8 Social Policy: Crisis and Transformation

Roland Czada

Peter Katzenstein (1987, pp. 168–92) portrayed the West German welfare state as a highly segmented polity governed by consensual politics and providing generous social benefits. In fact, at first sight, not much has charged during the past two decades: compulsory insurance for all wage earners (*sozialversicherungspflichtige Beschäftigung*) is still provided by separate funds for pensions, health, unemployment, occupational accidents and – since 1995 – nursing care for the elderly (*Pflegeversicherung*). The system is still highly fragmented, with provision determined by a person's region of residence as well as by that person's occupation. Thus, several regional funds are in charge of pensions for blue-collar workers (*Arbeiter*), whereas pensions for white-collar employees (*Angestellte*) are funded on a national basis. Civil servants (*Beamte*) receive their old-age benefits from current state budgets, while other public-sector employees are covered by the national white-collar workers' insurance scheme, supplemented by a complementary insurance which puts them on a par with civil servants. There is an entirely separate pension scheme altogether for coal miners, and finally, self-employed persons (*Selbstständige*) are allowed to opt out of the system altogether, which they normally do, since private pension and medical providers normally offer better levels of cover at lower costs than do the statutory schemes.

Health insurance too still rests on a multitude of local, regional and national institutions. Although employees have been free to choose their health insurance fund since 1996, which has inevitably weakened the linkage to occupational status, the federal government has introduced a portfolio balance system to support those funds with bad risks. These are usually the old established local blue-collar workers' general health funds (*Ortskrankenkassen)*, which were founded in the 1880s as part of Bismarck's welfare initiative to attract workers away from trade union-led health funds (Katzenstein 1987, p. 172). None of these insurance schemes is capital-based; instead they all rely on current inflows of social-security contributions to meet their commitments (the so-called 'pay-as-you-go' system). Inevitably this makes the system particularly vulnerable to economic downturns, which immediately open up a revenue-outlay gap.

Both employees and employers still share most of the costs of social security by each paying an equal proportion of the employee's salary as a compulsory social-insurance levy. Apart from work-related compulsory insurance schemes, a number of additional tax-financed social programmes are run by state, federal and local governments. These are meant to provide for social needs that fall outside the remit of the compulsory insurance funds, such as child benefit (*Kindergeld*), home construction grants (*Eigenheimzulage*) and grants for higher education (BAFöG). In consequence, welfare allowances are available in some form to almost everyone resident in Germany (cf. Katzenstein 1987, p. 186). However, in recent years state subsidies to these funds have steadily increased. The total share of general government contributions (that is, tax-financed contributions) to social-security programmes rose from 26.9 per cent in 1991 to 32.5 per cent in 2000. In 1999, an eco-tax was introduced to generate extra resources for the ailing old-age pensions system (cf. chapter 10 in this volume). During the 1990s, total employee contributions to social-security programmes remained constant at around 28 per cent of the total income for these programmes, whereas the total employers' contributions decreased from 42.5 per cent to 36.9 per cent (Eurostat 2003, p. 7). Yet despite the increase in state (i.e. tax-based) funding for these programmes, statutory social-insurance contributions have exceeded 40 per cent of the average gross salary since the mid-1990s (Hagen and Strauch 2001, p. 24). Not surprisingly, the subject of social-security contributions has become a hotly debated topic, especially as Germany is the only country that still levies such contributions at such a high level on employers. It has been argued that these non-wage labour costs have both exacerbated Germany's unemployment problem, by making it prohibitively expensive to employ new staff, and compromised the international competitiveness of German companies. Politically, therefore, one of the major goals of welfare-state reform policies since the mid-1990s has been to reduce the very high level of non-wage labour costs (in other words, the social-security contributions levied on employees and employers).

During the 1990s, the German welfare state ran into deep trouble. However, remedial action has been limited to incremental reductions in the costs and benefits of welfare programmes, and, in particular, to a shift towards a greater degree of tax funding for such programmes. Yet, despite its persisting institutional structure, the welfare state has changed considerably in terms of its financial flows, political-power structures, scope of services and general policy concepts. When compared with Peter Katzenstein's portrayal of 1987, the situation in 2004, with acute political conflicts and considerable benefit cuts, indicates a welfare state in transition. Traditional features of social corporatism, such as party consensus and work-related paternalism, have been superseded by new forms of decision-making, including corporatist technical advisory commissions, issue-specific (and hence volatile) party alliances, the emergent use of market principles and a more universalistic approach to the funding and delivery of welfare benefits. Although this transition has by no means been completed, its driving forces, which will be addressed in the next section, are clearly visible.

Context: the 'German Model' and the Challenge of Unification

Two distinct factors make up the context of these recent policy challenges to the German welfare state. The first can be traced back to the so-called 'German Model' of forced industrial modernisation policies; the second stems from the unification of the economically weak socialist German Democratic Republic with the still prosperous Federal Republic of Germany. Of course, the German welfare state has not been insulated from broader pressures of globalisation and demographic changes; however, because of their general character, these will be discussed separately later in this chapter.

As chapter 7 has shown compellingly, Germany's social-security funds have been used from the 1970s onwards to compensate generously those large segments of the workforce who fell victim to the gradual process of industrial modernisation and restructuring. Faced with rising unemployment from the mid-1970s onwards, Germany simply transferred its least-productive sections of the workforce into the welfare system, in stark contrast to both the American and British social workfare policies and the Scandinavian active reintegration programmes. A corporatist productivity coalition of unions, employers and the state agreed to exploit the then buoyant social-insurance funds to finance early retirement for older workers and to facilitate companies' efforts to rationalise the least-qualified and least-productive elements of their workforces. An Early Retirement Act (*Vorruhestandsgesetz*) was passed in 1984, and a Law on Part-Time Work for the Elderly (*Altersteilzeitgesetz*) followed in 1988. In a collaborative effort, employers and works councils (*Betriebsräte*) helped to implement these laws, which overall were very effective (Table 8.1). The Federal Labour Office (*Bundesanstalt für Arbeit*, BA) was given the task of financing both measures from its unemployment insurance funds, supplemented by some additional federal grants.

Table 8.1. *Growth of early retirement, 1975–99*

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

Source: Hagen and Strauch 2001, p. 17.

However, because the BA's financial responsibility was from the outset limited until 1988, the pension schemes were faced with a double challenge in the early 1990s, when they had to absorb not only large numbers of pensioners in western Germany who had retired early, but also – following unification – all pensioners in eastern Germany.

