- the contributions by the employers have been rising as well from 34 per cent (1960) to almost 39 per cent in 1990; in the 1990s however the share of the employers has been reduced by 5 percentage points,
- by contrast the share of the public budget had been shrinking from being the most important part (42% in 1960) to only 30 per cent in 1990; in the 1990s however the share has been rising again significantly,
- at the end of the 20th century the financing for social expenditures is almost equally divided between the state, the insured persons and the companies.

The expansion of the welfare state and the relative reduction of the public contribution to the finances led to an almost continuous increase of the social insurance contributions to the social budget (Table 16).

Table 16: Development of Social Insurance Contribution Rates, 1950-2000
(% of Gross Wages)

Year	Total Rate	Pension Insurance	Sickness Insurance	Unemployment Insurance	Care Insurance
1950	20.0	10.0	6.0	4.0	
1960	24.4	14.0	8.4	2.0	
1970	26.5	17.0	8.2	1.3	
1980	32.4	18.0	11.4	3.0	
1985	35.1	19.2	11.8	4.1	
1990	35.6	18.7	12.6	4.3	
1991	36.7	17.7	12.2	6.8	
1992	36.8	17.7	12.8	6.3	
1993	37.4	17.5	13.4	6.5	
1994	38.9	19.2	13.2	6.5	
1995	39.3	18.6	13.2	6.5	1.0
1996	41.0	19.2	13.6	6.5	1.7
1997	41.7	20.3	13.2	6.5	1.7
1998	42.1	20.3	13.6	6.5	1.7
1999	41.3	19.5	13.6	6.5	1.7
2000	41.1	19.3	13.6	6.5	1.7

Source: BMAS 2001: Tab. 7.7.

Most remarkable is the overall increase of the contribution rate from 25 per cent in 1960 to 35 per cent in the mid 80s. While it seemed that in the second half of the 80s the expansion had finally reached a “growth to limits” (Flora) the process of German unification again led to further increase by seven per cent to 1998. After 1998 the rate fell until 2001.

Discourse

The financing of the German welfare state has become increasingly important in the general debate on the future of social policy. One of the major traditional disputes between the political ideologies and parties has been the extent of state intervention and the level of the welfare state. When the Kohl government came into office it announced and pursued a strategy of reducing state interventions. In the 1980s and the early 1990s this approach did not

rule out the introduction of new schemes (e.g. parental leave, care insurance). By contrast the climate in the course of the 1990s has become more restrictive. In particular the debate on Germany as location for investments (*Standortdebatte*) involved major criticisms of the German welfare state for being too expensive for companies and too generous for employees and social welfare recipients. While this debate had been launched mainly by right-wing political forces it was increasingly accepted by social democrats as well (“new middle”).

The most salient issue is that social insurance contributions increase the cost of labour and drive a wedge between the net wages workers receive and the gross wages employers have to pay⁴⁴. This wedge would in particular drive unskilled labour out of the labour market (e.g. Esping-Andersen 1990, 1996). In the course of the 1990s this kind of analysis has become influential and all parties have at least rhetorically referred to the need of reducing the social contribution burden on labour. In fact this issue has almost reached the status of a political target on its own. The SPD and the Greens promised to reduce the social contributions below 40 per cent of gross wage in its coalition treaty (1998). In the current election campaign the CDU/CSU announces a policy of “3 times 40” which means a policy that lowers social contributions under 40 per cent of the gross wage, reduces the share of the state of GDP to 40 per cent and finally reduces the highest rate in income tax to 40 per cent.

Sometimes the argument is used for rather radical reform proposals: the future commission of Bavaria and Saxonia (1997) for example called – as the employers organisations do – for a new system in which only minimum standards in the various branches of social insurance is provided for. This would radically reduce social contributions to the systems and thereby the price for labour. For the price for labour is regarded as the major source for unemployment crises by the commission this reform would have major employment effects.

Another proposal has been launched by the directors of the Max Planck Institute (Scharpf and Streeck). They proposed to use the available resources coming from the Eco-tax not for a general reduction of the contributions but to concentrate the relieves on the low-income strata. In addition they argued that a reduction of the social contributions would be much more effective (in particular when targeted on low income strata) with regard to employment generation than general tax reductions.

Within the social insurance systems the viability of the PAYG financing in pension system has increasingly come under pressure. For a variety of reasons a system change to a partly funded system has been called for and has been introduced by the government Schröder.

