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## Continuity or change? Red-Green social policy after 16 years of Christian-Democratic rule

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**Martin Seeleib-Kaiser**

**Continuity or Change?  
Red-Green Social Policy after 16 Years of  
Christian-Democratic Rule**

ZeS-Arbeitspapier 3/2003

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## Summary

The 'parties matter theory' in welfare state research argues that it makes a difference whether liberal (conservative), Christian-democratic or social-democratic parties are in power, since they pursue different social policies. Hence, we would expect specific policy changes after a change in government. This theory constitutes the starting point for an analysis of the Red-Green social policies during the past four years. First, the paper briefly scrutinizes the social policy priorities and policies during the long rule of the Christian Democratic-Liberal coalition against the backdrop of the normative and institutional foundations of the German welfare state in the golden post-World War II era. In a second step, the social policy priorities and aims of the Social Democrats and Greens are scrutinized in greater detail. The analysis in the main section of the paper focuses on the main social policy changes legislated during the past four years in the various domains of the welfare state. A comparison of the policies of the previous government with the programmatic aims as well as the legislated policies of the Red-Green government leads to the conclusion of policy continuation. However, policy continuation should not be mistaken with policy stalemate. Moreover, the Red-Green government continues to pursue reforms in the policy direction already followed by the previous government. Accordingly, the 'parties matter theory' cannot sufficiently explain the more recent social policy development in the Federal Republic of Germany.

## Zusammenfassung

Nach der Parteiendifferenztheorie in der Wohlfahrtsstaatsforschung macht es einen Unterschied hinsichtlich der spezifischen Gestalt von Sozialpolitik, ob liberale (konservative), christdemokratische oder sozialdemokratische Parteien an der Macht sind. Entsprechend wäre nach einem politischen Machtwechsel ebenso ein Politikwechsel zu erwarten. Diese Theorie dient dem Arbeitspapier als Ausgangspunkt für die Analyse der rot-grünen Sozialpolitik der vergangenen vier Jahre. In einem ersten Schritt werden die sozialpolitischen Prioritäten sowie Politiken während der langen Herrschaft der christlich-liberalen Koalition vor dem Hintergrund der normativen und institutionellen Fundamente des deutschen Wohlfahrtsstaates in der Nachkriegszeit kurz skizziert, bevor in einem zweiten Schritt auf die sozialpolitische Programmatik der Sozialdemokratie sowie der Grünen eingegangen wird. Der Hauptteil der Analyse widmet sich den zentralen sozialpolitischen Gesetzesänderungen in den vergangenen vier Jahren. Ein Vergleich der Politiken der Regierung Kohl mit den sozialpolitischen Zielen sowie den bereits verabschiedeten Gesetzesmaßnahmen von Rot-Grün führt schließlich zu dem Ergebnis der Politikkontinuität. Jedoch darf Politikkontinuität nicht mißverstanden werden mit Politikstillstand. Vielmehr verfolgt die rot-grüne Koalition die von der Vorgängerregierung eingeschlagene Reformrichtung weiter. Insoweit kann die Parteiendifferenztheorie nicht hinreichend die jüngsten sozialpolitischen Entwicklungen in der Bundesrepublik Deutschland erklären.

## INTRODUCTION

The key argument of the classical 'parties matter theory' in comparative welfare state analysis has been that conservative parties tend to fight inflation, whereas left or progressive parties tend to focus on reducing unemployment (Hibbs 1977). Although there are some differences in terms of the variables operationalized, it has further been argued that historically the strength of social democratic incumbency has led to the construction of large welfare states (cf. Shalev 1983). More recent research has shown that not only Social Democratic, but also Christian Democratic Parties can be characterized as welfare state parties. Nevertheless, there are said to be clear differences: Social Democratic Parties promote full employment and the provision of universal social services, while Christian Democratic Parties rely more heavily on the market in terms of employment policies and the principle of subsidiarity in regards to providing social services (Kersbergen 1995; Huber/Stephens 2001).

Accordingly, we should expect that the Red–Green government pursued a different approach in social policy after it came to power in 1998 than the Christian–Liberal coalition government during its rule. Consequently, the following questions guide this paper: What are the programmatic aims of the Social Democrats and the Greens? Did the Red–Green coalition follow through with the promises the two parties made during the election campaign? Did we witness continuity or change in social policy after their 1998 election victory, compared to the long rule of Christian Democrats? How are the recent social policy reforms related to the normative and institutional design of the German welfare state in the golden post–WWII era?

In a first step, I will sketch the normative and institutional settings of the German welfare state<sup>0</sup> during the golden era of post–WW II capitalism. Secondly, I will briefly outline the major programmatic aims and policy reforms during the long rule of the Christian–Liberal coalition. This analysis will provide a systematic reference point for the inter–temporal comparison as well as for scrutinizing the 'parties matter theory' in the German context. In part three of the paper I will analyze the policy objectives of the new Red–Green coalition government as outlined in party platforms for the federal elections in 1998 and the coalition agreement, before I will address the social policy changes enacted during the past four years (part IV). In the final fifth part of the paper, I will give a first assessment of the Red–Green

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<sup>0</sup> . The analysis in this paper is based on a narrow definition of social policy with the public programs to secure against the primary social risks of old age, sickness, and unemployment at its center. Although I acknowledge that the meaning of the term social policy can and a comprehensive analysis should encompass more dimensions (see Bleses/Seeleib–Kaiser 2001), space limitations do not allow a more elaborate analysis.

social policy by comparing its policies and aims with the social policy developments during the tenure of the previous conservative coalition government and address the broader question of social policy change in Germany.

## **NORMATIVE AND INSTITUTIONAL FOUNDATIONS OF THE GERMAN WELFARE STATE IN THE GOLDEN POST-WORLD WAR II ERA**

In comparative research, Germany is characterized as a welfare state that resembles most closely the ideal category of a conservative welfare state regime (Esping-Andersen 1990). One core element of such a welfare state regime is its strong emphasis on social insurance; consequently, Germany has also been characterized as a "social insurance state" (Riedmüller/Olk 1994). The other core element of a conservative welfare state regime is its reliance on the family and other communal groups in delivering social services.

According to the social insurance philosophy the German welfare state was primarily providing wage-centered social policies. The normative precondition for receiving benefits was a prior standard employment relationship (Vobruba 1990). Based on this institutional setting, social benefits were to be financed through equal contributions by workers and employers and *not* through general taxation. Consequently, the *main* aim was inter-temporal redistribution within the life course and not interpersonal redistribution. Furthermore, securing the 'achieved living standard' (Lebensstandardsicherung) through the different social insurance schemes became the *leitmotiv* of post-war social policy expansion. The prime example is the reform of old-age insurance in the year 1957: This reform substantially raised the old-age benefits and indexed them to future wage increases (Schmähl 1999; Schmidt 1998: 81–84; Frerich/Frey 1996: 46–49). By the mid-1970s, the replacement rate had reached 70 per cent for the standard pensioner (Eckrentner) with a prior average income and a work history of 45 years (Schmähl 1999: 405). Increasingly, senior citizens could rely primarily on their old-age insurance benefits, whereas in the 1950s, a substantial segment of them was dependent on means-tested social assistance (Leisering/Leibfried 1999).

Scrutinizing the institutional arrangements insuring against the risk of unemployment, we uncover a similar design: The unemployment insurance system was normatively bound to insure the standard of living in the case of unemployment. The instruments to achieve this were twofold: 1) A replacement rate reaching 68 per cent of prior earnings in the mid-1970s was to insure a relatively stable income for workers during spells of unemployment. 2) Suitable work was defined in such a way that an unemployed worker would not have to take



a job offer, which – compared to the previous job – either paid less or was in a different occupational field. In addition, the active labor market policy was aimed at abolishing ‘substandard’ employment (Seeleib–Kaiser 1995: 276–278; 2001: 77, 83).