Self-evidently, a German-style pay-as-you-go system, under which wage earners' contributions are almost immediately transferred to pensioners as cash benefits, is particularly sensitive to a relative decline in regular employment. For 2001, the Federal Statistical Office (*Statistisches Bundesamt*) reported 27.817 million wage earners compared with 26.735 million persons living on social-security income (Figure 8.1; Bundesministerium für Gesundheit und Soziale Sicherung 2004). By comparison, the respective numbers for 1985 were 20.378 million wage earners contributing social-insurance fees, against 13.485 million persons living on welfare. As a result, the ratio of wage earners to welfare recipients has fallen from 1.5:1 in 1985 to 1:1 in 1997, and in 2003 stood at just 0.9:1.

Figure 8.1 shows that the number of wage earners paying social-security contributions has declined steadily since unification. Although this has principally been caused by large-scale job losses, mainly in eastern Germany, from 1992 onwards, the peculiarities of the welfare state have themselves also been responsible. Until recently, employment policies were focused entirely on measures to create a skilled workforce

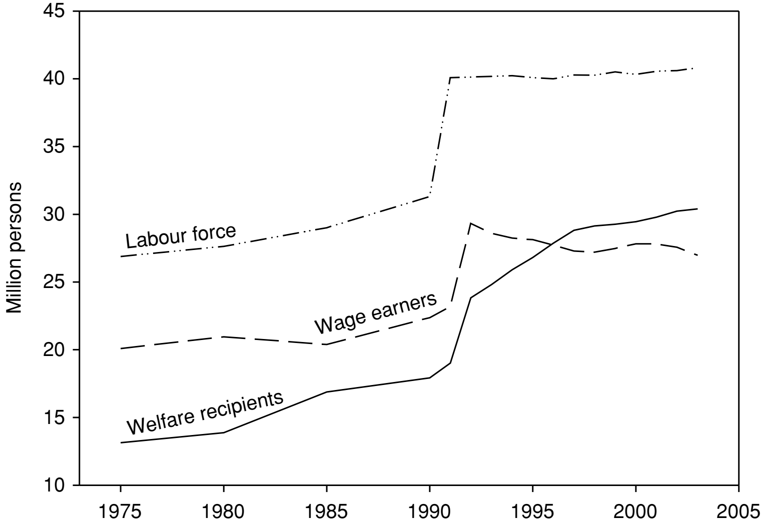

Figure 8.1. Labour force, wage earners and welfare recipients, 1975–2003

Note: The *labour force* includes all persons engaged in economic activity working regular weekly hours (paid civilian and military employment, self-employment and unpaid family workers) plus all those unemployed but seeking work. *Wage earners* pay compulsory social insurance fees (*sozialversicherungspflichtige Beschäftigung*). *Welfare recipients* are defined as persons living solely from social security income, including old age pensioners (who receive *Arbeiter-, Angestellten und Knappschaftsrenten*), recipients of unemployment support (*Arbeitslosengeld-und-hilfe*), recipients of income support (*Sozialhilfeempfänger*) and asylum seekers (*Asylbewerber*). Not included are welfare recipients living on accident annuities (*Unfallrenten*) and students' grants as well as workers in training and job creation schemes.

Source: Bundesministerium für Gesundheit und Soziale Sicherung 2004.

and to enhance productivity, rather than on job creation in low-skill (and low-income) areas. Although tax cuts for low-income groups had been introduced in 1996 following a ruling by the Constitutional Court, this did not create any new incentives for recipients of income support to find work. Until the end of 2004, for an average-sized family, employment of any sort meant a withdrawal of benefits, meaning that overall net income often either stayed the same or was even lower than the level of benefits.

Nonetheless, despite a declining number of wage earners who are subject to social-insurance contributions, Figure 8.1 also shows that the total labour force, which measures the number of people who are economically active or seeking work, has grown considerably between 1975 and 2003. In the first instance, this was a result of the growth of Germany's population after unification. However, because of continued high unemployment, much of the economic potential created by this increase has lain idle in post-unification Germany. But at the same time, millions of workers have also taken on so-called 'mini-jobs', or become 'pro-forma self-employed'.

Since the mid-1990s, part-time jobs of less than fifteen hours work per week, which are not paid above DM 620 (€ 318) per month (€ 400 since April 2003), are tax-free and also partly free of social-security contributions and entitlements. The number of 'mini-jobbers' has increased steadily, rising from 2.8 million in 1987 to over 4.4 million in 1992 and to 6.5 million in 1999 (ISG 1999, p. 2). In 2002, more than 50 per cent of 'mini-jobbers' were either younger than twenty-five or older than fifty-five; 70 per cent were women (mainly housewives). In this way, mini-jobs act as stabilisers of the continental Bismarckian social-insurance state that focuses on skilled, highly paid male breadwinners, and which thereby results in a comparatively low female employment rate (M. Schmidt 1993).

Meanwhile, the incidence of 'pro-forma self-employment' (*Scheinselbstständigkeit*) also increased dramatically during the 1990s. Under this rubric, employees of companies reclassify themselves as self-employed sub-contractors, thereby avoiding the payment of social-security contributions altogether. For instance, haulage drivers can become formal owners of a truck financed and operated by a freight company or carrier. Of course, most of these self-employed persons still depend on an 'employer', but despite government restrictions, pro-forma self-employment is growing in a number of service industries, with estimates ranging between 1 million and 1.4 million *Scheinselbstständige* in 2001. Clearly, the overall number of 7 million mini-jobs and pro-forma self-employed persons has to be seen as a consequence of steeply rising non-wage labour costs in the aftermath of German unification.

