The Erosion of the Institutional Pillars of the German Sozialstaat*

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Abstract: In scholarly literature, Germany often serves as a prime example of the conservative welfare state par excellence. Notwithstanding, a huge number of welfare reforms have been introduced since 1980, in particular during the last ten years. The article examines whether the institutional welfare elements attributed to Germany are still intact based on an analytical review of reforms in the areas of pensions, long-term care, and policies regarding families, the labor market, and health care. Have reforms been path-dependent adjustments, or are signs of transformative change evident? The conclusion is that the model conservative welfare state no longer exists, and that a new hybrid welfare state, combining elements from several types of welfare states, is developing. While we find substantial liberalization (of social risks) in most social policy areas, we also find extended state responsibility and more universalism (inspired by Scandinavian countries) in the area of family policy.

Keywords: Germany, Welfare State Reform, Pensions, Long-Term Care, Families and Children, Labor Market, Health Care

INTRODUCTION

Otto von Bismarck provided Europe and the world with the embryo of the modern welfare state with his program for national social insurance in the 1880s. A new era of government responsibility for social security and welfare began, although the concept of the welfare state came much later. Directly and indirectly, the German example inspired legislative activity on social policies throughout Europe. Different application of principles of population coverage, redistribution, and financing laid the basis for the

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Table 1. Recent Reforms by Sector

Governing Party Coalition	Year	Law
Pensions		
CDU/CSU/FDP	1989	*Rentenreformgesetz (RRG)*
CDU/CSU/FDP	1997	*Rentenreformgesetz (RRG)*
SPD/Grüne	2001	*Altersvermogensgesetz (AVmG) &* *Altersvermogens-Erganzungsgesetz (AVmEG)*
Long-term care		
CDU/CSU/FDP	1994	*Soziale Pflegeversicherung*
Families		
SPD/FDP	1979	*Mutterschaftsurlaub*
CDU/CSU/FDP	1986	*Erziehungsurlaub und Erziehungsgeld*
CDU/CSU/FDP	1992 1996	*Schwangeren und Familienhilfegesetz*
CDU/CSU/FDP	1994	*Gesetz zur Durchsetzung der Gleichberechtigung* *von Männern und Frauen*
SPD/Grüne	1999	*Gleichstellungsdurchsetzungsgesetz*
SPD/Grüne	2000	*Elternzeit*
CDU/SPD	2006	*Elterngeld*
Labor Market		
CDU/CSU/FDP	1982-83	*Arbeitsförderungsgesetz (AFG)*
CDU/CSU/FDP	1984-89	*Arbeitsförderungsgesetz (AFG)*
CDU/CSU/FDP	1991-93	*Solidarpakt*
CDU/CSU/FDP	1993-96	*1. und 2. Gesetz zur Umsetzung des Spar-,* *Konsolidierungs- und Wachstums-Programms (SKWPG)*
CDU/CSU/FDP	1997	*Arbeitsförderungsreformgesetz (AFRG)*
SPD/Grüne	2001	*Job AQTIV-Gesetz*
SPD/Grüne	2002	*1. und 2. Gesetz für moderne Dienstleistungen am* *Arbeitsmarkt (Hartz I and II)*
SPD/Grüne	2003	*Hartz III*
SPD/Grüne	2003	*Hartz IV & Gesetz zu Reformen am Arbeitsmarkt*
Health Care		
CDU/CSU/FDP	1988	*Gesundheitsreformgesetz (GRG)*
CDU/CSU/FDP	1992	*Gesundheitsstrukturgesetz (GSG)*
CDU/CSU/FDP	1996	*Beitragsentlastungsgesetz*
CDU/CSU/FDP	1997	*1. und 2. GKV-Neuordnungsgesetze*
SPD/Grüne	1998	*GKV-Solidaritätsstarkungsgesetz*
SPD/Grüne	1999	*GKV-Gesundheitsreform*
SPD/Grüne	2003	*Gesundheitsmodernisierungsgesetz (GMG)*
CDU/SPD	2007	*GKV-Wettbewerbsstärkungsgesetz (GKV-WSK)*

development of different welfare models or regimes in Europe (Titmuss 1974; Flora and Heidenheimer 1981; Esping-Andersen 1990). The German welfare state—or *Sozialstaat*, which is still the most commonly used concept in Germany—has been classified as a conservative-corporatist welfare state in contrast to liberal and social-democratic welfare states (Esping-Andersen 1990, 1999). These political or ideological labels can, of course, be questioned, given welfare state growth in most European countries under governments with varying political characteristics. Not all scholars have agreed with Germany's classification as a prime example of the conservative regime type. Manfred Schmidt, for example (1998, 79), claimed that Esping-Andersen's study ignores the existence of (a right to) social assistance and more liberal family policies from 1982 onward. Other scholars widely welcomed Esping-Andersen's classification (e.g., Kohl 1993, 67). Yet most characteristics used to describe conservative welfare regimes were certainly in line with the predominant characteristics of Germany's welfare state until the mid-1990s, as we shall show in more detail later on.

Germany's historical significance for developing the first phase of the European welfare state, and for being a prime example of one welfare state model, is indisputable. The question we ask is whether the German welfare state continues on its conservative path, or whether recent reforms indicate that this classification no longer fits. We shall refer to analyses of recent social policy developments in Germany, and provide overviews and interpretations of the welfare reforms that have been legislated during the last 25 to 30 years. We shall cover the areas of pensions, long-term care, families and children, the labor market, and health care. All reforms studied and referred to are listed in Table 1. There are many studies of one or a few of the policy areas, but hardly any that analyze tendencies of change across all. We shall first review the most important features of a conservative-corporatist welfare regime according to Esping-Andersen, and then, inspired by Hall's (1993) and Streeck and Thelen's (2005) concepts of policy change, discuss whether recent reforms can be considered to preserve the conservative status quo or whether there are signs of transformative change. We shall shed light on two questions: (1) to what extent do reforms deviate from the conservative features of the German welfare state, and (2) how can we characterize the policy changes that have been introduced?

ESPING-ANDERSEN REVISITED

Since Esping-Andersen's (1990, 1999) typology of three distinct ideal welfare regimes—conservative, liberal, and social-democratic—many of the accounts in the field of comparative welfare-state research have implicitly or explicitly built upon his work. Although challenged, most scholars have elaborated on Esping-Andersen's broad categorization, as documented and critically reviewed by Arts and Gelissen (2002). What is striking, however, is that almost all refinements of, or alternatives to, Esping-Andersen's typology place Germany in a conservative category (Arts and Gelissen 2002, 148). Although much has already been written on Esping-Andersen's groundbreaking comparative 1990 study, we find it important to recall his original arguments, indicators, and key findings in detail here in order to be able both to analyze the extent of change and to do justice to his original arguments.

Inspired by a lack of existing theoretical models, Esping-Andersen sought to reconceptualize and retheorize the welfare state by focusing not so much on the mere existence of social programs or the amount of social spending but on what these programs *actually do* in terms of de-commodification, social stratification, and employment (Esping-Andersen 1990, 2). The reason for the cross-country differences in social rights and social stratification and in the arrangements between state, market, and family Esping-Andersen sees—to put it bluntly—in the different political (class coalitions) histories of those countries, i.e. liberal, social-democratic, and conservative. The granting of modern social rights as part of social citizenship, according to Esping-Andersen, "implies a loosening of the pure commodity status. De-commodification occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market" (Esping-Andersen 1990, 22). In Esping-Andersen's survey, de-commodification is measured by three sets of dimensions: (1) eligibility rules and restrictions on entitlements, (2) income replacement, and (3) range of entitlements in old-age pensions, sickness benefits, and unemployment insurance (Esping-Andersen 1990, 47). After combining the total de-commodification score, the 18 welfare states examined cluster into three distinct groups. Throughout the 1930s, 1950s, and 1980s, Germany constantly scores medium to high and finds itself in the middle conservative-Catholic or etatist group together with Austria and France (Esping-Andersen 1990, 53). Its difference from the social-democratic regime type, providing for the highest potential of de-commodification, is furthermore the stronger emphasis on social control (Esping-Andersen 1990, 51), i.e., eligibility rules tend to favor a means-tested approach over a universal approach.