After strikes in the shipbuilding industry in the mid–1950s, income maintenance in the case of sickness became statutory for all workers and employees. A further reform in 1969 made it obligatory for employers to provide 100 per cent of prior earnings during the first six weeks of a sickness; afterwards the sickness insurance funds would provide 80 per cent for the duration of the illness.<sup>0</sup> In the case of disability the law differentiated between those workers who due to their disability could not any longer work within their profession or occupation and those who were fully disabled. The former could receive a benefit, which was only one third lower than for those fully disabled (BMAS 1995: 236 ff.). As in the case of old age and unemployment these statutory regulations reflect the important role of guaranteeing the standard of living within the post–World War II social compact. According to the perception of social policy experts in the 1960s and early 70s, an improved social insurance system would eventually cover the standard social risks, whereby social assistance in terms of providing a minimum existence would ultimately become residual (Giese 1986). Despite having a long tradition in Germany, fringe benefits provided by employers only played a minor role within the overall social policy arrangement.<sup>0</sup>

The second core element of a conservative welfare state regime is its heavy reliance on the family, i.e. the housewife, as a provider of social services.<sup>0</sup> Based on the principle of subsidiarity, the state would only support the family, in addition to a child allowance or the child tax credit, if traditional self–help mechanisms would fail. Hence, in contrast to Scandinavian welfare states, the German welfare state would provide public social services only in a very restricted way. Through the institution of the family the housewife and dependent children were entitled to derived social insurance benefits based on the employment relationship of the male breadwinner.<sup>0</sup> The strong economic growth of the 1950s and 1960s with its very low unemployment rate and the predominant acceptance by women of their role as caregivers for children and the elderly (Fröhner et al. 1956) contributed to a seemingly well functioning welfare state.

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<sup>0</sup> . The maximum duration of the benefit by the sickness insurance funds is limited to 78 weeks within a three year period for the same sickness. Cf. Frerich/Frey (1996: 65–68); BMAS (1995: 164 f.).

<sup>0</sup> . Although a relatively high proportion of workers and employees had some form of occupational old–age benefit, the benefit amounts were rather small. The minor importance of fringe benefits is underlined by a comparison of the amounts spent through the two systems: In 1970, the outlays for occupational old–age benefits amounted to 3.1 bill. German marks, in contrast to 52.2 bill. German marks for statutory benefits (BMAS 1994: 254).

<sup>0</sup> . For an overview of the family ideology and family policies until the 1970s see Neidhardt (1978).

<sup>0</sup> . For a more elaborated analysis of the interdependence of the male breadwinner and the female caregiver see Bleses/Seeleib–Kaiser (1999).

To summarize one can argue that during the golden era, the German welfare state was mainly characterized by statutory insurance schemes, which were to guarantee the formerly achieved living standard in case of old age, unemployment and sickness as well as grant derived benefits to family members. The family itself had the important role as the primary provider of social services. From a normative perspective the German welfare state was primarily based on the principles of social integration and cohesion, not on redistribution between the classes, or fighting a war on poverty (cf. Goodin 1999).

## **SOCIAL POLICY DURING THE LONG CHRISTIAN–DEMOCRATIC RULE<sup>0</sup>**

The expansion of the welfare state had come to a halt in 1975, with the first cutbacks in social policy legislated by the Social Democratic–Liberal coalition government. After the CDU came to power in a coalition with the FDP in 1982, it did not only promise to continue and strengthen the overall consolidation process within the wage–earner centered social policy, but also to shift the focus more strongly towards supporting the family. The institution of the family had allegedly been neglected by the Social Democrats (cf. Bleses/Rose 1998; Bleses/Seeleib–Kaiser 1999).

The social policy development under Christian–Democratic rule can be divided into four phases: The first two years of Christian–Democratic rule were characterized by cutbacks, especially in the unemployment insurance program, active labor market policies, and social assistance. The old age insurance scheme was largely left unchanged and within the health care system we witnessed measures to control cost, which were largely technocratic in nature. Starting in the mid–1980s, the government initiated some policy expansions, although the overall goal of budget consolidation and a reduction of social insurance contributions was kept in place. Most noteworthy were the expansions in family policy. The government increased the child allowance and child tax credits, which initially had been cut, recognized a limited time devoted to child rearing as equivalent to monetary contributions towards the old–age insurance, and introduced parental leave as well as the parental leave benefit (Blese/Rose 1998: 144–154). Finally in 1992, the conservatives passed legislation to expand the public provision of child care facilities, giving every child between the ages three and six an entitlement to a place in a kindergarten. The law went fully into effect in 1999 after a transition period, during which more than 600.000 places for children in public child care facilities were created (Bäcker et al. 2000b: 212).<sup>0</sup> The data in Table 1 reveals the

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<sup>0</sup> . This section is largely based on Seeleib–Kaiser (2002a).

<sup>0</sup> . The family policy of the Christian Democrats is dealt with in greater detail and together with the more recent expansions legislated by the Red/Green government in a later section of this paper, due to the complexity of the issue and for the sake of limiting unnecessary repetitions.

significant expansion of public day care facilities for children between the ages three and six during the 1990s.

*Tab. 1: Supply of Childcare Facilities (no. of places as a percentage of age group)*

Year	Age		
	0 – below 3 Years	3 – 6,5 Years	6 – 12 Years
1965	N/A	33	N/A
1975	<1	66	N/A
1985 <sup>1</sup>	1,6	69.3	3.0
1990	1.8 (54.2)	69.0 (97.7)	3.4 (32.4)
1995 <sup>2</sup>	2.2 (41.3)	73.0 (96.2)	3.5 (22.6)
1998	2.8 (36.3)	86.8 (111.8)	5.9 (47.7) <sup>3</sup>
	<i>7.0</i>	<i>89.5</i>	<i>12.6</i>

Notes:<sup>1</sup> 1986, <sup>2</sup> 1994, <sup>3</sup> Ages 6–10. The percentages given in the brackets are for the former East Germany and the numbers in italic are for unified Germany. Data over the years are not fully comparable.

Sources: 1965–1975: Alber 2001: Tab. 9. 1975, Children below 3: Neidhardt 1978: 234; 1985–1990: BMFSFJ 1998: 200; 1995–1998: BMFSFJ 2002a: 129.

The third phase came with the unification of the two German states. As a matter of principle and in order to avoid chaos in the former German Democratic Republic the structure of the West-German welfare state was extended towards the East. Since the conservative government refused to adequately increase the subsidies out of general revenues for the insurance funds and due to the huge social problems associated with the unification process, we witnessed a rapid increase in social spending and in social insurance contributions (see Fig. 1 and 3). Hence, it has to be stressed that these increases were not the result of programmatic social policy expansions, but due to the financing arrangements of the unification process within the realm of social policy and the enormous social problems, especially the rapidly increasing unemployment, in the territory of the former German Democratic Republic.