The disproportionate rise in welfare recipients and, as a consequence, in non-wage labour costs first became apparent in 1992. Figure 8.1 shows that this was an effect of the so-called 'unification shock' (Sinn and Sinn 1992; Schluchter and Quint 2001), which saw Germany's GDP per capita drop by DM 6,000 (€ 3,077) to DM 34,990 (€ 17,943) as a result of the number of inhabitants growing more than economic output. In addition, while eastern Germany experienced massive job losses in the aftermath of a historically unique de-industrialisation process (cf. chapter 2 in this volume), the western German economy, which remained strong, had to shoulder the resulting social costs. Initially, total net financial transfers to the new *Länder* (consisting of special federal grants, EU grants, fiscal equalisation schemes, federal supplement grants and social-security contributions, minus taxes and social-security contributions collected in the east) amounted to almost 10 per cent of GDP in the early years, and only fell to 4 per cent towards the end of the 1990s. Sinn and Westermann (2001) note that the current account deficit of the eastern *Länder* amounts to 50 per cent of their GDP. Eastern Germany's dependency on resource imports is therefore much greater than even that of the south Italian *Mezzogiorno*, which is often referred to as the classic example of an essentially parasitic economy (Sinn and Westermann 2001, pp. 36–7). Two-thirds of the current account deficit in the new *Länder* has been financed by public transfers; the remaining one-third has been met by private capital flows. Crucially, more than half of the public transfers have been spent on social security and only 12 per cent on public infrastructure investments (Sinn 2000).

Accordingly, the social expenditure ratio, which expresses state welfare expenditure as a share of GDP, has risen sharply after unification (Figure 8.2). Before 1990, the social-security funds were, generally speaking, in good financial health, and therefore seemed to be well prepared for shouldering the immediate social costs of unification. However, by 2003, the reserve had shrunk to a historic low of just half of one month's expenditure, thereby reaching a critical limit for a pay-as-you-go system. This 'shrinkage' occurred despite the fact that Germany had increased social-security contributions on several occasions, whereas its competitors had all managed to reduce them.

Because of the costs of welfare, there is a considerable difference between salaries and take-home pay. In 1999, the 'average' production worker took home less than half of what it costs to employ him or her, defined as net income plus employer's and employee's social-security contributions plus taxes, compared with about 70 per cent in Britain or the USA (OECD 2000). Growing welfare expenses and rising labour costs not only reduced the demand for labour, but also slowed disposable income growth. During the 1990s, even though gross real wages per capita increased by 2 per cent, net real wages per capita rose by just 0.3 per cent annually. Consequently, the trade unions' moderate wage claims in the second half of the 1990s did not translate into increasing levels of employment figures, but instead only reduced the rate of increase of disposable income. In other words, Germany's high welfare burden has squeezed private consumption, which grew by just 1.5 per cent annually between 1991 and 2001, well below the level achieved in other industrialised countries.

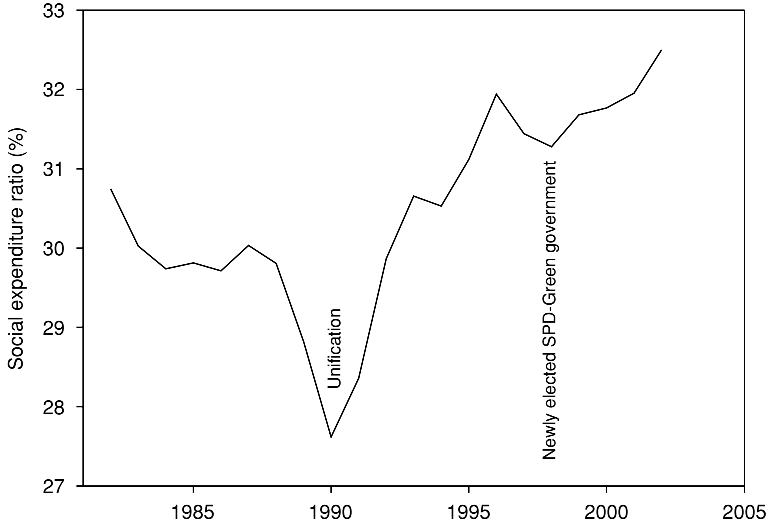

Figure 8.2. Social expenditure ratio, 1980–2002
Source: Bundesministerium für Gesundheit und Soziale Sicherung 2004; Czada 2002, p. 160.

Agenda: the Quest for a New Welfare Consensus

Before unification, a reform of the welfare state had never seriously been on the political agenda. Although the CDU/CSU-FDP government under Chancellor Helmut Kohl was in favour of a more flexible labour market, and implemented moderate cutbacks in social-security spending (cf. Figure 8.2), only minor changes were made. Just before the fall of the Berlin Wall in November 1989, the *Bundestag* passed a pension reform bill to compensate for future imbalances created by West Germany's adverse demographic developments (cf. chapter 9 in this volume, p. xxx). The law was backed by a broad coalition of parties, trade unions and employers, and thus followed the traditional consensual model of welfare politics.

In fact, and in a major change in policy, the government planned to cut both taxes and social-security contributions from 1990. Despite slow GDP growth rates and still moderate unemployment figures, public-sector deficits had shrunk during the preceding decade. There had also been a sharp rise in corporate profits. In 1989, the compulsory pension funds noted that their cash reserves were at their highest since the introduction of the pay-as-you-go scheme. The 1989 report of the government's Council of Economic Advisers (*Sachverständigenrat*) – published just a few weeks before the fall of the Berlin Wall – actually encouraged trade unions to switch the emphasis in their work-related demands away from issues of quality to issues of quantity, such as wage levels. The rationale behind this was to boost private consumption by improving employees' share of the expansion in corporate profits that had developed hitherto (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung 1989, p. 166). In return for a deregulation of the labour market, the unions were offered a growth and employment strategy based on lower taxes, lower social-security contributions and higher wages. In essence, the federal government pursued a corporatist strategy similar to that of the Netherlands, which eventually led to the widely praised 'Dutch Model'.

However, following unification, this strategy failed for two reasons. On the one hand, the reconstruction of the eastern German economy called for a massive increase in public spending and private investment. There was no longer any leeway for wages to increase and – even more importantly – the *Bundesbank* had to raise interest rates to a historic high in order to curb the inflationary pressures unleashed in the post-unification boom. Moreover, Germany, once among the world's major net exporters of capital, had to redirect capital outflows to the tune of DM 200 billion (€ 103 billion) per year in order to finance the reconstruction effort in the east. Interest rates remained high, and, as noted in chapter 1, total public-sector debt doubled within a decade. This meant that the demand-led growth strategy of the late 1980s was no longer viable for simple economic reasons.