⁴⁴ Alber mentions four weaknesses of the contribution system: „(1) It only falls on income from dependent labor, thus exempting other sources of income as well as various social categories such as civil servants or the self-employed. (2) It extends only to income up to a contribution ceiling, thus exempting all income above the threshold. (3) It is not progressive, but proportional. (4) In contrast to the income tax, it does not exempt income below the subsistence minimum from taxation“ (2001: 20f.).

Policy Trajectory

Table 17: Main stages

	Finances
1982-84	state budget consolidation cuts in benefits and increases of contributions
1984-89	Fiscal consolidation
1991- 1993 unification consensus	Expansion of social insurance schemes to East Germany
1993-98 cost-containment	Consolidation packages: 1993 consolidation programme (SKWPG) 1996 growth and employment programme
98- red-green coalition	broadening of the financial basis: Eco-tax regulation of subsidiary employment and unreal self-employment partly privatisation of social risks: introduction of private pillar in pension systems

CDU/CSU/FDP government

The turning point in the expansion of the German welfare state had been in the mid-70s (Alber 1989). However, it was only when the CDU-led coalition came into office that the German government officially referred to a supply-side economic policy which was announced in a ten point strategy against unemployment (Kohl 1982). The strategy focused on improving the profitability of the companies to increase resources for investment. The most urgent element of the strategy was the consolidation of the state budget. Despite cost saving efforts of the SPD/FDP government the credits needed to finance the federal budget had been growing to 37 bn DM in 1982. The possibility to raise taxes had been vetoed in particular by the FDP and was ruled out by the new coalition. Therefore two major consolidation packages („Haushaltsbegleitgesetze“) had been introduced in the early 80s involving cuts in social expenditures. Even though the high contribution burden on labour had been analysed by parts of the CDU in the early 1980s as being one of the causes for the rising unemployment (Zohlnhöfer 2001: 48f.) the coalition increased the contributions to the unemployment insurance system. When the financial system of the Federal Labour Office eased in the second half of the 1980s the government preferred to use the money to implement new measures and enhance existing ones instead of reducing the contribution rates. The aim of consolidating the insurance budgets had also been driving forces behind the health reform in 1988 and the pensions reform 1992 (Jochem 2001: 201f.). Overall the policy approach of the coalition in the 1980s was to consolidate the finances of the social insurance to allow for a reduced contribution by the federal budget. As the deficits of the federal budget began to fall in the mid 80s the government moved to a tax reform which reduced the tax obligations of the companies and the citizens by 50 bn DM in three stages (Zohlnhöfer 2001: 83-104).

Summing up the developments in the 1980s there had been a „smooth consolidation“ (Offe 1991) of the German welfare state. The social insurance systems had been in a relatively good financial situation. The political targets of consolidating the budget, reducing state

expenditures and the overall financial burden of the citizens had been more or less achieved by the end of the 1980s (Zohlhöfer 2001: 104-109).

Things changed in the course of German unification. In their election campaigns in 1991 the governing parties promised that no increase in taxes would be needed to finance German unification. In addition Kohl called the creation of equal living conditions in east and west Germany the top priority of his government. Between 1991 and 1993 there was a „unification consensus“. The financing of unity was regarded a national project. Transferring huge amounts of money to east Germany led to a unification boom financed by a „keynesian approach against will“ (v. Beyme 1994).

Most important for the development in the 1990s is that the government decided to finance German unification by the means of social insurance and increasing state debt (Czada 1998). Ever since 1991, net transfers to East Germany have amounted to 100-150 bn DM or 4-6 per cent of West German GDP annually (Boss 1998). Given the lack of economic convergence, annual transfers will decline but gradually. These transfers have put a heavy burden on the budget. This particularly applies to the budgets of the social insurance funds. German unification also meant that East Germans joined the pension and unemployment insurance funds.⁴⁵ Given the massive decline in employment in East Germany, this transfer of the West German welfare state implied massive extra spending for the social insurance funds. Ten years into unification, annual transfers to the East within the framework of the pension and unemployment insurance scheme still amount to about 40 bn DM. In 1999 the overall social budget of the new states in East Germany has been about 230 bn DM of which 45 bn DM were transfers from West Germany (BMAS 2002: 468). Only part of the resulting financial burden has been covered by federal grants; the rest has been financed directly by the insured. As a consequence, unification brought a strong upward pressure on social insurance contribution rates and a downward pressure on social benefits. The public debt (state budgets and social insurance) increased from 930 bn DM in 1989 to 2135 bn DM in 1996. More than half of the new debt have to be attributed to unification (Czada 1998: 35).