After the process of unification was formally accomplished, the Kohl government in late 1992 once again started to pursue a policy of retrenchment in order to control and eventually reduce the sharply increased social spending as well as social insurance contributions. The

various policy initiatives included some major changes in the unemployment insurance program, a reduction of the statutory sick-leave benefit from 100 to 80 percent, a loosening of the dismissal protection, and – for the first time in German history – a significant benefit cut for future pensioners through the introduction of a "demographic factor" into the pension formula. The changes within the unemployment insurance were basically a continuation of the policy changes initiated since the mid-1970s, i.e. an incremental withdrawal from the principle of securing the achieved living standard and a promotion of a greater reliance on the market. Through the implementation of the Labor Promotion Reform Law of 1997, an unemployed worker can no longer reject a work offer outside his or her occupation or level of qualification as unsuitable. In addition, he or she must accept any job offer that pays up to 20 percent less than the previous job, during the first three months of unemployment and up to 30 percent less during the following three months. After six months the unemployed will have to take basically any job offer, which pays at least the amount of the unemployment compensation payment. Based on these changes, one can conclude that the state is increasingly relying on a means-tested approach and the market in regards to unemployment policy. Furthermore, various policy reforms at the local level since the mid-1980s and reforms at the federal level in 1993 and 1996 have put an increased emphasis on workfare requirements within the social assistance program. In 1998, approximately 300.000 (former) welfare recipients participated in welfare-to-work programs, whereas the numbers for 1982 and 1993 were 20.000 and 110.000 respectively (Alber 2001: Tab. 14). (Re-) integration into the labour market has become a primary concern, even if this means a state-subsidised increase in atypical employment paying wages below the respective collective bargaining agreements – a process that can be characterized as re-commodification (Seeleib-Kaiser 1997).

Through the implementation of the Pension Reform Law of 1999 (Rentenreformgesetz 1999), which was legislated in 1997, the replacement rate for the standard pensioner would have been reduced from 70 to 64 per cent. Based on this measure a substantial percentage of the elderly would have had to depend on the means-tested social assistance in the future once again (Schmähl 1999: 417 f; cf. BMAS 1998: 57f.). Via the legislation of this law the former coalition government of Christian and Free Democrats implicitly retracted from the principle of Lebensstandardsicherung, which was the major achievement and *leitmotiv* of post-war policy, ever since the historic '1957 Pension Reform'.

To summarize: The conservative coalition government pursued a social policy approach, which scaled back on the principle of publicly guaranteeing the formerly achieved living standard, while at the same time expanding the programs for families. With the exception of the policy pursued during the unification process, the overarching goal was to limit and eventually reduce social expenditures and social insurance contributions, while at the same time to acknowledge the overall need for an active role of government in social policy.

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## SOCIAL POLICY GOALS OF THE RED–GREEN GOVERNMENT

Analyzing the 1998 party platforms of the SPD and Bündnis 90/Die Grünen as well as the coalition agreement, it becomes evident that they did not intend to expand the welfare state in the mid term, despite promises to revoke some policy changes of the prior conservative coalition government in the short run. In the short term, they promised among other things to reinstate the 'old' policies regarding the regulations of dismissals and the sick–leave benefit and to *suspend* the implementation of the Pension Reform Law. Their overarching policy approach was characterized by the following four elements:

1. no new deficit financed economic stimulus programs;
2. a reduction of social insurance contributions and enterprise taxes;
3. a modernization of the welfare state, which emphasizes activation instead of compensation, a promotion of greater self reliance, and a reduction of government tutelage;
4. an expansion of family policies (SPD 1998: 21, 26–31; Bündnis 90/Die Grünen 1998: 23–28, 32; SPD, Bündnis 90/Die Grünen 1998: 8, 14, 28–31, 36–39).

In his first address to parliament Chancellor Gerhard Schröder forcefully reiterated the need to reduce the budget deficit and to focus subsidies as well as social policies on the 'truly needy'.<sup>0</sup> Although some statements by the SPD chairman and finance minister Oskar Lafontaine were interpreted as calls for an expansionary deficit–financed approach, it was largely the press, interested in finding policy differences within the new government, which exaggerated his preference for such a policy approach. A deficit–financed stimulation of the economy at no time during the tenure of Lafontaine became an official policy goal.<sup>0</sup> After Lafontaine had resigned in the spring of 1999, the new Finance Minister Hans Eichel made it unmistakably clear that there was no room for any deficit–financed programs and that his primary goal was the reduction of the government deficit.<sup>0</sup> In order to achieve the second policy goal of reducing the level of social insurance contributions, the new coalition government called for the introduction of a new ecological tax. The revenue of this tax was to be used to contribute to the pension fund and thereby allow a reduction in the level of social insurance contributions (SPD, Bündnis 90/Die Grünen 1998: 14–15). The Social

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<sup>0</sup> . FAZ, "Schröder verspricht Konsolidierungskurs, Abbau der Arbeitslosigkeit, außenpolitische Kontinuität," November 11, 1998, p. 1.

<sup>0</sup> . See e.g. Göbel (1999), "Lafontaines neue Kleider;" FAZ, February 14, 1999, p. 34; for a perspective from the former finance minister himself see Lafontaine (1999: 222 ff.).

<sup>0</sup> . "Der Bundesfinanzminister verteidigt 'die bittere Medizin der Gesundung'," FAZ, No. 144, June 25, 1999, p. 1.

Democrats and the Greens had made it explicit in their election platforms and later stated it again in their coalition agreement that they would reform the old-age insurance system with the goal of an expansion of private and company-based pension plans as key elements (SPD, Bündnis 90/Die Grünen 1998: 29 f.). This approach was part of their broader strategy towards self-reliance and activation, which also included a call for "work instead of assistance" (SPD, Bündnis 90/Die Grünen 1998: 32), i.e. a reform of the social assistance program. Finally, in terms of family policy the party programs and the coalition agreement called for an improvement of the parental leave provisions, expansions of the child allowance and tax credits, as well as an expansion of childcare facilities (SPD, Bündnis 90/Die Grünen 1998: 36–38).

Summarizing the overall programmatic approach of the Social Democrats and the Greens, it seems fair to argue that the new coalition government publicly did not call for a comprehensive new approach in social policy after 16 years of conservative rule. Moreover, based on the party programs and the coalition agreement, the Red-Green coalition government would continue the general policy path pursued by the former conservative coalition government, albeit with some small alterations in emphasis. In this sense, the statement made by Schröder during the election campaign, whereby the Social Democrats in government would not change everything, but improve a lot of things, seemed to describe the programmatic approach within the realm of social policy very accurately. Compared with the social policy approaches and reform initiatives put forward by the Greens and Social Democrats, during the long dominance of Christian Democratic rule in the 1980s (Gohr 2001; 2002), this 'new' approach constituted the preliminary endpoint of a substantial programmatic change during the 1990s. This change can be characterized as a social-democratic convergence towards the programmatic aims of the Christian Democrats.<sup>0</sup>

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<sup>0</sup> . For a more elaborated and comparative perspective of this argument see Seeleib-Kaiser (2002b).