On the other hand, there was a political impediment to welfare-state reforms. Unification policies started from the general assumption that West Germany's structures of governance did not need to be reformed in the process of their transfer to the new *Länder* (Schäuble 1991, pp. 115–16). Based on the principle of 'institutional transfer' (Lehmbruch 1992, p. 41; see also chapter 2 of this volume, pp. xx–xx), the whole legal and organisational system of the west had been transferred to the new *Länder*. Unfortunately, a number of West German institutions revealed themselves to be ill-suited to dealing with the task of transforming a socialist command economy into a capitalist market economy. In response, the federal government initiated a series of legislative amendments that were soon dubbed 'repair laws' (*Reparaturgesetze*). Remarkably, despite their far-reaching redistributive character, all these laws and consecutive amendments were passed with broad parliamentary majorities.

Throughout the 1990s, before the political class recognised the need for a more coherent reform of the country's redistributive policies, welfare policy was characterised by more-or-less permanent agenda shifts. Before the crisis of unification, few had considered the interregional redistributive effects of social-security funds and their consequences. Yet Mackscheidt (1993) has shown that these have long had a greater impact than even the federal system's financial equalisation schemes. Whereas the latter had always been politically highly controversial, the manner in which social-security funds were channelled from prosperous regions to poorer ones was akin to a hidden agenda. Interregional redistributions had, since the mid-1970s, functioned as an informal way of supporting the restructuring of old industrial regions. Massive resource transfers to the new *Länder*, however, threatened to overburden this widely, if tacitly, accepted system. As a result, the top priority for fiscal and welfare policy shifted to increasing public revenues and social-security contributions, whilst simultaneously cutting benefits.

But instead of cutting taxes and social-security expenditure, the federal government delayed and, eventually, reversed its plans. Moreover, it became clear that a much more fundamental reform of the welfare state would be needed if its collapse was to be avoided in the long run. Even though the West German pension reform of the late 1980s had already made some provision for population decline after 2015, unification drastically changed this forecast. As a result of high rates of unemployment and early retirement in the east, a stagnating portion of economically active persons had to pay for a rapidly growing number of pensioners at a much earlier stage than had originally been predicted.

From the mid-1990s onwards, therefore, the federal government tried to forge alliances within the party system and with trade unions, business groups and employers' associations in favour of far-reaching welfare-state and labour-market reforms, most of which, as will be discussed below, met with failure. It was not until the new millennium that all the main political parties, as well as the trade unions and employers' associations, agreed that high labour costs (in terms of taxes and social-insurance contributions) had been hampering employment and economic growth. Consequently, welfare-state reforms have now become a top political priority not only for the federal government, but also for employers' and business associations and the unions. On 14 March 2003, Chancellor Schröder announced his 'Agenda 2010' package of comprehensive social-policy reforms, designed to solve the long-term problems of the German welfare state.

In light of the decline in individual welfare entitlements and social expenditure ratios prior to 1990, one could be forgiven for assuming that retrenchment policies framed a hidden agenda for welfare policies ever since the mid-1970s, and that it was only the unification crisis after 1992 which stretched the system to breaking point. In fact, as Seeleib-Kaiser notes in a lucid analysis (2002), the post-unification changes must be seen in the context of this long-term development, the cumulated effect of which has been a retreat from the public guarantee of living standards. This principle of *Lebensstandardsicherung* had been 'the major achievement and *leitmotiv* of post-war policy ever since the historic 1957 pension reform' (Seeleib-Kaiser 2002, pp. 31–2). At the same time, family support programmes have expanded considerably, including increased child allowances and tax credits for families, a rising number of childcare facilities (albeit from a very low level in the west) and other entitlements such as parental leave.

Process: Decline of Party Accommodation and Corporatist Concertation

In the West German polity, policy-making proved to be slow and incremental due to high consensus thresholds based on the legislative veto of the *Bundesrat* and macro-corporatist concertation (Katzenstein 1987; Lehmbruch et al. 1988). In addition, ever since the foundation of the Federal Republic, social policies have been characterised by numerous bipartite (union, employers), tripartite (state, unions, employers) and multipartite (insurance schemes, service providers, expert councils, professional associations) sectoral bodies. In this system, major changes could effectively only be undertaken in the context of a grand coalition (Katzenstein 1987; Lehmbruch 2000). However, as this section shows, the policy-making process in the areas of employment, health and pensions during the past decade reveals a rapid decline in party accommodation and corporatist concertation.

Employment Policies

Notwithstanding some successive minor changes to labour-market legislation (*Arbeitsmarktförderungsgesetz*, AFG), the general direction of employment policies remained stable throughout the 1980s. However, in 1993, the AFG was amended to allow contributions to the unemployment insurance fund to be channelled into huge work-creation schemes (*Arbeitsbeschaffungsmaßnahmen*) in the east. As a result, the level of contributions to the unemployment insurance fund had to be raised several times during the 1990s; simultaneously, the corporatist Federal Labour Office (BA), which administered the funds and the work-creation schemes, was able to increase its power considerably in the field of labour-market policies. In 2002, however, a scandal surrounding rigged employment statistics prompted a full-scale reorganisation of the BA, and the Federal Employment Agency which emerged from its ruins is based on a managerial approach which includes much lower levels of corporatism and bureaucracy (cf. chapter 5 in this volume).

During the sixteen years of the Kohl era, 'labour-market reforms remained a process of incremental coping mostly with imminent financial problems' (Schmid and Blancke 2003, p. 217). It was not until 1998 that the newly elected SPD-Green government tried to introduce a more comprehensive reform programme. To this end, it initially followed the traditional macro-corporatist concertation approach, via the 'Alliance for Jobs, Vocational Training, and Competitiveness' (*Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit*) – a permanent tripartite body composed of the government, employers' and business associations, and trade unions. However, as chapter 7 in this volume has shown, the Alliance was largely a failure (cf. also chapter 6). In addition to some irreconcilable differences between the employers and unions, the resolution of which was not helped by the attempt to deal with very different policy issues within just one, top-level forum, the federal government had unexpectedly lost its *Bundesrat* majority soon after the Alliance for Jobs had been established. Thus the Alliance suffered not only from a broad policy brief which was simply incompatible with an institutionally segmented polity (Lehmbruch 2000, p. 98), but also from inadequate capacity of the federal government to act as a third-party guarantor of corporatist agreements (Czada 2003).