Furthermore, Esping-Andersen states (1990, 54), "The welfare state may provide services and income security, but it is also, and always has been, a system of social stratification." Germany scores high on the conservative principles of stratification: (1) degree of status segregation (corporatism), measured by the number of occupationally distinct pension schemes, and (2) degree of etatism, measured by the expenditure on government-employee pensions as a percentage of GDP (Esping-Andersen 1990, 73). Concerning the attributes of liberalism—(1) the relative weight of means-tested welfare benefits, measured as a share of total public social expenditure and (2) the importance of the private sector in pensions and health care, measured as private-sector share of total spending—Germany scores low, or at best medium, with the possible exception of the private health sector (Esping-Andersen 1990, 76). Regarding the socialist attributes—(1) the degree of universalism measured as a share of population, age 16-64, eligible for sickness, unemployment, and pension benefits and (2) the degree of equality in terms of the ratio of the basic level of benefits to the legal maximum benefit possible—Germany also scores low (Esping-Andersen, 1990, 73).

Esping-Andersen takes his analysis one step further to argue that the distinct regime type "and employment regime not only coincide, but that welfare states indeed have a direct causal impact on how employment structures and, as a result, new axes of social conflict, evolve" (Esping-Andersen 1990, 221). According to Esping-Andersen, the German welfare state is not equipped as a compensatory employer. On the contrary, it is powerfully biased toward reducing labor supply due to the historically entrenched Catholic social principle of subsidiarity, "meaning that women and social services (outside health) belong to the domain of family" (Esping-Andersen 1990, 224). The extraordinarily high transfer burden (and tight fiscal policies), which are concentrated largely on a long male employment career in a highly productive industrial economy, further constrain additional revenue increases for public employment growth (Esping-Andersen 1990, 224). Consequently, Esping-Andersen sees a development of the so-called insider-outsider phenomenon in Germany as part of an implicit accord between social partners and government to shed manpower through early retirement and unemployment programs. Esping-Andersen feels the argument is justified by the high amount of inactive, especially female, population in Germany (60 percent) compared to Sweden (49 percent) at the time of conducting his study (Esping-Andersen 1990, 227).

In 1999, Esping-Andersen reacted to critics of his typology when he admitted (1999, 73), "It was a typology too narrowly based on income-maintenance programs, too focused on only the state-market nexus, and too one-dimensionally built around the standard male production worker." In sum, however, Esping-Andersen's characterization of the conservative welfare regime remains largely unchanged and "lies in its blend of status segmentation and familialism" (Esping-Andersen 1999, 81). This means (1) persistence of corporatist status divisions in social security systems, (2) an accent on social insurance with residual schemes for strata without a "normal" employment pattern plus a marginal private market provision of welfare, and (3) strong familialism with an emphasis on subsidiarity and induced labor supply reduction (Esping-Andersen 1999, 84). These characteristics are accompanied by a passive approach to employment management with strong employment protection for alreadyemployed male householders and marginal active employment policy (Esping-Andersen 1999, 83). In a nutshell, the biggest difference between the social-democratic and the conservative welfare state "lies not so much in their de-commodifying income-maintenance guarantees as in their approach to services and sponsoring women's careers" (Esping-Andersen 1999, 88).

How well do Esping-Andersen's features of the conservative welfare state fit the German case? Most of the general and intertwined structures or "iron laws" of the German welfare state until the mid-1990s clearly corroborate Esping-Andersen's findings. To give some examples:

1. The **accent on social insurance** is reflected by the fact that access to social insurance is restricted to strata with a "normal" employment record. Higher earners can opt out and switch to a private insurance.
2. The **strong orientation toward male breadwinners** is revealed by the fact that a spouse can be included in the insurance package of the other spouse in case of nonemployment. Child care in public facilities is critically underdeveloped.
3. The **corporatist character** is reflected by the fact that social insurance is not governed by the state alone but by a tripartite body consisting of the state and the social partners. Thus, one half of social insurance contributions are paid by the employers and the other half is paid by the employees. This is known as the parity principle.
4. The rather **modest amount of de-commodification** is reflected by the dominating status-maintenance and living-standard-maintenance principle guaranteeing the former living standard only to those with a "normal" employment record.
5. The **subsidiarity principle** is revealed by the fact that strata without a "normal" employment pattern are eligible for social assistance only when no other family income is available. Social services are provided by welfare associations, churches, or other private actors first.

PATH-DEPENDENT CONTINUITY?

Esping-Andersen clearly acknowledges the growing mismatch between these traditional structures of social provision and new social risks when pointing out (1999, 5)that "the real crisis of contemporary welfare regimes lies in the disjuncture between the existing institutional construction and exogenous change." Notwithstanding, he maintains (1999, 4), "One premise of my analyses is that 'postindustrial' transformation is institutionally path-dependent. This means that existing institutional arrangements heavily determine, maybe even overdetermine, national trajectories. More concretely, the divergent kinds of welfare regimes that nations built over the post-war decades, have a lasting and overpowering effect on which kind of adaptation strategies can and will be pursued." Furthermore, he says (1999, 146), "the Continental European—and especially the Mediterranean familialistic—models have undergone very little regime alterations."

In this vein, Paul Pierson's influential 1996 article "The New Politics of the Welfare State" emphasizes continuity over change in welfare institutions: "What is striking is how hard it is to find radical changes in advanced welfare states. Retrenchment has been pursued cautiously: whenever possible, governments have sought all-party consensus for significant reforms and have chosen to trim existing structures rather than experiment with new programs or pursue privatization" (Pierson 1996, 174). In his comparison of four countries—Germany, the United States, the United Kingdom, and Sweden—Pierson focuses on (1) quantitative data on expenditures and (2) qualitative analysis of welfare state reforms. Concerning the first point, Pierson finds (1996, 159), "None of the cases show major rises or declines in overall efforts, and there are few indications of dramatic change in any of the subcategories of expenditure." His analysis of welfare reforms from the late 1970s until the mid-1990s also confirms that "the pattern has been to trim benefit levels rather than challenge the basic structure of programs" (Pierson 1996, 169). He explains his findings with the fact that many powerful interest groups and beneficiaries of the welfare state defend the status quo and render a radical retrenchment close to impossible as "frontal assaults on the welfare carry tremendous electoral risks" (Pierson 1996, 178). Only in case of an electoral slack, budgetary crisis, possibility of blame avoidance, or change in the rules of the game may there be—if at all—a window of opportunity for radical retrenchment.

Both Esping-Andersen's and Pierson's accounts thus stress path-dependent continuity over fundamental institutional change in welfare states. While both of them very likely would agree that institutional change is possible, they would probably deem some sort of exogenous shock or severe crisis necessary to break up the old institutional logic.

But as Streeck and Thelen have convincingly stated, "One consequence is (...) to understate the extent of change, or alternatively to code all observed changes as minor adaptive adjustments to altered circumstances in the service of continuous reproduction of existing systems" (Streeck and Thelen 2005, 1).

... OR POLICY CHANGE?