## RED–GREEN SOCIAL POLICIES IN GOVERNMENT

### A QUANTITATIVE VIEW

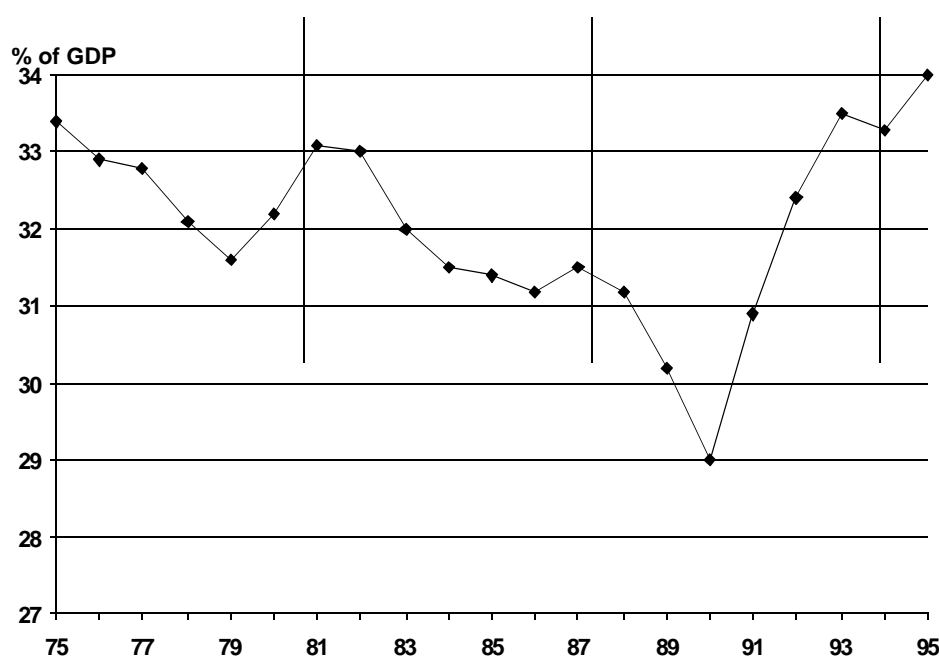
In the view of many political observers the issue that really counts is not the publicly stated policy proposal, but the 'real' policy output (Edelman 1976). One way to measure policy output is to analyze budgetary expenditures. Despite a small increase in federal spending in 1999, the Red–Green coalition pursued a policy of reduced federal government intervention. In 2001, the spending of the *federal* government amounted to 11.8 percent of GDP, which is the lowest level in the last four decades. The success of this policy combined with additional revenue from the auction of telecommunication licenses reduced the *federal* budget deficit from 1.5 percent of GDP in 1998 to 1.1 percent in 2001 (cf. Hinrichs 2002: 23–24). This policy approach can be characterized as a paradigm shift in regards to social–democratic fiscal policies (Meng 2002: 191). At times, the Governor of Bavaria and the subsequent Chancellor candidate of the CDU/CSU, Edmund Stoiber, has even criticized it as inappropriate and too rigid. During the election campaign in 2002, a prominent social–democratic critic of Schröder's economic and social policies summarized the strategy of the conservatives as "social democratism", while the SPD itself was not offering anything (Ottmar Schreiner cit. by Meng 2002: 228). Hence the rise of the overall state budget deficit, as defined and used by the European Union (EU) for the determination of compliance with the deficit criterion of the Stability Pact, to 2.8 percent of GDP in 2001 cannot be attributed to an increase in federal spending. Moreover, it was largely the result of reduced government revenues, due to the effects of the tax reform of 2000 as well as sluggish economic growth. Furthermore, the Federal Government renewed its commitment towards the EU to reduce the budget deficit further and provide a balanced budget by 2004. However, a comprehensive strategy of deficit reduction by all territorial entities is essential in order to comply with this commitment (cf. SVR 2001: 118 ff.; Deutsche Bundesbank 2002a: 50–63). Based on the 'parties matter theory' one would have expected a very different approach by the new government, namely an expansionary fiscal policy.

Yet, the financial situation of the federal government deteriorated rapidly in 2002, due to the continued economic slump and rising unemployment. The biggest increase in the federal budget was caused by the rising transfers from the federal government to the pension system, the employment service, and the 'new' *Länder* (SVR 2002: 215–217). According to the definition used by the EU to determine the state deficit, the deficit of the federal government rose from 1.4 in 2001 to an estimated 1.8 percent of GDP in 2002. Therefore, the federal government is responsible for a 0.4 percentage point increase in the overall state

deficit, which rose from 2.8 (2001) to an estimated 3.7 percent of GDP (2002) (SVR 2002: 208).

As already indicated in the previous paragraphs, Germany has a highly complex public financing structure through its federal system and the existence of para-fiscal institutions, such as the social insurance funds. Hence in order to grasp the overall development of social policy expenditures, we have to take a closer look at the 'social budget' or social policy expenditures.<sup>0</sup> Figure 1 shows the overall social spending in relationship to GDP from 1975 to 2001. After a reduction in spending during the 1980s, we saw a reversal of the trend in the first half of the 1990s, before social policy outlays were once again consolidated during the late 1990s. Based on the overall spending data, the change in government in 1998 did not seem to substantially alter the spending pattern.

*Fig. 1: Social Spending in Germany as a Percentage of GDP: 1975–2001*



Source: BMAS 1998: 7.1

If we control spending by region for the time period from 1991 to 2001, we by and large witness continuity in the West and a gradual, but persistent increase in the East since 1997 (Fig. 2). The high level of social spending in the East is financed through continuously rising West–East transfers, which in 2001 approximately reached the amount of 27.9 billion

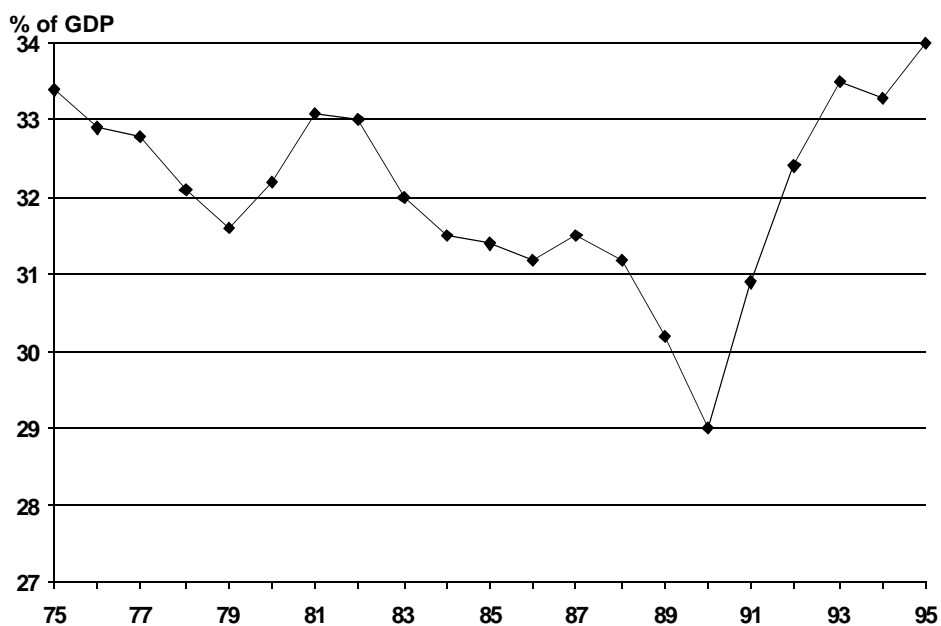
<sup>0</sup> . The 'social budget' is the most comprehensive statistical data set of social policy expenditures in Germany and includes in addition to social spending by the various public entities at the different political levels also the social policy provisions provided by employers (BMAS 2002a: 371 f.).



EURO. These West–East transfers are largely channeled to the East through transfers from the "Western" unemployment and old–age insurance funds, which in sum totaled 25.8 billion EURO in 2001 (BMAS 2002b: Tab. III; Tab. III, 112; Tab. III, 16).

Accordingly, without these West–East transfers either the social insurance contributions or the tax–financed subsidies for these systems in the West could have been reduced. In order to reduce social insurance contributions despite the financial 'burdens' of the unification process the Red–Green government introduced an ecological tax. The revenues from this tax are estimated to amount to 57 billion EURO in the years 1999–2003 and are ear–marked by statute for the old–age insurance fund. Without the revenues from the ecological tax the employers' contributions (Fig. 3) to the old–age insurance fund would have been 0,75 percentage points higher in 2002 (Truger 2001b; Bundesministerium der Finanzen 2002: 10).

Fig. 2: *Social Spending in East and West as a Percentage of GDP: 1991–2001*



Source: BMAS 1998: 7.1

If we disaggregate the spending data along functions, a picture of overall continuity emerges for the categories of old age as well as health, while the outlays for the category "Marriage and Family" continued to increase and the spending for employment–related policies decreased not only relative to GDP, but even in absolute terms during the years 2000 and 2001 (see Fig. 4 and 5). The economic and demographic development would have

suggested the opposite development, since unemployment in absolute numbers was higher in 2001 than in 1995 and the number of children declined over the same period.