Shortly before the final failure of the Alliance for Jobs, the government appointed a new circle of leading unionists and employers to examine proposals on a more specific topic. Under the chairmanship of Peter Hartz, director of personnel at Volkswagen and a long-standing member of IG Metall, the so-called 'Commission on Modern Services in the Labour Market' (or, more popularly, the Hartz Commission) was set up in 2002 to develop proposals for a new employment exchange service and for employment programmes geared towards competition and entrepreneurship. To this end, the Hartz Commission made thirteen separate proposals (Hartz et al. 2002). Among the most important was the so-called Personal Service Agency, which has now been introduced in all of Germany's 181 unemployment offices (*Arbeitsämter*). Under the proposal, unemployment offices or private temporary job agencies will employ anyone unable to find new work within six months, with the aim of neutralising the traditionally high levels of protection against dismissal. In addition, the commission proposed the merger of unemployment and local authorities' social welfare offices (*Sozialämter*) into so-called 'job centres', including the combination of long-term unemployment assistance and general income-support payments (*Sozialhilfe*). The latter has become the most controversial element of the Agenda 2010 reform package and was finally passed in the *Bundesrat* only on 9 July 2004 (cf. chapter 4 in this volume, p. xxx).

An additional proposal by the Hartz Commission aimed to facilitate self-employment, by means of the so-called '*Ich AG*', which sees a fixed tax rate of between 10 and 15 per cent levied on those self-employed persons with an annual income of between € 15,000 and € 20,000. Many of the proposals contained in the commission's report came from reform-oriented trade unionists. Walter Riester, a former deputy leader of IG Metall and Federal Labour Minister from 1998 to 2002, established the commission and appointed Hartz, a former colleague from his union days, as its head. The largest German trade union, Ver.di, was also represented while commission members from industry included representatives from Daimler-Chrysler, BASF, Deutsche Bank and the consultancy firms Roland Berger and McKinsey. Other members of the commission were Peter Gasse, regional head of IG Metall in North Rhine-Westphalia, and his predecessor Harald Schartau, who went on to become minister for labour in that state.

What is striking is the way in which corporatist negotiations at the peak level of labour-market associations and the state were replaced by a newly established policy network based on SPD-affiliation, reformist orientation, personal reputation, experience and expertise. Simultaneously, the focus on a rather more closely defined set of problems replaced the broad scope of issues which had characterised the corporatist emphasis of the Alliance for Jobs. In any case, the SPD-Green government has stuck to an open style of consensus mobilisation focused on 'friendly' experts who are loosely associated with the incumbent parties. By contrast, Chancellor Kohl used his personal networks as well as 'fire-side' talks with high-ranking business and union representatives. Initially, Chancellor Schröder seemed to favour a similar style, but following the breakdown of the Alliance for Jobs and the defection of the business elite to support his challenger Edmund Stoiber (CSU) in the run-up to the 2002 federal election, Schröder has refocused his attention on experts from within the SPD or academia.

In terms of results, the new approach of 'government by commission' has had a limited impact. In addition to the reduction of unemployment benefit (*Arbeitslosengeld*), which is funded from insurance contributions, unemployment assistance for the long-term unemployed

(*Arbeitslosenhilfe*) and general income-support payments (*Sozialhilfe*) were merged with effect from 2005. As these two schemes had been run separately by the Federal Labour Office and local authorities, a new interface between labour-market institutions and municipal poverty-relief programmes seems to be emerging. However, this will probably necessitate further reforms, not least a comprehensive reform of municipal finances and the complex federal system (cf. chapter 4 in this volume). Even though the relevant commissions have been set up, it was not clear in summer 2004 whether they would result in anything other than incremental change.

Pension Politics

Pension issues have often served as a test case for consensus-building capacities across party lines and on both sides of the corporatist divide. In West Germany, party concordance and corporatist agreements prevailed throughout the post-war era. However, as noted above, the recurring financial crises caused by a decline in the number of contributors and a disproportionately growing number of recipients in eastern Germany meant that pension politics became highly controversial after the mid-1990s. Table 8.2 clearly illustrates the impact of unification, as a result of which huge surpluses in the west will have to compensate for huge deficits in the new eastern states until well beyond 2016. In 2003, an estimated € 13 billion deficit in the east contrasts with a surplus of € 14 billion in the west. These reserves in the west would have sufficed to stabilise the pension contributions of wage earners well below the current level of 20 per cent of gross income in 2004. Apart from unification-related problems, demographic changes call for major modifications of the old established Bismarckian model. Starting with the 1992 reform, subsequent pension law amendments of 1997, 1998, 1999, 2001 and 2003 have cut future pension claims considerably, thereby paving the way for a new system of compulsory insurance combined with private retirement provisions.

The pension reform of 1989, which came into effect in 1992, was backed by a broad coalition of parties, unions and employers, and, thus, followed the established consensual model. Initiated before the fall of the Berlin Wall, the reform was intended to correct future imbalances caused by demographic changes in West Germany. Most importantly, from 1993 onwards, pensions were to be adjusted in line with increases in annual net income and not, as had been the case previously, with increases in earnings. This measure was to prevent pensions in the future

Table 8.2. *Net balances of the compulsory pension fund financed equally by employees and employers, 1999–2016 (€ billion)*[a]

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

Note: [a]2002–16 forecast.
Source: Bundestagsdrucksache 15/110, pp. 62, 111–12.

from exceeding 70 per cent of the average net income of active wage earners (the net replacement rate).

However, the combined effects of unification, mass unemployment and early retirement meant that further reforms soon became necessary,[1] and in June 1996, a Commission on the Further Development of the Pension System was established. Following its recommendations, the CDU/CSU-FDP government legislated for a further gradual reduction in the net replacement rate for standard pensions from 70 to 64 per cent between 1999 and 2030. This time, the SPD opposition, backed by the

[1] With an additional 800,000 persons taking early retirement, pension funds have had to pay out an extra DM 20 billion (€ 10.3 billion) since 1992. The pension payments for 4 million pensioners in the new *Länder* amounted to DM 75 billion (€ 38.5 billion) between 1992 and 1997. Therefore, additional costs of DM 37 billion (€ 19 billion) per annum, which had not been anticipated in the preceding reform, have had to be borne by wage earners, pensioners and the state.

unions, put up fierce resistance – not least because of the federal elections that were just ten months away at the time of the bill's passage through parliament. On 11 December 1997, the first piece of pensions legislation since the foundation of the Federal Republic not to be agreed by a broad cross-party majority passed the *Bundestag*. After its election victory in 1998, one of the first acts of the SPD-Green government was to suspend the 1997 pension reform. Here was another novelty in postwar welfare politics which casts doubt on whether Katzenstein's portrait of 'policy stability even after changes of government' is still valid (1987, pp. 4, 35).