At least two different political strategies were available to react to the financial stress: the political actors could either increase the income of the state and/or of the social insurance systems or they could reduce the expenditures. While in spring of 1993 government and opposition still agreed on a „solidarity pact“ – indicating a general continuity of the cooperative consensus approach in German politics (Sally/Webber 1994) – later in the year the national consensus broke apart because the political parties referred to different strategies.⁴⁶ The government turned to a neo-liberal policy approach. In several efforts to promote Germany as location for investments it reduced taxes for companies and enforced a policy of

⁴⁵ Health care is somewhat different. In Germany, the sickness insurance scheme is traditionally administered by a plethora of different funds. This is why the majority of East Germans are members of East German funds and why the direct transfer from the West to the East within the framework of the scheme has been limited.

budget consolidation through the reduction of expenditures. Major consolidation programmes in 1993 and 1996 involved cuts in social benefits and reductions of active labour market measures. The 1993 package which focused on cost containment in the unemployment insurance was meant to save expenditures of more than 20 bn DM in 1994 alone. The same amount was saved through the 1996 package. Against the conventional wisdom which classifies Germany as particularly resistant against change and reform the cuts in welfare spending have been higher than in any other EU country (cf. Alber 1998: 209-215; Schmidt 1998: 77-78). By the mid-1990s the high social contribution rates on labour were regarded as a major cause for unemployment (Jochem 2001). The 1996 package therefore included for the first time a specified commitment to reduce the social contribution rates, which had risen from 35 per cent of gross wage in 1989 to 41 per cent in 1996, below 40% in 2000. Structural reforms in the social insurance systems were to support this target:

- reforms in the health insurance introduced and increased co-payments fees when using medical services,
- compensating the employers for the introduction of the care insurance one public holiday was abolished. While in theory sticking to the principle of parity, in practice the government departed from the traditional principle of parity.
- Similar departures from the principle of parity had been discussed in the areas of health care and pension reform.
- A principle of income-oriented expenditure was introduced into the care and health insurance systems in order to avoid uncontrolled increases in expenditure.

At the same time the government Kohl had promised to halve the unemployment rate until the year 2000. Therefore it returned to its original supply-side economic approach with a new vigour and tried to promote economic growth and employment through a tax policy of reducing corporate and personal income taxes (cf. details: National report 2000: 36f.). However, the most comprehensive reform proposal in 1996 with a tax relief of around 30-40 bn DM was blocked by the SPD in the Council. The SPD argued that the reform was biased towards corporations and the better off and criticised the government for its neo-liberal policy approach.

Overall in the 1990s the burden of financing the social budget increasingly fell on the shoulders of the insured and the state (Table 15). The share insured had to finance rose from 28.8 per cent of the social budget in 1990 to 30.9 per cent in 1998. While the long-term trend for the state's share was downwards its contribution rose during the 1990s from 30.9 per cent in 1990 to 34.4 per cent in 1998 (federal level: 18.6 to 20.0 per cent). By contrast the share of the employers declined significantly from 38.6 per cent to 33.4 per cent.

⁴⁶ The former minister and general secretary of the CDU, Heiner Geißler, argued in an interview: „it was the financing of German unification by the social insurance system which took social politicians into the defensive ... in addition it was false examples, UK and USA“ (Geißler 2001: 808, my translation).

Red-green coalition

When the Kohl government introduced its cuts in the welfare benefits the SPD strongly criticised these policies for being socially unjust. The SPD instead proposed to increase the available resources. It argued that active labour market policies should be financed by the state budget; a special labour market levy for self-employed and civil servants who don't contribute to the social insurance fund was proposed and in the discussion on tax reform in 1996 the SPD wanted to reduce social contributions rates rather than personal or corporate income taxes.

When the SPD and the Greens formed the government the first political decisions referred to this approach with the overall target to reduce contributions below 40 per cent of gross wage (SPD/B'90-Die Grünen 1998: 1528):

- an Eco-tax was introduced and raised annually. The additional resources were used to subsidise the public pension system. Thereby the contribution rates for the pension insurance could be lowered from 20.3 per cent of gross wage in 1998 to 19.3 per cent in 2001 (Table 16). The Eco-tax was regarded as a major market-related instrument in the ecological modernisation of the German economy which simultaneously increased the price for non-renewable energy and lowered the price for labour,
- non-standard employment such as subsidiary work (*geringfügige Beschäftigung*) and a certain type of self-employment have been regulated in order to avoid fraud and increase contributions to the social security systems.