Fig. 3: *Employers' \* Contributions to Social Insurance Schemes in Germany as a Percentage of Gross Wage: 1975–2002*

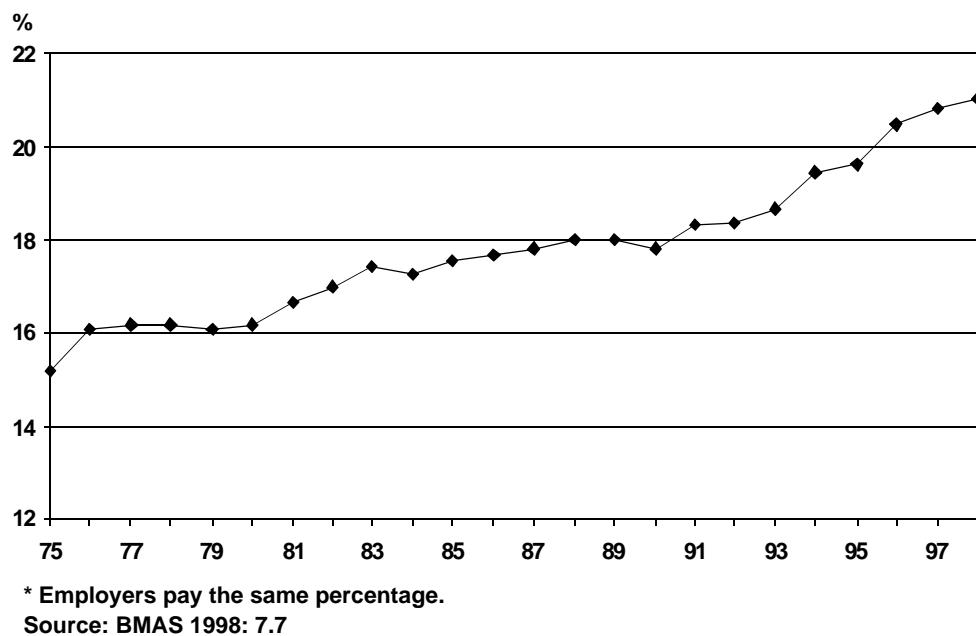
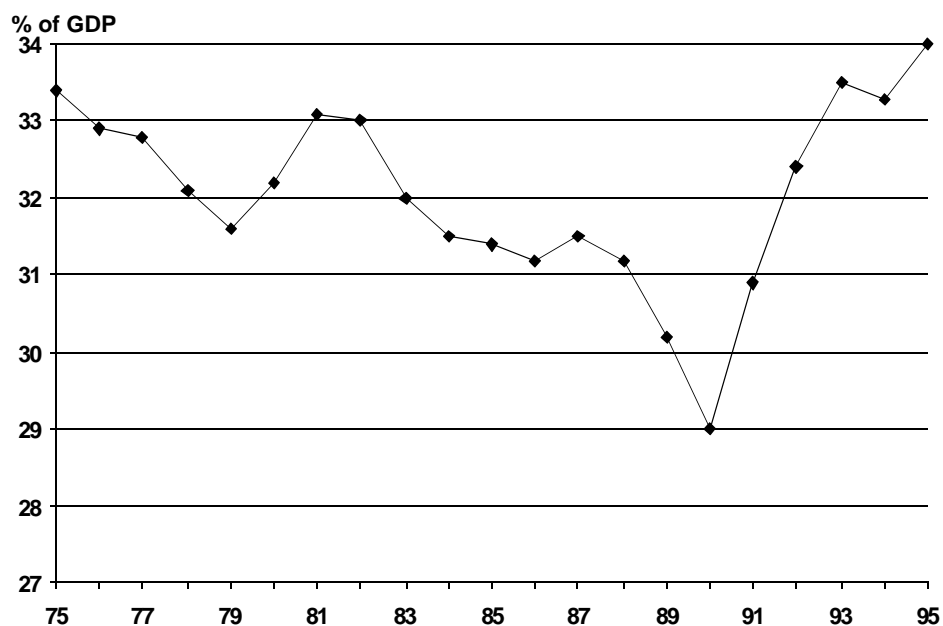


Fig. 4: *Expenditure for Selected Social Policies by Function as a Percentage of GDP: 1995–2001*

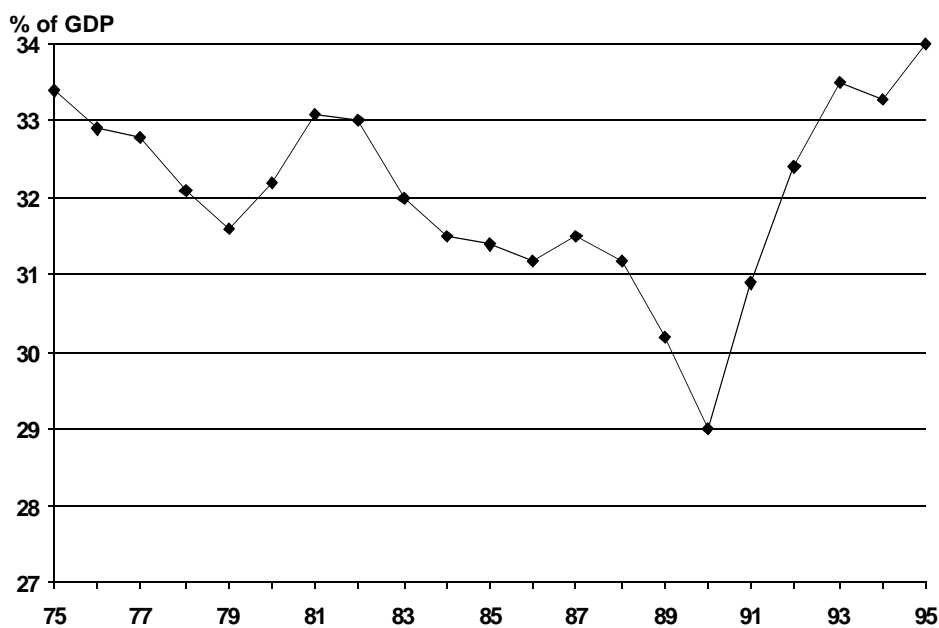


Source: BMAS 1998: 7.1

Based on the quantitative data presented here it becomes evident that the new government did not follow a path of expansionary policies. Moreover, as was proposed in the party programs and the coalition agreement of 1998, it consolidated the public finances and gradually reduced the social insurance contributions. Within the overall social expenditure the amounts spent for the category of employment were reduced, while social spending for families continued to increase substantially.<sup>0</sup>

*Fig. 5: Average Annual Change of Expenditures in Selected Social Policies by Function in Percent: 1995–2001*

<sup>0</sup> . According to data published recently by the Bundesbank, spending for families with children is even higher. In 1999, the state spent almost 150 billion EURO, or 7.6 percent of GDP, for families, which amounts to an annual average increase of almost 4 percent in the years from 1992 to 1999 (Deutsche Bundesbank 2002b: 21–22).



Source: BMAS 1998: 7.1

Despite the efforts to consolidate expenditures, the federal budget and the social insurance funds, especially the health care as well as the pension funds, have come under severe financial pressure during the fourth year of the Red–Green coalition government, which has made further cutbacks and an increase in social insurance contributions once again a short-term ‘necessity.’ Without continued reform (especially in the health insurance system)<sup>0</sup> and a speedy economic recovery in 2003, social insurance contributions are likely to rise and perhaps eventually even surpass once again the level reached during the tenure of the Christian–Liberal coalition government in the late 1990s.

Finally, quantitative data on spending cannot fully and accurately reflect policy developments: Firstly, spending data might be influenced significantly by economic and demographic developments. Secondly, the data can only reflect those policy changes, which have been implemented and not those, which were legislated, but are phased–in over a longer time period. Therefore, I will analyze the qualitative social policy changes of the Red–Green coalition in greater detail with a special emphasis on pension reform and family policy in the following section.