The politics surrounding pension reform in 1997 and 1998 only foreshadowed future party dissent and programmatic volatility. Indeed, the 'Jekyll and Hyde' years in the politics of pensions were still to come: in 1999, fiscal problems forced the SPD-led government to revert to the austerity measures of its conservative predecessors. Reneging on its election promises, the SPD planned to replace the wage indexation of pensions by price indexation for a certain period to lower the replacement ratio from 70 to between 67 and 68 per cent. In 2000, the government published yet another reform proposal, which not only exceeded the planned cuts of the previous CDU/CSU government, but was also likely to change the system's basic operating principles. Apart from a radical reduction in benefit levels, it introduced a private statutory pension scheme that would in the long run have gradually transformed the corporatist Bismarckian pay-as-you-go system into a fully capital-based pension. The so-called *Riester-Rente*, or Riester pension, named after the then Federal Minister for Labour and Social Affairs, Walter Riester, met with a barrage of criticism from the CDU/CSU and the trade unions. Again, the unions' wholehearted support for a CDU/CSU position in a highly controversial area of welfare policy was quite a novel experience. The unions were particularly opposed to the fact that the shift towards a private mandatory pension fund signalled a departure from the traditional joint financing of pensions by employees and employers. The CDU/CSU opposition initially even rejected those parts of the government bill which were in line with their own former plans and pre-election statements. As a consequence, the SPD-Green government had to trim the reform package so that it was no longer subject to *Bundesrat* approval. What is more, the SPD was forced into making substantial concessions to its own left-wingers just in order to secure the government's *Bundestag* majority.

The pension reform in 2000 and 2001 was, therefore, an example of semisovereignty without consensus, which made the parties in government vulnerable to all kinds of pressure from within their own ranks.

Nonetheless, the reform initiated a mixed pension system, composed of a reformed pay-as-you-go compulsory pension scheme and a new private, but non-mandatory, pension. The private component gives employees the option of contributing up to 4 per cent of their earnings by 2008 into company or other private schemes. Employees can invest in a range of schemes offered by private insurers, including private-pension insurance organisations, investment funds, life insurance funds, and savings banks. All private pensions must meet certain criteria before employees are eligible for state subsidies and tax exemptions, and – contrary to the Bismarckian tradition – all benefits will be taxable. The incentives and subsidies for making contributions to private accounts are targeted at lower-income individuals and families. Pension credits earned during a marriage can be shared equally by both spouses through a new pension-splitting option. The government also introduced reforms to improve old-age security for women, including compensation for reduced earnings during child-raising years, and granting pension credits to mothers who could not pursue part-time employment.

Despite its departure from the established model, the 2000 pension reform was still ultimately incremental in its impact and failed to address the long-term financial problems caused by demographic change. In November 2002, a new Commission for Sustainability in the Financing of the Social Security System under Professor Bert Rürup (the so-called Rürup Commission) was set up in order to address yet again the long-term financial aspects of the pensions and health-care crisis. Its recommendations included a gradual increase in the retirement age between 2011 and 2035 from the current level of sixty-five to sixty-seven, penalties for early retirement and a reduction in the annual increases in pension payments. A majority of the twenty-six commission members, consisting of experts who were generally close to the SPD-Green government, backed the final report's recommendations to safeguard intergenerational justice and limit future pressures on the social-insurance systems. Only commission members affiliated to the trade unions opposed the proposals.

In August 2003, the Rürup Commission calculated that the combined effect of the 1989 and 1992 reforms was already to reduce the real value of pensions by 30 per cent in 2030. On top of that, the Riester reform of 2000 imposed a further cut of 7 per cent, while an increase in the general retirement age will mean another 3 per cent reduction. In other words, from the viewpoint of 2003, the average pension benefits in 2030 will be 40 per cent lower than they would have been under the pre-1989 rules (*Berliner Zeitung*, 9 August 2003). This means that supplementary private pension provision has become indispensable for anyone below the age of fifty. The reduction in benefits combined with an increase in funding from general taxation has also meant that the premiums for the compulsory pension insurance could be cut from 20.3 per cent of gross income in 1999 to 19.5 per cent in 2003. This saving, along with state bonuses, is meant to be invested into private or company pension plans. In summary, the era of the all-embracing, Bismarckian work-related compulsory insurance schemes aimed at status security is over. So far, however, the public has not yet shown a great awareness of this new mix of compulsory and private provisions, since this will only fully affect those generations of pensioners who are still to come.

Health Care

The German health-care sector still constitutes a classic example of semisovereignty. Because federal and state governments share legislative authority, the *Bundesrat* has been involved in all fields of general health legislation. In addition, a large number of other actors dominate the field, such as various organisations of insurers, service providers (doctors and hospitals), pharmaceutical producers, consumers and their respective peak associations (cf. Döhler and Manow 1967). The process of formulating health policy has always been guided by networks of experts, many of them linked to the main peak associations. A host of advisory bodies, commissions and consultative meetings are part of the decision-making process. As a result, the incremental 'muddling through' approach which has befallen most health-care reforms can be traced to an early stage in the policy cycle, and not usually to the constitutional vetoes embedded in the federal structure. In fact, most health-care legislation during the past decades did not implement any restructuring of the institutional relationship between health insurers, providers and the insured. Modest co-payments for medications, dental treatment, hospitalisation and other items were introduced in 1982. These payments were further increased by the Health Care Reform Act of 1989 and again by the Health Care Structural Reform Act passed in 1992. The latter introduced new regulatory instruments, which included the reorganisation of the governance of health insurers and a cap on medication costs and prospective hospital payments. In addition, it proposed measures to overcome the separation between out-patient medical care and hospital care that prevailed in the old Federal Republic, and it introduced a free choice of health funds for the insured (Blanke and Perschke-Hartmann 1994).

Politically, the law rested on the famous 1992 Lahnstein compromise between the CDU/CSU and the SPD. This excluded the liberal FDP, even though the latter was in government with the CDU/CSU. The reform was a partially successful attempt to reduce the institutionalised power of the medical profession and the pharmaceutical industry, both of which have traditionally been protected by the FDP. The Lahnstein compromise was part of a stream of informal consensual policy-making that was characteristic of the immediate post-unification period (Manow 1996). However, this was followed by a period of intensified party conflict, conceptual volatility and political stalemate.