In an attempt to define and qualify policy change as a process of social learning, Peter Hall distinguishes between first-order, second-order, and third-order change. He defines first-order change as "the process whereby **instrument settings** are changed in the light of experience and new knowledge, while the overall goals and instruments of policy remain the same" (Hall 1993, 278). Second-order change occurs "when the **instruments** of policy as well as their settings are altered in response to past experience even though the overall goals of policy remain the same" (Hall 1993, 279). **Third-order changes, or**, changes in instrument settings, instruments, and the **hierarchy of goals** behind policy "occur relatively rarely, but when they do occur as a result of reflection on past experience" (Hall 1993, 279). Hall is interested in the shift of ideas and their interpretive framework—which he calls policy paradigm—which are necessary for this third-order change to happen. According to Hall, a link between first- and second-order change, which can be seen as normal policymaking, and third-order change or paradigm shift, does not exist. On the contrary: third-order-change reflects a different process. "If first- and second-order changes preserve the broad continuities usually found in patterns of policy, third-order change is often a more disjunctive process associated with periodic discontinuities" (Hall 1993, 279). Hall formulates several preconditions for a paradigm shift to take place: "to involve the accumulation of anomalies, experimentation with new forms of policy, and policy failure that precipitate a shift in the locus of authority over policy and initiate a wider contest between competing paradigms" (Hall 1993, 280). In order to become manifest, however, a paradigm shift further requires that "the supporters of a new paradigm secure positions of authority over policymaking and are able to rearrange the organization and standard operating procedures of the policy process so as to institutionalize the new paradigm" (Hall 1993, 281).

Hall convincingly demonstrates his argument with a case study on the radical change from Keynesian to monetarist economic policy in Britain that took place after the election of Margaret Thatcher in 1979. But his emphasis on institutional exhaustion, exogenous shocks and other exogenous factors, plus a power shift (based on majority rule) also obscures other more subtle and gradual developments that might lead to policy change. And while Hall is right to remind us that the available set of ideas and its framing matters when it comes to policy change, he may underestimate the role of instruments, the way they are introduced, and how they may also change the perception of problems and the locus of authority. Furthermore, as he himself admits (1993, 291): "Only in some cases, then, will it be appropriate to speak of a fully elaborated policy paradigm. In others, the web of ideas affecting the direction of policy will be looser and subject to more frequent variations."

In an attempt to account for the greater variety of possible modes of institutional change, Streeck and Thelen (2005, 31) have summarized five possible types of gradual transformation. Three of these are consistent with Hall's reasoning on policy change: displacement, the slowly increasing influence of subordinate institutions; exhaustion, the general breakdown or withering away of institutions over time; and conversion, the redirection of institutions to new goals, functions. and purposes (Streeck and Thelen 2005, 31). But the two remaining types—layering and drift—point to additional possibilities for change. Eric Schickler's concept of layering, for instance, describes a process by which new elements are attached to existing institutions, which gradually change their status and structure. Jakob Hacker's concept of drift may occur when decisions are not made or issues are deliberately neglected as external conditions and social risks change (Hacker 2005; Streeck and Thelen 2005, 31).

In the following empirical section, we shall first be concerned with *what is happening to social programs* in Germany, with reference to Esping-Andersen's broad features of the conservative welfare state. Second, we are interested in *how policy change has been introduced*, with reference to Streeck and Thelen's refined concepts of policy change.

The literature is rich on the impossibility of radical reforms in veto-ridden Germany. Streeck and Trampusch, for instance, argue, after analyzing reforms in the pensions, labor market, and health care sectors in the last decade, that "the multiplicity of veto points in the German political economy has weakened reform initiatives and reduced the prospect for effective reform in the foreseeable future" (Streeck and Trampusch 2005, 174). Kemmerling and Bruttel (2005, 19) argue along the same lines when claiming that the recent Hartz reforms of the German labor market cannot be considered a "decisive rupture of the institutional system but rather a reform of policies within this system with the same set of key actors and institutions involved as before."

On the other hand, several recent accounts argue that substantial change is already underway in the various sectors of social security in Germany. Analyzing all party programs and major social policy debates from 1975 to 1998, Seeleib-Kaiser (2001, 103) finds that the dominant political discourse led to a "significant change of the normative foundation of the social transfer state," which, for example, resulted in the implicit withdrawal of the key principle of *Lebensstandardsicherung* (maintenance of achieved living standard). Jens Alber discusses, on the basis of a broad empirical analysis, whether recent developments (until 1998) in the German welfare state are signs of continuity or a paradigm shift, and concludes that the German welfare state has become less patriarchic "and less transfer-intensive as well as more service-oriented than conventional typologies assume" (Alber 2001, 3). Lamping and Rub argue that the 2001 pension reform introduced a "system change" that puts future policy on an irreversible track, i.e. predetermining future reform paths (Lamping and Rub 2001, 3). Schmähl (2007, 319) recently put forward a similar argument: "It can be expected that this development will transform the present earnings-related statutory pension scheme—which has a strong contribution-benefit link and is aimed at income smoothing over the lifecycle—into a basic, highly redistributive pension scheme, aimed mainly at avoiding poverty."

Furthermore, this turning point is perceived as a likely blueprint for other sectors of social policy as well, namely, the separation of a basic public social policy and a supplementary private provision (Lamping and Rub 2001, 4). When analyzing reforms in the pensions, unemployment, health, and long-term-care sectors, Hinrichs (2006, 19) also finds evidence of a protracted, but obvious, institutional redirection of the German welfare state, most notably in the field of pension and labor market policy. With regard to labor market policy, Mohr concludes, after comparing recent German and British reforms, that path dependency is no longer a foregone conclusion in the German case. On the contrary, she finds path-breaking tendencies converging toward the British model in terms of policy goals and policy design (Mohr 2004).

EVIDENCE OF CHANGE

Pension Policy

The German pension system experienced a long period of continuity; major reforms have been rare. In line with the general assumptions about the conservative welfare state, the pension system until the mid-1980s can be characterized by the following features:

1. Old-age income protection was achieved through a classic pay-as-you-go (PAYG) system, which was estimated to account for more than 80 percent of all retirement income, with occupational and private capital income playing only a minor role (Aust, Bönker, and Wollmann 2002). The iron principle of this first pillar has been to guarantee the attained *standard of living*.
2. The pension scheme has been insurance-based—financed predominantly through social insurance contributions, supplemented with a comparatively small federal grant. Another iron principle has been *parity*—the equal share of contributions from employees and employers.
3. The strong orientation toward the *male breadwinner* is revealed by the fact that benefits for survivors have been generous: widows and, with some qualifications, widowers, were entitled to 60 percent of the pension of the deceased spouse (Aust, Bönker, and Wollmann 2002).

The pension reform of 1972 established generous provisions for early retirement, but during the mid-1980s it became widely recognized that the economic assumptions underlying this reform had been overly optimistic, and a more fundamental reform debate set in. But it was not until 1989 that a comprehensive pension reform was formulated.

This was facilitated by the existence of a political consensus between the governing coalition (made up of the Christian Democratic Union or CDU, the Christian Social Union or CSU, and the Free Democratic Party or FDP), and the opposition Social Democratic Party (SPD). Although the SPD did not hold veto power in the *Bundesrat* at that time, there had been a long tradition of consensus decision-making on pension reform due to its sensitive character in terms of voting behavior. Indirectly, this seems to support Pierson's argument on the preconditions for significant reform.

The 1989 reform, which took effect in 1992, largely followed the inherent logic of the old system. While the replacement rate remained untouched at 70 percent, the annual adjustment of pensions was indexed to the change in average net earnings rather than to gross earnings, as had been the case until then. Since taxes and social security contributions were raised at that time in order to finance reunification-related costs, this modification meant an implicit reduction of pension benefits. Furthermore, the reform returned the standard retirement age to 65 (Borsch-Supan and Wilke 2006). At that time it was believed that with this fine-tuning, which indeed amounted to nothing more than a first-order change in Hall's classification, no further reform would be needed for at least a decade.