## QUALITATIVE POLICY CHANGES

<sup>0</sup> . The Health and Social Minister Ulla Schmidt has appointed a commission under the leadership of Bert Rürup (Chairman of the Social Security Council) on 21 November 2002 to develop a comprehensive reform with the stated goal to reduce the social insurance contributions.

The first steps of the new government in late 1998 and early 1999 were to suspend the implementation of the Rentenreformgesetz 1999, reinstate the 100 percent replacement ratio of the sickness benefit as well as the 'old' dismissal protection regulations, and reduce some co-payments in the statutory health insurance schemes. However, these measures cannot be characterized as a sea change in policy development. The Rentenreformgesetz was not revoked, but its implementation *suspended* until a comprehensive pension reform would be legislated. The reintroduction of the 100 percent replacement ratio in regards to sick pay largely benefited 'only' those workers, who were not covered through collective bargaining agreements.<sup>0</sup> Finally, the reinstatement of the 'old' dismissal protection affected only approximately 5 percent of the workforce, since about 70 percent of the workers were still protected by the more stringent provisions even after the changes of 1996, and workers in very small enterprises were never covered by these rules.<sup>0</sup>

During the first four years of the Red-Green coalition government no major reforms were legislated in the areas of health care, active labor market policy, unemployment insurance, and social assistance. In the field of health care all reforms in addition to the seemingly regular efforts to control costs failed (cf. BMAS 2002a 132-141; SVR 2002: 237-263). Although some progress was made in improving efficiency, each of the two Health Ministers during the four years in power, Andrea Fischer (Greens) as well as Ulla Schmidt (SPD), was unable to successfully build a consensus between the various political actors in the field necessary for a comprehensive reform.<sup>0</sup> Finally, the minister postponed a possible comprehensive reform until after the 2002 elections.<sup>0</sup>

In regards to (re)integrating or activating unemployed workers, the Red-Green coalition supported the establishment of a limited number of pilot projects, initiated a program against youth unemployment, and in early 2002 commissioned a report by a blue-ribbon commission (Hartz Kommission 2002), which presented its findings shortly before the elections. Instead of the implemented minor policy reforms one would have expected a significant expansion of active labor market policies (ALMP), since ALMP and a commitment to full employment are said to be the hallmarks of social democratic welfare policy. Yet, there is no clear evidence towards an increased emphasis on ALMP by the Red-Green coalition government. Depending on the source, the number of persons participating in measures of ALMP varies slightly. According to estimates by the Council of

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<sup>0</sup> . Most workers covered by collective bargaining agreements continued to receive 100 percent sick pay even after the statutory changes of 1996, since sick pay was often part of the agreements (cf. G. Bäcker et al. 2000a: 455).

<sup>0</sup> . The conservative government had changed the dismissal protection 'only' for those workers in companies with 5 to 10 employees (Seeleib-Kaiser 2001: 144).

<sup>0</sup> . At times even leading members of the governing coalition in the field of health care had different views. Cf. FAZ, "Union: Vollkasko mentalität in der Gesundheitspolitik muss aufhören," November 8, 1999, p. 2; FAZ, "Verzicht auf Globalbudget?" November 16, 1999, p. 4.

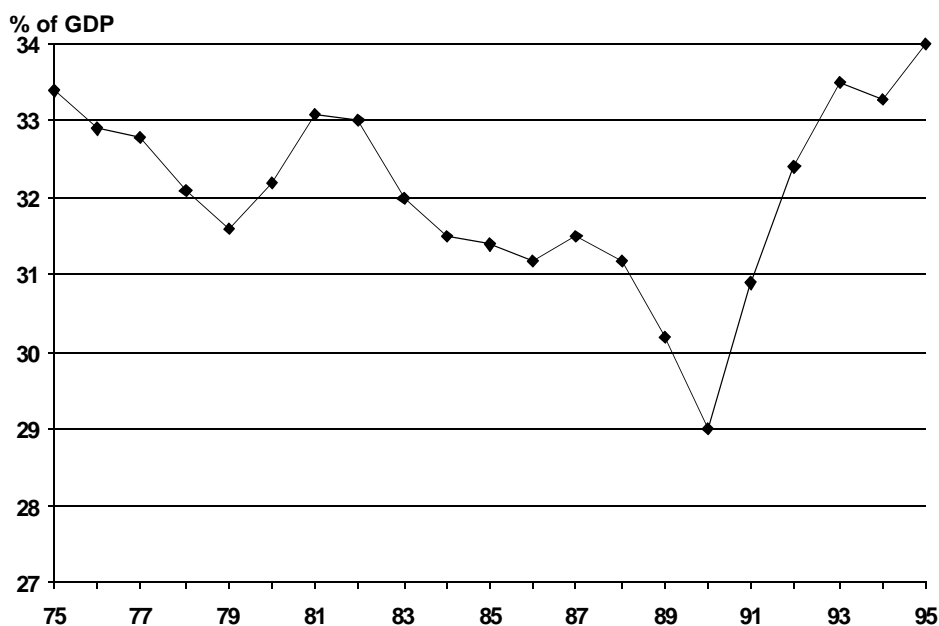
<sup>0</sup> . FAZ, "Gesundheitsreform wird verschoben," December 2, 2001, p. 1; FAZ, "Runder Tisch zur Gesundheit ohne Ergebnis," April 23, 2002, p. 16.

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Economic Advisers [Sachverständigenrat; SVR], the absolute number of unemployed in active measures declined slightly from 1.09 million in 1998 to 0.97 million in 2001 (SVR 2001: 99). Data by the Ministry of Labor show a slight increase of people in active labor market measures from 1.4 million (1998) to 1.5 million (2001) (BMAS 2002a: 37). Undisputed, however, is a clear decline of participants in traditional public works projects from an annual average of about 384.000 participants (1998) to 220.000 (2001), i.e. the lowest number since unification (see Fig. 6). Despite the continuously high unemployment in the East of about 20 percent, this region witnessed considerable reductions in ALMP (BMAS 2002a: 37).

In the summer of 2002, the federal government promised to speedily implement the Hartz Commission's recommendations and thereby shift greater attention towards reducing unemployment. However, neither implementing a policy aiming at reducing unemployment via deficit-financed public employment programs nor a 'left wing' supply-side policy (Boix 1998) with a focus on increasing human capital through education and training measures are part of the recommendations. Moreover, the recommendations primarily focus on the improvement of the effectiveness and efficiency of the labor exchange offices. In addition, the commission proposes to establish more private and public agencies for temporary workers, grant low-interest loans to small and medium-sized companies that employ previously unemployed workers, and grant financial aid to unemployed workers to become self-employed (Hartz Kommission 2002).

*Fig. 6: Participants in Measures of ALMP (Training and Re-training, Public Works): 1991–2001*



Source: BMAS 1998: 7.1

During the tenure of the Red–Green coalition at the federal level, employment in workfare measures at the local level continued to increase. According to a survey by the German Association of Cities (Deutscher Städtetag) about 400.000 (former) welfare recipients participated in welfare–to–work programs during the year 2000, an increase of about 100.000 since 1998. About 50 percent of the participants are employed in 'regular' employment relationships (Deutscher Städtetag 2001). Such employment relationships entitle the participants to receive unemployment compensation after the publicly funded or subsidized activation measure expires and he or she should still not find work in the regular labor market. Thereby, the costs of unemployment are shifted back from the local to the federal level. Hence, the main reason behind the increased emphasis on activation at the local level is to reduce social assistance expenditure. In other words, localities have a financial incentive to activate unemployed social assistance recipients, due to the existing financing structures of the German welfare state.