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

Most stakeholders agree that the severe inefficiencies in the health-care system are caused by fragmentation, duplication and overlap, and accordingly, recent health-care reform acts have tried to integrate the different levels and sectors of care. For instance, free contracts between insurance providers and rehabilitation clinics have been allowed and even encouraged in order to overcome the division between funding agencies and care providers. The health-care system still rests on the basic assumption that everybody should be entitled to receive all the necessary services, and that the doctors should decide what is necessary for their specific patients. It is only recently that the issue of prioritisation has arisen. The long-established 'Federal Committee of Panel Doctors and Sickness Funds' is now expected to provide authoritative definitions for measures of quality assurance, as well as developing criteria for whether certain diagnostic and therapeutic services are appropriate. However, its attempts to impose a ceiling on expenditure for drugs and medication fell foul of European cartel laws, and were declared unlawful following a case brought by Germany's powerful pharmaceutical industry. In 2003, plans to establish a National Centre for Medical Quality again met with fierce resistance from physicians and the pharmaceutical industry, who decried the proposals as leading straight back to GDR socialism.

Traditionally, quality assurance issues have been in the domain of individual physicians and organisations and recent debates on such issues have to be seen in the context of a renewed increase in health-care expenditure – mainly as a result of the abolition of spending caps for medicines. The corresponding rise in contribution rates from 13.5 per cent to 14 per cent of pre-tax income brought cost containment back onto the agenda in 2002.

In 2003, a new informal 'grand coalition' on health emerged between the governing SPD and the opposition CDU/CSU, with the aim of cutting health benefits again and further limiting the sector's regulatory autonomy. In a rare show of unity, the unions and employers' associations even called for the abolition of the statutory regional associations of accredited physicians (*Ärztekammern*), which act as clearing houses between individual doctors and the statutory health funds, thereby removing care providers from the scrutiny of the insurance funds. As the 1992 Lahnstein compromise had illustrated, a grand coalition in health policy can overcome the bicameral legislative veto and also withstand pressures from well-organised groups, such as insurance funds, physicians and pharmaceutical firms. Once again, however, the new inter-party consensus agreed in 2003 led neither to institutional reform nor to the prioritisation of certain treatments and medicines. Instead, new market-like incentives were introduced, including the removal of sick pay from the bipartite-financed compulsory schemes. Patients are now expected to pay € 10 for each quarter in which they visit the general practitioner (GP) (the so-called *Praxisgebühr*). Indeed, the 'gatekeeper' function of GPs will be strengthened, as specialists must collect another € 10 if patients cannot present a referral letter. Other plans include additional co-payments for dentures, reductions in maternity benefits and death grants, and cuts in benefits for parents nursing sick children. Even though this has meant at least a temporary improvement in the financial position of the health-insurance funds, such measures, and especially the *Praxisgebühr*, remain deeply unpopular among the population (*Die Welt*, 31 July 2004).

In health policy, governments have continued to rely on benefit cuts and incremental measures like budgeting, co-payment and competitive incentives for the various stakeholders. Only recently have prominent politicians of all parties called for a more fundamental reform in order to address the permanent crisis in health policy, with a universal compulsory health-insurance scheme for all citizens supplemented by voluntary private insurance contracts (*Bürgerversicherung*) being the preferred model. Inevitably, the chances for a fundamental systemic change are still small, not despite, but because of, recurring grand coalitions in health politics.

Consequences: Erosion of Self-Governance and New Forms of Intermediation

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

Yet it is doubtful whether either of these models can adequately account for the overall stable course of welfare policies during the 1980s. Throughout this decade, the CDU/CSU-FDP government commanded a comfortable majority in the *Bundesrat*, and from 1982 to 1990, this arguably made the Kohl government the most sovereign compared with all its predecessors and successors in office (cf. chapter 3 in this volume, pp. xxx–xx). Even during the 1950s, the Adenauer government lost its *Bundesrat* majority for a few months (March 1956–January 1957). The political issue of divergent majorities in the bicameral legislature did not emerge until after the 1972 federal election (cf. Figure 8.2 in this volume, p. xxx). By contrast, the CDU/CSU-FDP coalition after 1982 held a majority of five to thirteen votes in the *Bundesrat* throughout the 1980s; it was not until the Lower Saxony election in 1990 that things changed. Thus, with a solid *Bundestag* majority and markedly weakened labour unions (after unemployment figures exceeded one million in 1981), Kohl was presumably the most powerful chancellor since Adenauer.

To explain why policy remained so stable during the 1980s, one therefore has to focus on a range of factors outside the domain of the constitutional veto structures. By stressing the deep fears within the Kohl government that welfare cuts could adversely affect its electoral performance, Zohlnhöfer (2001b) has cast some doubt on the exclusive validity of the institutional explanation provided by Scharpf and Lehmbruch. A second important factor was the strength of the CDU's social-catholic wing, which was led by Norbert Blüm, a self-confessed defendant of the welfare-state consensus. As Federal Minister for Labour and Social Affairs in every single Kohl cabinet (and therefore in charge of the largest spending ministry), he was able to make full use of the principle of ministerial autonomy (*Ressortprinzip*) to act as a powerful stalwart of the Bismarckian welfare state from 1982 until the advent of the Schröder government in 1998.

The anatomy of neo-liberal strategic policy changes in the UK, Sweden and the Netherlands shows that problem load is an important predictor of policy change. The 'pain threshold' above which parties and governments in those countries felt forced to act, irrespective of their ideological backgrounds, had not been reached, by any stretch of the imagination, in West Germany before 1990. Bearing all that in mind – the solid majority of the Kohl government in both chambers, prevailing electoral considerations against benefit cuts, a powerful unionist pro-welfare wing in the CDU, and the moderate problem load of the time – constitutional veto potentials cannot explain the course of welfare-state reform during the 1980s. This becomes even more apparent when the welfare policies of the 1980s are compared with those of the following, post-unification decade.