In the mid-1990s, however, the debate on a fundamental overhaul of the pension system started anew due to fiscal pressure resulting from rising transfers to the new *Bundesländer* (states) in East Germany as well as rising unemployment figures. In addition, pension insurance contributions had passed the psychologically important threshold of 20 percent of gross wages in 1997. This time around, no consensus between the two grand parties could be reached, due first of all to the upcoming elections in 1998 as well as to substantial programmatic differences. As a result, the Helmut Kohl government pushed through various measures unilaterally.

The 1997 reform, which was to take effect in 1999, saw the introduction of a so-called demographic factor that would produce a gradual decline in the standard pension level from 70 percent of average net earnings in 1997 to 64 percent in 2030. Additionally, the federal grant was raised once more, credits for child rearing were further extended, eligibility criteria for disability pensions were tightened, and early-retirement pensions were reduced (Aust, Bönker, and Wollman 2002). Although this reform also followed the inherent logic of the old system, it signaled to voters that the iron principle and guarantee of maintaining the *standard of living* were seriously in doubt. Labor Minister Norbert Blum's famous sentence on meeting the demands of pensioners—"*Die Renten sind sicher* (the pensions are secure)"—proved to be unrealistic: for the first time, keeping the replacement rate at 70 percent was unlikely. Neither the 1989 reform nor the 1997 reform did more than recalibrate instruments, but the latter reform clearly revealed signs of institutional failure to cover the risks of old age.

The SPD's massive campaign against these unpopular measures fuelled their walkover in the 1998 elections. Once in office, the new SPD/Green Party coalition government revised the introduction of the "demographic factor" and the reform of the disability pensions. At the same time, coverage of the statutory pension scheme was broadened, redefining the rules for self-employment and tightening rules for so-called publicly subsidized 630 DM (low-wage) jobs, and financing noncontributory benefits through taxes. Again, the federal grant was raised with the help of a newly introduced eco-tax and a number of additional tax hikes on energy consumption, reducing contribution rates from 20.3 percent to 19.3 percent (Aust, Bönker, and Wollmann 2002).

What then happened, however, took most national and international observers by surprise. After the sudden and unexpected resignation of the leftist SPD party leader and finance minister Oskar Lafontaine, who had been a protagonist of demand-side Keynesian policies, the SPD with its new party leader and chancellor Gerhard Schroder made a turnaround not only in fiscal policy but also in social policy in general. Labor minister Walter Riester's (SPD) original pension reform proposal of June 1999 included, for instance, (1) an indexation to prices in 2000 and 2001; (2) the introduction of a mandatory private pension pillar to be financed only by employee contributions, increasing from 0.5 percent in 2003 to 2.5 percent in 2007; (3) the introduction of a minimum pension, and (4) an overhaul of survivors' pensions (Aust, Bönker, and Wollmann 2002). Although major concessions had to be made during the decision-making process, most of the new measures finally adopted by the *Bundesrat* in May 2001 amounted to path-breaking in German pension policy. And although the CDU opposition tried to veto the reform, it did not persuade all *Länder* (state) governments to support the party line in the *Bundesrat*.

Two measures of the 2001 reform in particular illustrate a process of layering in German pension policy. First and foremost is the introduction of a voluntary private pillar, which is to make up 4 percent in 2008 of the most recent annual gross income and which is to decrease proportionally the adjustments of pensions. In order to provide incentives for investments in private saving schemes, the government offers direct saving subsidies and tax relief. Second, from 2001 onward, pensions are again adjusted on the basis of average gross income but are modified by the actual contribution rate to public pensions, in what is known as a "modified gross adjustment" (Borsch-Supan and Wilke 2006, 10). This change in the pension formula was intended to gradually decrease the standard pension level to 67 percent by 2030. The law guarantees that the pension will remain at that level; failure to do so would precipitate government action (Börsch-Supan and Wilke 2006, 23).

A 4 percent supplementary private pillar can by no means be considered a radical shift to a new public-private pension mix, either in itself or in comparison with many other OECD countries. The SPD/Green government neither made it compulsory nor introduced a universal basic pension. Notwithstanding, the 2001 pension reform cannot be understood adequately in terms of mere pragmatic adjustment. Why is that?

First, the domination of social insurance based on contributions instead of taxes is no longer a precise and valid description of the German pension system. The new public-private pension mix significantly increases the federal grant, from 21 percent in 1991 to 33 percent in 2006 (Hinrichs 2006), as the state now also subsidizes investments in the private pillar (through tax relief and grants) and provides child-care credits. As of 2008, the government intends to support private savings plans by 11 billion euros annually (Lamping and Rub 2001). In 2001, the government also introduced a means-tested and tax-financed basic pension for old people in need or with reduced earning capacity (*Grundsicherung im Alter und bei Erwerbsminderung*). Although this new pension is not the same as the universal basic pension planned earlier, its difference from social assistance is striking: family income (up to an annual gross limit of 100,000 euros) and income of people living in the same household are not included in the means test. By the end of 2005, 629,000 people had already received the new means-tested basic pension (Bäcker, et al. 2008, 331).

Second, these changes also point to a departure from two iron principles of the German welfare state, namely standard of living maintenance (*Lebensstandardsicherung*) and parity in financing (*paritätische Finanzierung*). The latter clearly is not applicable anymore: employers do not share the burden of the private pillar, and thus the individual's share of pension financing has increased. This fact, and the modified gross adjustment rate, make maintaining the standard of living highly dependent upon the ability and willingness of individuals to invest in private saving schemes. Consequently, the burden of social risk has significantly shifted away from the state toward the individual. The reform of the surviving dependent pension as part of the 2001 Riester reform package brought a general reduction of the pension level from 60 percent to 55 percent, which also revealed changes in the male breadwinner orientation.

Soon it became clear, however, that even the path-breaking 2001 reform would not be able to keep the pension level at 67 percent and the contribution rate level at 20 percent until 2020. A rapid decline of the pension level was predicted from 70 percent in 2002 to below 67 percent as early as 2008 and an increase of the contribution rate to over 20 percent as early as 2014 (Börsch-Supan and Wilke 2006, 23). In November

2002, the government therefore established the Rurup Commission—named after its chairman, Bert Rürup—which presented its proposals in August 2003. One major element of those proposals was the gradual increase of the standard retirement age from 65 to 67. The other major element was a modification of the pension formula based on the so-called sustainability factor reflecting changes in the ratio of contributors to pensioners. This takes into account not only the increase in life expectancy (as did the "demographic factor" of the 1997 reform) but all other demographic developments, including migration and birth rates as well as changes in the labor market. This self-stabilizing feedback mechanism therefore resembles quite strikingly the notional rate-of-return mechanism of a notional defined contribution system (Börsch-Supan and Wilke 2006, 27). While these complex modifications were introduced by the government as early as March 2004, the gradual increase of the standard retirement age produced much more public controversy and had to be postponed.

Only after the grand coalition formed in November 2005 had the ball at its feet was the decision made to gradually increase the standard retirement age, between 2012 and 2029, from 65 to 67 years or after an individual had made 45 years of contributions (Financial Times Deutschland, 15 November 2006). This reform will further increase the dependence on private saving schemes.

These measures amounted to more than path-dependent adjustments. Their impact in absolute quantitative terms was admittedly modest, but they changed, in an unspectacular but radical way, the institutional logic and perception within this policy sector. With regard to Esping-Andersen's categorization, the 2001 pension reform clearly displays re-commodification effects emphasizing liberal principles of stratification.

This was not achieved through a "big bang," but by gradually amending or layering the old PAYG institution with a new instrument. This new instrument not only creates powerful new stakeholders, particularly in the private insurance sector, but also creates an incentive for the government to extend the instrument of the private pillar to the detriment of the old PAYG system over time, as was shown by the most recent reforms. Future pension reform paths toward a general basic pension (*Grundrente*), plus an extended occupational and private pillar, thus seem to be predetrmined.