### **Pension Reform**

The work on a comprehensive pension reform proposal started very early in the tenure of the Red–Green coalition government. First talks between the coalition parties and the Christian Democrats were held in the spring of 1999. In the summer of 1999, Walter Riester, Minister for Labor and Social Affairs, publicly announced the cornerstones of his proposal (Riester 1999). Finally, in the fall of 2000, the SPD and Greens formally introduced a bill to reform the pension system into parliament (BT–Drs. 14/4595). After



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further deliberations within the Committee for Labor and Social Affairs of the Bundestag, during which no consensus with the Christian Democrats could be reached, the coalition parties split the pension reform bill into two parts. The first part encompassed the provisions in regards to contributions and benefits within the public scheme, which did not require the consent of the CDU-controlled Federal Council. Although the members of the opposition parties in the Bundestag had voted against the second part of the reform initiative, it finally passed the Federal Council with votes of the opposition parties after further modifications. This process made obvious that the dispute between the governing coalition and the CDU was not about the principle direction of reform. Moreover, it focused on the details of the public subsidies for future private and company-based provisions, as well as old-age provisions included in collective bargaining agreements (Unterhinninghofen 2002: 216–217; Dünn/Faßhauer 2001).

What now is the substantive content of this reform, which has been characterized by Chancellor Schröder as "epochal?" (cited in Unterhinninghofen 2002: 213). At the center of the reform is the limitation of future increases in social insurance contributions. As a result of this legislative measure the contributions to old-age insurance funds are estimated not to rise above 20 percent of the gross wage in 2020 and 22 percent in 2030, the time the baby boomers will retire. This limitation was accomplished by a significant reduction in the replacement ratio of the benefits to a level of about 64 percent for the standard pensioner in 2030.<sup>0</sup> In order to achieve the prior level of support during retirement, workers are encouraged through public subsidies to voluntarily enroll in certified private old-age schemes. The level of subsidies for workers, who enroll in private or company-based programs, depends on the level of income and the number of children in their household. Furthermore, the social partners are encouraged via the tax system to include old-age schemes into collective bargaining agreements. This will give unions a greater stake in shaping 'company' pensions with the theoretical possibility of including redistributive elements. In the past, company pensions were almost exclusively at the discretion of employers (BMAS 2002a: 114).

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<sup>0</sup> . Although officially the government maintains that the replacement ratio of the benefits will only decline to 67 percent (BMAS 2002a: 103), this level is accomplished by creative accounting, since the pension formula was changed. Based on the old formula the replacement ratio would drop to exactly the same level that would have been achieved by the implementation of pension reform legislated by the prior government in 1997, according to the new Chairman of the Social Security Council (Sozialbeirat), Bert Rürup, cited in *FAZ*, "Herbe Kritik an Wahlprogrammen," May 7, 2002, p. 16.

However, even if workers enroll in the various certified programs,<sup>0</sup> there is no *guarantee* for a defined benefit at the previous level, because the companies offering the various financial products are legally 'only' required to guarantee the nominal amount paid into the system. Hence, the overall pension system in Germany is being transformed from a pay-as-you-go system based on the principle of defined benefits to a partially funded system based in part on the principle of defined contributions. According to estimates by the Bundesbank a 50 year old worker will have to save an extra four percent of his or her gross pay in order not to witness any income loss in retirement; the additional saving ratio for a 20 year old worker would have to be 1.5 percent (Deutsche Bundesbank 2002c: 30). Through the progressive nature of the subsidies for those who enroll in the new programs the state intends to reduce the negative effects for lower-income workers. Still, contributions for employees, who participate in the voluntary programs, will be substantially higher in the future, than they would have been without the reform. They basically have to shoulder the financial burden of 'privatization,' while the public scheme is financed equally by employers and employees. Hence, if we combine the contributions for the new pillar and the public scheme, the reform only limits the costs for employers.

In addition, the occupational disability pension was reformed. In the future, workers can no longer draw disability pensions if they are unable to continue to work in their profession or occupation; they will have to rely on the labor market for an alternative occupation and/or on the regular disability program. Although the reformed disability insurance program now treats unskilled and skilled workers in the same way, it means a real change for skilled workers by ending the protection of their occupational or professional achievements in case of specific disabilities (Wollschläger 2001: 283–284). Finally, the coalition government de facto introduced a minimum pension effective 1 January 2003, by revoking the income and wealth test of the relatives of low-income senior citizens, when they apply for social assistance. The law requires the administrators of the old-insurance fund to inform senior citizens with very low pensions about their entitlement to social assistance in addition to their insurance benefits (BMAS 2002a: 118 f.).

Overall this pension reform leads to a re-commodification and marketization of the old-age and disability insurance system and to a withdrawal from the principle of publicly guaranteeing the achieved living standard, while at the same time improve the conditions for very low-income pensioners.<sup>0</sup>

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<sup>0</sup> . First signs indicate that a substantial number of workers do not intend to participate in the new programs. Various surveys show that 20 to 48 percent of eligible workers do not intend to sign a contract (cf. Deutsche Bundesbank 2002c: 32). Within the first four months after the law became effective only about 2 million employees had signed contracts for the new financial products (cf. "Herbe Kritik an Wahlprogrammen," *FAZ*, May 7, 2002, p. 16). However, in order to evaluate the take-up rate systematically a longer time span is necessary.

<sup>0</sup> . For an elaborate and critical evaluation of the pension reform see Nullmeier (2001) and Lamping/Rüb (2001). For a more optimistic view see Kohl (2001).

## Expansions in Family Policies<sup>0</sup>

The Red–Green coalition continued to expand, albeit in a somewhat accelerated fashion compared to the previous government, the various family policies, as the spending data already suggested. The expansion of family policy developed along three dimensions: (1) Increasing the child allowance and child tax credits; (2) strengthening the recognition of a limited time devoted to child rearing as equivalent to monetary contributions towards the old–age insurance; and (3) improving parental leave, the parental leave benefit as well as introducing an entitlement towards part–time employment.

In a number of steps, the Red–Green coalition government increased the monthly child allowance payment to 154 EURO per child (an increase of 41.50 EURO per month since 1998) and the annual child tax credit to 3.648 EURO. Furthermore, parents can receive additional tax credits to defer some of the costs of childcare, if the childcare is deemed necessary due to the employment of the parents (BMFSFJ 2002b; for a more elaborated analysis of the tax policies in regards to families cf. Dingeldey 2001).

Through the implementation of the Survivors' Pensions and Child Rearing Law (Hinterbliebenenrenten– und Kindererziehungszeiten–Gesetz) of 1986, the state for the first time in the long history of the German social insurance system recognised the contributions of caregivers as equivalent to monetary contributions within the old–age insurance system. Currently, the time devoted to child caring will be recognised as a fictive contribution – equivalent to 100 per cent of the average contribution – to the old–age insurance system for the duration of three years per child.<sup>0</sup> *New* is the provision that, if a parent should choose a part–time position, in order to reconcile outside work with the desire to at least partially care for the child personally, the state will contribute to the pension fund to make up for the 'lost' contribution up to a limit of 100 per cent of the average contribution until the child is 10 years old. Through the recognition of (a limited) time spent as a caregiver and thereby creating individual entitlement rights, the state reduced the dependence of the predominantly female caregivers on derived benefits of male breadwinners (Meyer 1998).

In addition, legislation was introduced and consequently expanded to increase the compatibility of work and the responsibility or desire of parents to personally care for their children during the first years of their life. In 1986, parliament passed a parental leave

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<sup>0</sup> . For a broader analysis of gender policies during the Red–Green coalition see Furhmann (2002). Due to the complexity of the issue, I will also refer to specific family policy measures already legislated during the tenure of the Christian–Liberal coalition government in this section, before addressing the more recent legislative changes.