The replacement of Lafontaine however resulted in a change in policy which became apparent in summer 1999 when the prime minister Schröder published a policy paper on the "New Middle" together with Tony Blair (Schröder/Blair 1999). The paper is highly critical towards traditional social democratic policy and calls amongst others for a reduction of state's expenses and a new left supply-side policy. Under Hans Eichel, the new finance minister, the 'philosophy' of financial policy changed accordingly. Similar to its conservative-liberal predecessor, the red-green government now began to emphasise the need for making Germany more competitive by reducing the corporate tax burden. Moreover, it became more sympathetic towards far-reaching cuts in the top personal income tax rate and the reliance on the 'self-financing' of tax cuts through the induced increase in economic activity (cf. National report 2000: 39f.).

Most visible became the new acceptance of liberal ideas in the area of pension policy where the government introduced a new subsidised private pillar into the pension system to compensate for reduced benefits in the public pension system. This change was heavily opposed by trade unions for it ignored the traditional principle of parity financing.

Additional tables

Table 18: Active labour market policies: participants and expenditure

Year 1)	training courses (entries)	Job Creation measures	expenditures of the Federal Labour Office	
			active labour market policy (overall)	of which: vocational training
			Mio DM	
	1000			
1970	170	2	923	782
1975	271	16	5771	2865
1976	152	29		2178
1977	136	38		1491
1978	175	51		1623
1979	209	51		2230
1980	247	41	6798	2925
1981	280	38	8712	3824
1982	266	29	9139	3781
1983	306	45	9911	3496
1984	353	71	9408	3675
1985	409	87	9769	4008
1986	530	102	11621	5052
1987	596	115	14403	6431
1988	566	115	16476	7892
1989	490	97	16112	8497
1990	574	83	18225	9966
1991	1486	266	48855	14910
1992	1462	466	61322	22084
1993	642	321	64288	21002
1994	594	338	53523	17200
1995	659	384	49810	18383
1996	647	353	46806	19304
1997	441	301	37085	16371
1998	608	385	39014	14898
1999	491	430	44504	15496
2000	552	313	42356	15384

1) since 1991 united Germany

Source: BMAS 2001: Tab. 8.15

Table 19: Unemployment benefit and assistance: recipients and expenditures

Year 1)	unemployment insurance		assistance		further wage compensation benefits 4)
	recipients benefit	expenditure 2)	recipients (JD)	expenditure3)	
	1000	Mio DM	1000	Mio DM	
1960	175	508	51	103	152
1965	97	391	12	31	602
1970	96	651	17	71	1315
1971	120	868	15	75	1022
1972	157	1284	20	114	994
1973	154	1395	23	144	1494
1974	352	3552	40	302	2135
1975	707	7765	110	979	3589
1976	615	6906	164	1542	2519
1977	557	6283	163	1595	2238
1978	516	6270	157	1657	2306
1979	448	7468	134	1974	2752
1980	454	8110	122	1903	2652
1981	698	13294	170	2850	4180
1982	926	18027	291	5015	4989
1983	1014	17103	485	7124	5100
1984	859	14143	598	8719	3939
1985	836	14085	617	9126	3229
1986	800	14047	601	9160	2755
1987	834	15293	577	9030	2967
1988	947	18054	528	8446	2334
1989	888	17575	496	8204	1634
1990	799	17015	433	7587	1541
1991	1405	23750	415	7135	12365
1992	1681	31560	529	9106	5975
1993	1887	42598	759	13975	7362
1994	1913	45870	950	17431	5256
1995	1780	48200	982	20509	4311
1996	1989	55655	1104	24225	4674
1997	2155	59229	1354	27998	3764
1998	1987	52827	1504	30438	3184
1999	1829	48627	1495	30473	3246
2000	1695	46179	1457	25741	3239
1) since 1991 united Germany					
2) expenditure of the Federal Labour Office					
3) expenditure of the federal state					
4) expenditure of the Federal Labour Office for short time and winter allowance					

Source: BMAS 2001: Tab. 8.14

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