Long-Term Care

The introduction in 1994 of a fifth social insurance pillar, the long-term care insurance scheme (*Soziale Pflegeversicherung*), is seen by supporters of the conservative welfare state as evidence of the persistence of the respective institutional elements. While the social insurance character does suggest this, the specific design of the scheme is not precisely in accordance with this assumption.

Until the late 1980s Germany had no public scheme for supporting frail elderly people. A legal distinction was drawn between medical treatment and illness-related acute care (health insurance) on the one hand and long-term care on the other hand. As the health care scheme did not cover long-term care, frail elderly people had to rely on informal care, draw on their private assets, or both. If they lacked personal income, the elderly were eligible for social assistance.

At the beginning of the 1990s, this situation became more and more fiscally problematic. Between 1973 and 1993, the real spending on social assistance for people in need of care had increased by 370 percent, which put a heavy financial burden on local governments. The local governments, on the other hand, had a strong incentive to lobby the states (*Länder*) and the federal government not to promote a professional approach to long-term care, which would have increased the related costs for them enormously (Aust, Bönker, and Wollmann 2002).

While the need for a comprehensive reform had been controversial for a long time, the government eventually changed its position in the beginning of the 1990s. At that time the government needed the approval of the SPD opposition, which had veto power in the *Bundesrat*. The lines of conflict, however, were not so much between government and opposition but within the governing CDU/CSU/FDP coalition itself. While the business wing of the CDU/CSU and the FDP favored a compulsory private insurance solution, the influential labor wing of the CDU/CSU, represented by the then labor minister, Norbert Blüm, favored, as did the SPD, a social insurance scheme similar to the traditional four branches of social insurance. Before the end of the 1990-1994 electoral term, the government and the SPD eventually arrived at a compromise.

The new long-term care scheme differs in various aspects of its design from the other four branches of social insurance and has anticipated subsequent changes in health care and pensions. Four points stand out: (1) the heavy emphasis on the stability of contribution rates contrasted with the hitherto existing defined benefit schemes in the pension system and the unemployment insurance system; (2) the fact that benefits do not cover all expenses; (3) the fact that welfare associations and commercial providers are put on equal footing in the provision of long-term care; and (4) the liberalization of market entry.

Why do those changes suggest more far-reaching changes in the conservative characteristics of the German welfare state? While the social insurance character (and the retained differentiation between employment status and income) points to the continued existence of those features, some built-in measures suggest another interpretation. In general, the long-term-care insurance guarantees partial cost coverage to virtually all citizens regardless of age, financial need, or the reason care is needed. It covers costs resulting from disability and physical and mental illness. In 1995, about 90 percent of the German population were covered by the new public scheme and the remainder by private schemes (Schneider 1999, 43). The legal precedence on the stability of contribution rates over the quality of care (minimum reserve should be equivalent to 1.5 months of spending) and the fact that not all expenses are covered, however, indicate a break with the living standard maintenance principle compared to the other social security branches.

First, the federal government does not assume financial responsibility for any deficit run by the long-term-care insurance. On the contrary, any increase in contribution rates requires parliamentary approval (Schneider 1999, 48). Second, the design of the flat-sum benefits helps keep expenditures down. For instance, the maximum benefit sum is to be channeled to the 3 percent worst-off clients (Schneider 1999, 49). Additionally—and contrary to, for example, the health care benefits—patients may choose between partial cash benefits (spent on informal care) and partial in-kind benefits (Schneider 1999, 49). Consequently, although contribution rates in all other social security sectors increased substantially during this time period, the contribution rate of the long-term care insurance remained constant at 1.7 percent of gross earnings from the time of its introduction until the time of this writing (Bäcker et al. 2008a, 125). Only now are there discussions about increasing the contribution rate and improving the quality of care. The principle of equally shared contributions, however, has been transferred also to this new social insurance pillar apart from one public holiday being abolished.

These changes alone would argue for the continued existence of the conservative features, as the living-standard-maintenance principle is not conclusive when compared to the former status quo. But the liberalization of long-term services and the abolishing of privileges for welfare associations has fundamentally changed the earlier close-knit corporatist arrangements and public-private-family mix and has paved the way for new perceptions and actors in this and other reform arenas. In other words, the overall development reveals a trend toward re-commodification compared to other sectors and, more importantly, can be seen to have paved the way for more fundamental reforms in other sectors—most notably in the field of pensions, discussed above.

Family Policy

The strong male breadwinner orientation and induced shortage of labor supply of the German welfare state has been reflected by the generally conservative approach to family policy during the 16 years (1982-1998) of the Kohl government. While there have been some modest attempts to turn around after Kohl, it was not until 2006 that a conversion in the field of family policy became obvious. Already in 1958 Germany institutionalized its strong male breadwinner orientation with a tax law that enabled family income to be split between husband and wife (*Ehegattensplitting*), providing a strong incentive for married women and mothers to stay at home or take on only minor, part-time employment. Privileges for families in other social security branches further fuelled these incentives.

The participation rate of women age 15-64 in the West German labor force was hence a modest 46.5 percent in 1970, slowly and gradually increasing to 51.8 percent in 1980 (OECD Labor Statistics 2006). Female labor force participation was much higher in the German Democratic Republic, and after reunification, a substantial increase of 5 percentage points took place between 1990 (55.4 percent) and 1991 (60.5 percent). In the next five years the rate remained almost constant. From 1997 onward, however, the female labor force participation rate grew at an accelerating pace, from 61.9 percent in 1997 to 66.9 percent in 2005. This is still low compared to, for example, Scandinavian countries, but higher than the 2005 rate in other continental European welfare states like France's 63.8 percent, Belgium's 59.4 percent, or Austria's 65.5 percent (OECD Labor Statistics 2006).

Although the reform activity in this field had already gained momentum between 1979 and 1999, all of the highly controversial measures adopted during this period can be understood as adjustments aimed at maintaining the status quo. There was, however, as early as 1979, a first attempt by the then governing SPD/FDP coalition to break the male breadwinner orientation with the introduction of the maternity leave law (*Mutterschaftsurlaubs-Gesetz*). This law allowed for a paid maternity leave of six months, for working mothers only. During this time, mothers who chose to take the leave were granted a monthly allowance of 750 DM (about 375 euros). Their employment was strictly protected during their leave (Lippmann 2001). The subsequent CDU/CSU/FDP government, however, transformed this scheme into a parental leave system (*Erziehungsgeld und -urlaub*) in 1986, lowering the allowance to 600 DM (about 300 euros) per month for up to 24 months. The allowance was available to all parents, whether working or not. After the first 10 months, access to the allowance was means based. From 1994 onward, the entire allowance was based on a means-test. During the *Erziehungsurlaub*, the beneficiary was only allowed to work up to 19 hours per week. Although this law also introduced an employment guarantee for beneficiaries, the employers were not obliged to offer the employee the same job they had before the leave. All these measures clearly reproduced the old path with minor adjustments, and the low female employment rate at that time indicates that this aim was achieved.

The early laws made after reunification, namely the *Schwangeren- und Familienhilfegesetz* of 1992 and the *Bundesgleichstellungsgesetz* of 1994, can also be understood in this vein. The former aimed at massively expanding the support of kindergartens for children between 3 and 6 years old, but its implementation was postponed until 1999. The latter only established minor improvements for women in federal agencies with more than 200 employees (Aust, Bönker, and Wollmann 2002).

When the SPD/Green Party coalition came into office in 1998, it announced a general overhaul of family policy. The *Gleichstellungsdurchsetzungsgesetz* of 1999, a revision of the 1994 law, significantly fostered participation rights of the representatives for gender equality issues, but a similar binding law for the private sector was not pushed through.