<sup>0</sup> . Initially the state limited the recognition of child rearing time to one year on the basis of 75 per cent of the average income. However, in 1989 the government began to expand these provisions.

scheme, whereby an employee could take up to ten months of unpaid leave from employment after the birth of a child, during which (s)he receives a tax-financed parental leave benefit. The employer has to guarantee reemployment after the leave in a similar position and with equivalent remuneration. The duration of the parental leave has been extended in a number of steps during the late 1980s and early 1990s. Since 1993, parents are entitled to three years of leave; during the first two years, the government pays a flat monthly means-tested benefit of EURO 307 (600 German Marks) (Bleses/Rose 1998: 152).<sup>0</sup> The Red-Green government made it easier for both parents to share the parental leave and substantially increased the earnings limit up to which parents are eligible for the full benefit. The stated goal of the Red-Green government is that all parents with an average income shall once again receive the benefit (BMAS 2002a: 228), whereas the percentage of recipients declined substantially during the tenure of the previous government, since the earnings limit had not been adjusted since 1986 (Fuhrmann 2002: 192). Furthermore, a new provision entitles parents with children born after 1 January 2001 to work part-time up to 30 hours per week during their parental leave.

During its first four years in power, the Red-Green coalition government has not legislated any measures concerning the improvement and/or expansion of child care facilities. However, firstly, it has to be acknowledged that education and childcare in principle are within the responsibility of the *Länder* and the federal government can only through regulatory policies or financial incentives promote certain institutional changes. Secondly, increasing the spending for the establishment of new child care facilities and schools with an all-day schedule is a top priority of the federal government during its second term, according to the new coalition agreement. The Red-Green coalition has pledged to spend the amount of EURO 1.5 billion annually for the expansion of day care for children under three years of age, starting in 2004. This program is explicitly excluded from the continued efforts to consolidate the federal budget and reduce the budget deficit (SPD/Bündnis 90/Die Grünen 2002: 10; 29). If the federal government follows through with its plans and the state as well as the local governments fully implement them, this would lead to a substantial increase in the provision of child care facilities. The federal government estimates that after the full implementation of its program, child care facilities will be available for 20 percent of the children under the age of three (the latest available figure for this category of child care facilities is a provision rate of 7 percent [1998; see Tab. 1]). Additionally, at the local and regional levels we have witnessed tendencies to increase the provision of 'reliable elementary school'<sup>0</sup> education and after-school programs, during the past couple of years. The Red-Green coalition government has promised to support the endeavor of establishing

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<sup>0</sup> . During the first six months of the parental leave, parents with a joint annual income of up to EURO 51,130 can receive the full benefit. Starting from the seventh month the earning limit to receive the full benefit for a two-parent household is EURO 16,470. Furthermore, since 2001 parents that choose a benefit duration of only 12 months instead of 24 months are eligible for a monthly benefit of EURO 460 (cf. BMFSFJ 2002b; for a legislative overview see Frerich/ Frey 1996: 330-333).

all-day schools with four billion EURO between 2003 and 2007 (SPD/Die Grünen 2002: 31).

To summarize: The Red–Green coalition has continued the path pursued by the previous government to expand family policy. For its second term it has pledged to improve the provision of child care. To some extent the two large parties differ on this issue, since the Christian Democrats *emphasize* a reformed and increased family allowance, which would give parents also the choice to buy child care on the market,<sup>0</sup> whereas the SPD has put its priority on the establishment of more public institutions.

## RED–GREEN SOCIAL POLICY A FIRST ASSESSMENT

Using the election platforms and the coalition agreement as a reference point, the first four years of the Red–Green government can be characterized as an overall success within the social policy domain. The major accomplishments were the reduction of social insurance contributions, pension reform, and an expansion in family policy, while at the same time limiting overall spending. All these measures are in line with the four key elements of the election platforms and the coalition agreement guiding social policy.

The programmatic aims as well as the policies did not differ substantially from the goals and policy direction of the previous government. The overall social policy path pursued by the Red–Green coalition government can therefore be characterized as a continuation and partly as an acceleration of the approach followed by the previous Christian–Democratic government. It should, however, be acknowledged that the finding of continuation is based on a somewhat asymmetrical comparison of the past *four* years of Red–Green government with *sixteen* years of Christian–Liberal rule. Hence, at least theoretically it is possible that the argument of policy continuation will be falsified through measures taken in the second term of the Red–Green coalition government. However, the analysis of the coalition agreement of 2002 as well as the *policy statement* (Regierungserklärung) given by Chancellor Schröder at the beginning of his second term do not give any indication that this will be the case (SPD/Die Grünen 2002; Schröder 2002). Finally, policy continuation should not be mistaken with policy stalemate.

<sup>0</sup> . The 'reliable elementary school' (verlässliche Grundschule) guarantees a fixed schedule from morning to early afternoon on each school day. Traditionally, elementary school education in Germany has had rather erratic daily timetables making it very difficult if not impossible for both parents to work, even if it was only part–time. E.g. for recent changes in the state of Baden Württemberg see Kultusministerium des Landes Baden–Württemberg (2000).

<sup>0</sup> . It has to be stressed, however, that the CDU/CSU in principle also supports the expansion of child care facilities for small children (CDU/CSU 2002: 36–37).

The sum of the many steps taken by the two governments in the past twenty years add up to a substantial change in the normative and institutional design of the German welfare state, which I have characterized elsewhere as a "dual transformation" (Seeleib–Kaiser 2002a). What we have witnessed is a process of an implicit withdrawal from the principle of guaranteeing the achieved living standard for wage earners in the various traditional social risk categories, while at the same time child rearing and the social service functions of the family were increasingly 'socialized.' This outcome was not accomplished in one big comprehensive reform or big bang, but through seemingly countless incremental reform steps.

What are the causes for the identified dual transformation of the German welfare state?<sup>0</sup> Institutional as well as structural explanations, very often used in welfare state analysis, do not seem to adequately explain the policy output. Especially, the change of power at the federal level in 1998 has not led to the expected change in policy based on the 'parties matter theory.' Moreover, we have witnessed a change in the interpretive patterns used to justify social policies. Two interpretive patterns have emerged as dominant during the past 20 years. According to one interpretive pattern the increase of social insurance contributions needs to be stopped and eventually reversed in order to stay competitive in the world economy. Furthermore, the government has to consolidate its budget and reduce the budget deficit. Consequently changes in social policy become a necessity. According to the second interpretive pattern the public support for families needs to be expanded, while at the same time the overall expenditures for social policy should not increase. These interpretive patterns became dominant during the long tenure of the Christian Democrats in power and also guided the programmatic approach of the Red–Green government towards social policies (Seeleib–Kaiser 2002a). Eventually, they have become "cognitive locks" (Blyth 2001) that will also be directing the future development of the German welfare state within the next four years (SPD/Die Grünen 2002; Schröder 2002). The changed interpretive patterns transformed the normative and cognitive foundations of social policy in Germany and concomitantly led to an institutional policy change. With the exception of the PDS, all parties support this approach in general. With no fundamental changes in the programmatic aims of the parties and the absence of unforeseen historical junctures, only the speed of the transformation, but not its general direction, seems probable to vary in the future, depending on the parties in power (see the election platforms for the 2002 election; Bündnis90/Die Grünen 2002; CDU 2002; FDP 2002; PDS 2002; SPD 2002). The findings presented in this paper have two implications: Firstly, the 'parties matter theory' seems to lose some of its explanatory power at least in the case of Germany,<sup>0</sup> and secondly, the dual transformation of the German welfare state will most likely continue in the years to come.

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<sup>0</sup> . Due to space limitations, I cannot fully elaborate on this point here. For a comprehensive analysis see Seeleib–Kaiser (2002a).

<sup>0</sup> . For a comparative perspective on the reduced explanatory power of the theory in the 1990s see Kittel/Obinger (2002) and Seeleib–Kaiser (2002b).

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