But here too, an explanation focusing on formal veto powers fails to account for the delay in cutting social-security contributions and income taxes which the federal government had planned in 1989. On the contrary, the early 1990s have been characterised as the last triumph of corporatism, party concordance and co-operative federalism (Sally and Webber 1994; Lehmbruch 2000). Even though the Kohl government had grown stronger as a consequence of its electoral dominance in the new (eastern) *Länder*, and even though the *Länder* had temporarily suspended their constitutional rights in order to approach unification problems in a united and flexible manner, the federal government actively sought to include key representatives of business, unions, the *Länder* and the SPD opposition in a range of fora. In particular, the SPD had been incorporated into the newly established unification policy network with the *Treuhandanstalt* (THA) as its focal point (see chapter 5 in this volume). Prominent SPD figures such as Klaus von Dohnanyi and Detlef Karsten Rohwedder, as well as union leaders such as Franz Steinkühler and Dieter Schulte, had been appointed to high-ranking positions within the THA's executive, supervisory and operative structure.

As a result, the early 1990s witnessed something of a temporary revival of large-scale inter-party consensus and corporatist politics. The usual segmented policy-making had been bypassed for a while, at least until 1992, when the first signs of the severe economic crisis caused by unification prompted an examination of the original concept of a market-led transformation process and institutional transfer.

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

But even so, Katzenstein's assertion (1987, p. 192) that 'a closely knit institutional web limits the exercise of unilateral political initiatives by any one actor' continues to hold true. Whether this continues to encourage incremental policy changes, as it did in times of affluence, has become a moot point. The 1990s were characterised by sequences of political stalemate and a deepening of state involvement rather than corporatist incrementalism. The latter depends not only on consensual policy-making. Making semisovereignty work requires strong commitments among and within organisational actors participating in sectoral self-governance. Without the peak associations being able to commit their organisational substructure and their individual members to make their resources available in support of corporatist arrangements, consensus is almost irrelevant since it cannot translate into viable policies. The creeping decentralisation of the industrial-relations system, both in terms of lower membership density and adherence to the principles of collective bargaining, seems to be one of the main problems in this respect (Ebbinghaus 2002a; see also chapters 2 and 7 in this volume).

These far-reaching changes within the industrial-relations system suggest that the German combination of a 'decentralised state' and a 'centralised society' emphasised by Katzenstein (1987) is no longer valid. German organised capitalism has decentralised very rapidly, at least in regard to labour-market associations, because of the industrial-relations crisis in the east and because of a generational change in business and union elites. The argument that such a development towards 'social disorganisation' has been sparked off by a combination of postmodernism, individualisation and the effects of globalisation (Beck

1996) may constitute part of the explanation, but it cannot account for some specificities of the German case. First, this argument neglects the reform plans of the pre-unification Kohl government, which resembled the Dutch and Swedish concepts and could not be realised in the post-unification period. Germany's political economy and welfare state would quite simply look entirely different if unification had not occurred. Second, global market pressures did not normally weaken, but rather sustained corporatist capacities in Germany and other European countries (Katzenstein 1985). Third, the industrial-relations crisis did not emanate from big global firms, but from the small and medium-sized industries of eastern Germany in particular. The export industry is still interested in industry-wide collective bargaining which protects it against excessive wage demands. In contrast small firms often cannot afford wages paid in the big export industries, and, therefore, prefer decentralised bargaining structures. It is for this reason that industry-wide bargaining has persisted in big firms, and therefore still covers a majority of employees. When it comes to political representation, however, small and medium-sized enterprises are stronger, a result principally of their privileged access to the *Land* level of government and via the statutory chambers of trade and industry (*Industrie und Handelskammern*).

In contrast to its centralised Swedish, Dutch or Austrian counterparts, the German federal government failed to forge a corporatist deal with the industrial peak organisations, because it was unable to guarantee that such an arrangement would be implemented appropriately (Czada 2003). Towards the end of the 1990s, unions and employers became increasingly aware that reform packages agreed in the corporatist arena would have been jeopardised in the legislative process. The *Bundestag* opposition, through its *Bundesrat* majority, could jointly govern the country alongside the elected government. Indeed, it tried to do so in the pre-election year 1997, and again, in particular, after 1998. It must be remembered that it was much easier to bypass such institutional gridlock in the era of the 'two-and-a-half' party system, which generated only three possible coalition strategies. After 1990, in a system with five relevant parties, sixteen *Länder* and a state of perpetual election campaigning, this all became much harder to achieve.

Since the mid-1990s, then, corporatist incrementalism has suffered from institutional segmentation, as well as from the decreasing capacity of the peak associations to commit their members to a particular course of action. In addition, the main parties have found it much harder to bypass these obstacles via a cross-party consensus. In consequence, Chancellor Schröder has adopted new strategies to circumvent potential legislative vetoes as well as gridlocks in the corporatist arena. In particular, the SPD-Green government has attempted to short-circuit the established policy communities in health, pensions, the labour market and social assistance through the deliberate use of special commissions. True, their role as advisory bodies in the German political system is in no way new and all major welfare reforms have, so far, been accompanied by special commissions. The Schröder government, however, used them as a device to channel the political debate, to test public opinion, and to exert pressure on the opposition and *Länder* governments as well as on interest associations. The replacement of classic corporatism by expert and stakeholder committees appointed by the federal government might be considered to be an appropriate way to strengthen its authority in times of institutional and conceptual uncertainty. Given the implementation of the Hartz proposals and the influence of both the Hartz and Rürup Commissions on the Agenda 2010 reform debate, the shift to government by commission has had a substantial impact. Like parapublic institutions, the commissions serve as 'political shock absorbers'. Moreover, the government's authority to set up, recruit and dissolve them opens up much more direct mechanisms of control than corporatist negotiations allowed for.

Studies on the 'new politics' of the welfare state (e.g. Pierson 1996) have emphasised the constraints in dealing with policy change, structural reform and retrenchment issues. Institutional path dependencies and the popularity of welfare programmes are said to result in the need for policy-makers to take small steps, and to follow 'blame-avoidance' strategies. Semisovereignty, party concordance and corporatist intermediation as described by Katzenstein (1987) have long been best suited to that kind of incremental adjustment: indeed, the 'Bonn Republic' was quite successful in that respect. The new 'Berlin Republic', however, has experienced a decline in social partnership, shrinking capacities of associational self-governance, and intensified party conflicts. Potential blockades and uncertainties of the policy-making process have resulted from changes in the party system, fluctuations in industrial governance, and the transformation of the structure of the state. The latter has included a reinvigoration of the regulatory state and governmental initiatives to be found not only in social policy, but in many other policy fields as well (cf. Czada 2002).