The 2000 reform of the parental leave system (*Bundeserziehungsgeldgesetz*), however, significantly altered the purpose and function of the old parental leave system by changing some of its basic parameters: (1) the allowable working time was increased to 30 hours per week, (2) the right to work part time was introduced, (3) the income ceiling for the means test was increased by 10-25 percent depending on the size of the family, and (4) the benefit was increased to 450 euros if the beneficiary chose the one-year budget variant. Furthermore, parents were now also able to jointly take the leave. The employment guarantee was further enhanced in that the old salary was now guaranteed (BMFSFJ 2006). Although this new benefit was still based on a means test, the increase in allowable working hours and the enhanced employment guarantee clearly meant a substantial step toward encouraging the reconciliation of work and family.

By 2005, the newly elected CDU-led grand coalition government had changed its approach fundamentally, which caused substantial conflict within the party and with its sister party, the CSU. Openly inspired by "family-friendly" Scandinavian schemes and studies by the Bertelsmann Foundation, the CDU altered course under the guidance of new family minister Ursula von der Leyen. Together with the SPD, the grand coalition introduced the law on *Elterngeld*. Today, one parent receives 67 percent of his or her previous net earnings, up to a maximum of 25,200 euros, for 14 months. Two months are reserved for the other parent (usually the father). Single parents receive the whole amount for 14 months. Parents with more than one child may receive a so-called siblings bonus: the allowance is raised by 10 percent with a minimum of 75 euros per month (Bäcker et al. 2008b, 306). While receiving the allowance, parents may work up to 30 hours. Parents without previous employment receive 300 euros per month, up to a maximum of 4,200 euros (BMFSFJ 2006). The law provides comparatively generous benefits and conditions. In particular, the benefit for parents without previous employment is to some extent more generous than in the "model" Scandinavian countries when controlled for power purchase parities. The minimum allowance for unemployed parents is, however, lower than the *Erziehungsgeld* was before.

With regard to Esping-Andersen's categorization, one can thus maintain that the new law contains considerable de-commodification elements and, even more importantly, creates a universally eligible benefit in addition to the already existing universal child allowance. In 2007 the government also decided to extend the child-care services for children younger than three years from the currently available 285,000 day nursery spaces to 750,000 by the year 2013 (BMFSFJ 2007). Consequently, family benefits no longer encourage traditional motherhood (Esping-Andersen 1990, 27), but on the contrary encourage families to reconcile work and family.

This policy change was preceded by a gradual conversion of an existing instrument, namely the old parental leave system, which already challenged the existing conservative ideas.

Labor Market Policy

In contrast to widespread belief, the field of labor market policy in Germany has seen a high level of reform activity during the past 25 years. Most of the measures adopted until the mid 1990s aimed at fostering the formerly favorable features of the Modell Deutschland—status maintenance coupled with high employment tenure, which was made possible by close-knit corporatist arrangements and rigid employment protection. But the measures adopted at the end of the 1990s heralded a farewell to those traditional features. The new measures were accompanied by major reforms in the financial sector. Among these was the tax reform of 2000, which made the sale of long-term equity stakes held by large firms and banks (*Deutschland AG*) tax free after 1 January 2002, and a new takeover law in 2001, which can be considered one of the more liberal takeover laws in Europe (Deeg 2005, 336).

Although unemployment reached a peak of 9.3 percent in 1985, nearly triple the 3.8 percent rate of 1980 (BMAS 2006, 57), all measures adopted between 1982 and 1993 generally aimed at (1) lowering the generous benefit level, (2) modestly tightening eligibility criteria, and (3) increasing the contribution level—and hence can be characterized as path-dependent adjustments.

In line with expectations of path-dependent continuity, the changes between 1983-84 in the *Arbeitsförderungsgesetz* (AFG) meant a lowering of the benefit level of the unemployment benefit scheme (*Arbeitslosengeld*) (and of the unemployment assistance or *Arbeitslosenhilfe*) from 68 percent (58 percent) to 63 percent (56 percent) of former net earnings, while at the same time increasing the contribution rate from 4 percent to 4.6 percent and modestly tightening the eligibility criteria (Steffen 2006, 10). One measure adopted only a year later stands out: in 1984, the CDU/CSU/FDP coalition adopted a law giving unemployed people from the age of 58 a pre-pension allowance (*Vorruhestandsgesetz*) to bridge the time gap into early retirement. This mechanism was enhanced by increasing the duration of the unemployment benefit for this group from one to three years, leading to a substantial shortage of labor supply. Until reunification all measures aimed primarily at the expansion of active labor market measures and wage subsidies.

After reunification, with quickly rising unemployment figures, especially in East Germany, the Kohl government together with the SPD opposition reacted in a familiar manner by (1) extending active labor market measures, (2) establishing huge local employment agencies (*Beschäftigungsgesellschaften*), and (3) introducing a specific wage subsidy for the east as part of the so-called solidarity pact or Solidarpakt (Aust, Bönker, and Wollmann 2002).

Labor-market-related expenditures subsequently rose quickly, and the CDU/CSU/FDP government altered course only six months after the consensus with the SPD, through consolidation measures presented between 1993 and 1996. While most of these measures were in line with the logic of past adjustments, namely further cutting of unemployment benefits (and unemployment assistance) from 63 percent (56 percent) to 60 percent (53 percent) of previous net earnings, the tightening of requirements to take up work already signaled a departure from mere path-dependent adjustments. Requirements for the unemployed to improve their employability or to carry out community-related work were strengthened, and job creation measures (*Arbeitsbeschaffungsmaßnahmen*) were no longer paid according to the public sector pay scale, which meant a slow departure from the hitherto iron principle of status maintenance and a move toward a welfare-to-work approach.

In the political discourse at that time, the CDU/CSU/FDP government increasingly regarded the high level of social insurance contributions as the major cause of unemployment, since contributions significantly raised nonwage labor costs. In their 1996 "program for growth and employment," the government therefore announced a reduction of the level of nonwage labor costs to below 40 percent until 2000. The new *Arbeitsförderungsreformgesetz* (AFRG) of 1997 was seen as a cornerstone of the effort to achieve this goal and to consolidate the new welfare-to-work approach.

Although the SPD opposition fiercely objected to this law, it could not stop it despite its veto power in the *Bundesrat*. The government split the reform and organized its more important aspects in a way that it would have only been possible to veto with a two-thirds majority. Four measures of 1997 reform stand out: (1) the obligation to accept job offers was substantially redefined: formal qualifications, former occupation, and length of commute were no longer accepted as reasons for declining job offers; (2) the unemployed had to prove they were looking for work; (3) with a new "integration treaty" between employer and employee, dismissal rights were abolished for the long-term unemployed for a period of several months, and (4) active labor market measures were restricted to the long-term unemployed only (Aust, Bönker and Wollmann 2002).

When in government the SPD/Green coalition was reluctant to restore the status quo ante, although it designed a new major active labor market program for unemployed youth, the so-called JUMP program. The main lines of conflict at that time were not so much between the CDU opposition and the SPD government, but within the SPD itself, namely between the modernist wing, represented by Gerhard Schroder, and the traditionalists, represented by Oskar Lafontaine. Schroder had already advocated wage subsidies in 1997, whereas Lafontaine advocated an extension of active labor market measures (Aust 2003, 4). The growing impasse between the two positions was resolved when Lafontaine unexpectedly resigned from his government and party posts in March 1999.

A scandal on sugar-coated placement figures of the Federal Labor Agency (FLA) in early 2002, with unemployment figures at the level of 1998, then triggered a flurry of government action as the SPD/Green government found itself on the brink of losing the upcoming elections. Quickly a commission chaired by Peter Hartz, a Volkswagen manager, was set up to develop recommendations for an improved placement practice and management of the FLA and for the fusion of social assistance for employable persons and unemployment assistance into one basic social protection scheme (*Grundsicherung*). The commission included primarily only members affiliated with the modernist wing of the SPD or with the CDU. After the failure of the Alliance for Jobs (*Bündnis fur Arbeit*), the breach between the SPD and the trade unions had become more and more obvious, and thus the government strategically sought the informal support of the CDU opposition. Finally, the commission came up with 13 modules, which Schröder, shortly before the election, promised to implement "one-to-one." The first so-called Hartz laws, Hartz I and II, introduced less controversial measures—mainly an extension of the subsidized low-wage sector and further tightening of reasonableness criteria—and entered into force on January 1, 2003, immediately after Schroder's re-election. Hartz III (general restructuring of the FLA) and Hartz IV (fusion of social assistance and unemployment assistance) needed more time for preparation.

The Hartz commission's recommendations did not spell out important aspects of the intended reform, such as the exact benefit level, administration, and financing of the new basic social protection scheme. When it became clear that the local finance commission (*Gemeindefinanzkommission*), which also was assigned to develop policy recommendations for the fusion of unemployment assistance and social assistance, would also fail to achieve a consensus between the different state governments, Chancellor Schröder decided to act and detailed important elements of the new scheme in his Agenda 2010 speech on March 14, 2003. In the speech he pledged (1) a shortening of the duration of the unemployment benefit to one year, (2) an integration of unemployment and social assistance into a new benefit with a benefit level resembling that of social assistance, (3) a strengthening of the "carrot and stick" (*Fördern und Fordern*) principle through additional financial incentives to take up jobs as well as tougher sanctions for noncooperating beneficiaries. Agenda 2010, which along with the Hartz laws was incorporated into the Law on Reforms of the Labor Market (*Gesetz zu Reformen am Arbeitsmarkt*), also included the abolition of employment protection for employees in firms with fewer than 10 employees and for older employees and founders of new businesses. (See also http://www.aus-portal.de/aktuell/gesetze/01/index_535.htm.)

Together, the Hartz laws and the Law on Reforms of the Labor Market constitute a transformation in German labor market policy. Before the reform there existed a distinction between the unemployment benefit and unemployment assistance as its institutional extension for the "worker citizen," on the one hand, and social assistance for strata without a "normal" employment record on the other hand. The first aimed at upholding the former status and income of the worker, while the latter was designed as general poor relief. The 2003 labor market reform, however, abolished unemployment assistance and redirected the unemployment benefit and the social assistance toward new functions and purposes. The unemployment benefit was restored as a classic risk insurance, which no longer aims to bridge the time gap into early retirement. The new social protection scheme and the new social assistance, on the other hand, both now serve the purpose of poverty alleviation. The former comprises the much larger share of people who are, or prospectively will be, able to work more than three hours a day, whereas the latter comprises only those people who are effectively unable to work.

Regarding Esping-Andersen's typology, one can maintain the following. First, the principle of living standard maintenance is not applicable anymore, as after one year of unemployment the beneficiary is dependent on the means-tested basic social protection scheme with a flat sum of 347 euros per month. Second, the related status maintenance principle is also no longer applicable, as the beneficiary of the basic allowance is obliged to accept any work at any pay or active labor market measure offered, otherwise the benefit may be reduced in several steps until its complete withdrawal. The principle of subsidiarity or familialism has waned considerably, as parents and children no longer bear responsibility for each other if they do not live together in the same household. Last but not least, employment protection for employees of enterprises with up to 10 employees, for older unemployed, and for founders of new businesses has been practically abolished. Whereas former beneficiaries of social assistance, especially single mothers, can be said to be the winners of the reform, most of the former recipients of the earnings-related unemployment assistance (especially those with a high income) are the losers.

With regard to Esping-Andersen's categorization, one can thus clearly say that labor market policy has seen the most substantial re-commodification of all areas covered in this article—especially with regard to Esping-Andersen's dimensions of eligibility rules and income replacement.

Again, this policy change was preceded by a reform—the 1997 AFRG reform—which already changed the purposes and goals of the existing unemployment insurance system to a welfare-to-work approach.

Health care

Although health care has been subject to countless reforms during the last two decades, policy change in this sector appears on first sight to be close to impossible. This is due to the self-governance principle of the Statutory Health Care Insurance (SHI), encompassing the two major influential players as the statutory and private health insurance funds (*Gesetzliche und Private Krankenversicherungen*) on the one hand and providers such as the physicians' associations (*Kassenärztliche Vereinigungen*) on the other. In addition, the pharmaceutical industry has a strong lobby. Two sacred principles—(1) solidarity as the normative-political foundation and (2) self-governance as the operational/institutional foundation of German health care—are said to have largely limited the numerous reforms in this area to the incremental and path-dependent (Altenstetter and Busse 2005).

However, a closer look at past health care reforms, and at developments in the other sectors, suggests a different interpretation, which is further revealed by the fact that the more recent reform proposals of the two grand parties clearly imply a departure from a wage-related health-insurance scheme (see for example Hinrichs 2006). What were the core characteristics of the health policy sector in Germany? Busse and Riesberg (2004, 193) name four hitherto "iron principles" in the area of health policy: (1) uniform availability of benefits, (2) equally shared contributions between employers and employees (the parity principle), (3) contributions based on income and not on risk, and (4) provision of services as benefits-in-kind.

Many past reforms have aimed at containing costs, stabilizing contribution rates, and introducing more competition while avoiding adverse effects on equity and quality. But three reforms, which cannot be understood in terms of mere adjustments, stand out as examples of a mechanism of layering with measures aiming at re-commodification: (1) the package of three reform acts in 1996-1997, (2) the Statutory Health Insurance Modernization Act of 2003, and (3) the *GKV-Wettbewerbsstärkungsgesetz* (Law on strengthening competition in the statutory health insurance) of 2007. Especially the reforms of 1997 (*GKV Neuordnungsordnungsgesetze*) would have amounted to a transformative change, but in the expectation that the Kohl government would lose the upcoming election the sickness funds refused to fully implement the reform measures. These measures were then quickly revised by the incoming SPD/Green government in 1998.

The CDU/CSU/FDP government in 1996 passed, as a first step, the highly controversial *Beitragsentlastungsgesetz* (Health Insurance Contribution Rate Relief Act) as part of bigger law package supporting economic growth. Four measures stand out: (1) patients born after 1978 were to be excluded from dental surgery and dentures benefits in the SHI, (2) support for rehabilitative care was substantially reduced, (3) copayments for pharmaceuticals and rehabilitative care were to be significantly increased, and (4) health promotion benefits were to be reduced (Busse and Riesberg 2004). In a subsequent step, the First and Second SHI Restructuring Acts brought further changes, such as (1) the right of patients to negotiate prices for dental surgery and dentures while receiving a flat sum from the SHI, (2) the linkage of contribution rate increases to increases in copayments, (3) the option of sickness funds to introduce bonuses, deductibles, and higher copayments, (4) the option for insured to choose private treatment with reimbursement, (5) the introduction of an annual fee of 10 euros per insured (not shared with employers) for the maintenance of hospitals, and (6) increased copayments for inpatient care, pharmaceuticals, medical aids, ambulance transportation, and dentures for those still covered (Busse and Riesberg 2004).

These measures would have amounted to a considerable break with the hitherto iron principles outlined above, but the incoming SPD/Green government in 1998 revised nearly all of them. Minor reforms were introduced in the immediately following years, which amounted to little more than path-dependent adjustments. But this situation changed in 2002 when the SPD/Green government suddenly ended a five-year polarization and joined with the CDU to adopt the Statutory Health Insurance Modernization Act (*Gesundheitsmodernisierungsgesetz*) in 2003. The similarities with the 1996-1997 laws are striking: (1) OTC (over-the-counter) drugs were excluded from the SHI package; (2) copayments of 10 euros per visit and quarter to a physician were introduced; (3) copayments for goods and services were fixed at 10 percent and a maximum of 10 euros, and the exemption for low-income people was abolished; (4) a 0.9 percent special contribution (not shared with employers) for dentures was introduced. All these changes altered the long-standing 50-50 parity in financing to 46-54 in favor of the employers (Busse and Riesberg 2004).

Although these changes can by no means be considered radical, and are not as pronounced as the measures of 1996-1997, they nevertheless mark a turning point in German health care. Why is that? First, benefits were no longer uniformly available, as important medical treatments and pharmaceuticals were excluded from the SHI package. Second, contributions were no longer shared equally between employers and employees; and third, considerably more tax money was infused into the system (for example, with the increase of the tobacco tax), lowering contributions as part of overall social financing from 65.6 percent in 1991 to 59.9 percent in 2003 (BMGS 2005, 202). Furthermore, the introduction of so-called integrated care (under which sickness funds close a single contract with providers of different sectors) has received less public attention and was made obligatory and more attractive for the funds (Busse and Riesberg 2004).

The turning point, however, was not so much their modest impact in purely quantitative terms, but the fact that these measures fundamentally changed institutional logic and the perceptions and preferences of the political actors, which is further revealed by the current health care reform discourse in Germany. Two basic concepts are currently under discussion, both aiming at radically altering the status quo and both the result of the Rurup Commission, named after the head of the commission, Bert Rurup. The first concept, *Solidarische Gesundheitsprämie* (joint health premium), favored by the CDU, consists of three elements: (1) an individual flat-rate health premium of 109 euros per insured and a maximum of 7 percent of gross earnings for low-income earners; (2) the freezing of contributions by employers at 6.5 percent of gross earnings (of which 60 euros are saved for the insured) and their management in a special fund; and (3) social compensation as premium subsidies for low-income earners via the tax authorities (CDU 2004). The second concept, *Solidarische Bürgerversicherung* (joint citizens' insurance), favored by the SPD, consists of the following elements: (1) all citizens (including civil servants, the self-employed, and farmers) are to be covered, as the statutory insurance limit is to be abolished; (2) the basis on which to calculate contributions is to be extended and also is to include investment income; (3) private sickness funds are obliged to insure everyone; and (4) contributions remain shared equally between employers and employees (SPD 2004).

Although the two concepts are incompatible (which was further revealed by the protracted past negotiations on health care reform within the grand coalition), both suggest a departure from the earlier wage-centered health care approach and thus would constitute a substantial transformation.

The grand coalition reached a compromise over a new reform law called *GKV-Wettbewerbsstarkungsgesetz*, with some important aspects entering into force as early as 1 April 2007 and 1 July 2007, while the most controversial and more far-reaching aspects were expected to enter into force on 1 January 2009, the year of *Bundestag* elections. Although the reform package appears to be a desperate bid to merge two hardly compatible concepts, again the result cannot be adequately understood in terms of path-dependent adjustments. As of 1 April 2007 there is, for the first time in German history, a legal obligation to insure and be insured (*Versicherungspflicht*): all statutory and private sickness funds are obliged to insure everyone, and uninsured persons (for example, the self-employed) formerly covered by a private sickness fund have to be covered by this fund again. The same goes for statutory sickness funds. From 2009 onward, private sickness funds will be obliged to offer a basic flat rate, which must not exceed 500 euros per month and is halved in case of need. Employees covered by a statutory sickness fund have, as usual, the option to change to a private one if their annual earnings surpass 47,700 euros.

Another important aspect, which was introduced in 2007, is that statutory sickness funds can offer different contribution rates with the help of deductibles and bonus payments, which is quite a remarkable break with the principle of uniform availability of benefits.

Furthermore, the government has also decided to increase the federal grant to 2.5 billion euros in 2008 and then by 1.5 billion euros annually in subsequent years until the overall amount of 14 billion euros is reached. The most far-reaching change is the introduction of a general health fund (*Gesundheitsfond*) as of January 2009. The idea is that all insured pay the same fixed contribution rate, which is no longer determined by the statutory sickness funds but by the government itself. The contributions and taxes are then collected and redistributed by the new general health fund and no longer through the respective sickness funds. Risk diversification is then balanced through the federal grant. If a statutory sickness fund is in need of further financing, it may introduce an additional amount of 1 percent of the social-insurance based earnings. Employers are exempted from the payment of the additional amount.

Esping-Andersen felt his argument on corporatist status divisions was justified by the high number of 1,200 separate regional, occupational, or company-based sickness funds in Germany at the time of publication (Esping-Andersen 1999, 82). This number, however, decreased dramatically to 374 by 2006 (http://www.sozialpolitik-aktuell.de/datensammlung/6/abb/abbVI6.pdf) and will most likely further diminish due to the new legal obligation to insure and to be insured (*Versicherungspflicht*) and to the newly created possibility for sickness funds to merge. So whether corporate status divisions are still an accurate description of the German welfare state is highly questionable.

CONCLUSION: A NEW, HYBRID WELFARE STATE

Our overview indicates that in the social policy areas of pensions, long-term care, family policy, labor market policy, and health care, the German welfare state no longer fits the classification of a conservative welfare state. The institutional elements of the conservative German welfare state reached their peak in the mid 1990s and have undergone crucial changes ever since. Signs of transformation can be found within all policy areas discussed here. Our overview corroborates some of the interpretations of transformation and paradigm shift developed on the basis of varying empirical data by Seeleib-Kaiser (2001), Alber (2001), Lamping and Rub (2001), Mohr (2004), and Hinrichs (2006). One implication of our analysis is that Germany, long considered to be the conservative-corporatist welfare state par excellence, can no longer be said to represent this ideal-type welfare regime. Lamping and Rub (2001) describe Germany as a recombinant welfare state, meaning that it mixes elements from all types of welfare regimes and adds new elements within each of the welfare policy areas. A hybrid welfare state type is emerging, probably not uniquely in Germany. On the one hand, we find tendencies of liberalization and re-commodification in policies regarding pensions, the labor market, and health. On the other hand, we find tendencies of de-commodification and individualism in the area of family policy. The art of "welfare regime modeling" faces new challenges.

With reference to Pierson, it is crucial to note that the transformations we have identified in all sectors were preceded neither by a major crisis nor by an electoral slack, nor was there a possibility of blame avoidance. Nevertheless, substantial retrenchment took place in the broader sense that more social risks have been privatized (Hacker 2004; 2005) without dismantling the welfare state as such. For example, social spending did not decrease substantially. The political risks and costs of reforms were very high, though, as both coalition governments subsequently lost elections, radical parties gained support, and the number of nonvoters increased. While Germany has long faced numerous severe problems like persistently high unemployment, slow growth, and unbalanced demographic development, it was not until recently that transformation took effect.

The transformation that started at the end of the 1990s did, however, proceed gradually, with changes that at first sight might not appear to go beyond Hall's categories of first- and second-order change. As shown, however, these cases of apparently routine policymaking may over time lead to a deeper transformation, especially in a complex federal political system like Germany's. Therefore, further research is necessary on how endogenous factors of the political system—for instance, the role of fiscal federalism—drive institutional change. The role of key actors such as the bureaucracy, expert commissions, and cross-border policy learning also needs to be studied in greater detail. Christine Trampusch, for instance, has shown in her seminal analysis of career patterns of politicians in the field of social policy (Trampusch 2005) that political actors and venues in German social policy have changed dramatically since the 1990s and that the traditional ties between social politicians and trade unions, faith-based organizations, work councils, and social insurance institutions have become blurred. As shown in our analysis, it is worthwhile not only to look at the disruptive elements of institutional change but also to account for the more subtle modes that might lead to institutional change in the long run.

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