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Innovative Agents versus Immovable Objects

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Innovative Agents versus Immovable Objects

The Role of Ideational Leadership in German Welfare State
Reforms

een wetenschappelijke proeve op het gebied van de Managementwetenschappen

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In memory of my grandparents

“Not ideas, but material and ideal interests directly govern men’s conduct. Yet very frequently the ‘world images’ that have been created by ‘ideas’ have, like switchmen, determined the track along which action has been pushed by the dynamic of interest.”

Max Weber, The social psychology of world religions, *From Max Weber: Essays in Sociology*, 1958 [1915], 280)

Preface

I am convinced that every PhD thesis is preceded by a long, eventful journey and this one has not been an exception. Now that it is completed I can tell that it was challenging and exciting at times but also, ultimately, very rewarding. When I moved into my new office at the *Centrum voor Duitsland-Studies* on the top floor of cosy Huize Heyendael (“*het Kasteeltje*”) in January 2002, I frankly did not know what awaited me. Starting out with a vague idea of the controversy about the “German Model”, I ultimately delved into the intricacies of welfare state change. As an “exiled” German, I enjoyed the opportunity to study the changes I had noticed in the social policy sphere of my country from the certain distance of a neighbouring country. Early on, I got intrigued by the ideational literature but, importantly, also found it wanting. This led me to look more closely at the role of key politicians and their contribution to the adoption of particular reforms, a line of thought that came to be central in the thesis. Five years on and with the benefit of hindsight, I would still do it over (while, inevitably, doing some things in different ways...). During all this time, I could count on the support of a large number of people and I would like to take the opportunity to express my thanks to at least some of them.

To begin with, my triad of supervisors and, at the same time, *promotores*. Bob, thank you for your ongoing confidence, support, and meticulous comments on my draft chapters (not to forget for housing me in Anna’s former office which has once more proven to be a superb place to finish a dissertation). Michiel, I owe you thanks for your critical, to-the-point and pragmatic feedback over the years and many animated discussions about the nature of (ideational) leadership. Kees, I am grateful to you for making me enthusiastic about welfare state research in the first place, for inspiring discussions about the imperfections of any research and continuous encouragement along the way. I would also like to thank the members of the manuscript commission for agreeing to review the dissertation and for their timely and positive comments.

As a PhD researcher you do not get far without a supportive working environment and again I can consider myself fortunate in this respect: In the first two years I enjoyed the good working atmosphere with my former colleagues (including the German visiting scholars such as Eric, Martin and Birte) at the *Centrum voor Duitsland-Studies*. After moving on to the Faculty of Management Sciences, I got used quickly to my current colleagues at the Department of Political Science, which is a great place to work. Without naming you all one by one, let me thank you for unequalled collegiality at all times, intellectual stimulation, and helpful comments and suggestions on draft chapters, especially from the participants in the Working Groups on International Relations and Comparative Politics. And let me not forget to mention many shared indoor and outdoor lunches and refreshing afternoon coffee walks to the DE café.

As it would have been difficult to shed light on German welfare state reforms while being in Nijmegen all the time, I travelled to Germany repeatedly: mostly for interviews but also for a two-month stay as visiting researcher at the *Zentrum für Sozialpolitik* (ZeS) of the University of Bremen. My thanks goes to all who took the time to share with me their memories and inside knowledge about policy areas, reform efforts and key politicians in their offices in Berlin, Hannover, Bochum, Frankfurt, Düsseldorf, Bonn, Bremen, Leipzig and Nürnberg. This is not to forget supporting staff, especially Susan Grzybek en Nicole Schreiter, for their invaluable help in arranging appointments. I am also grateful to those who agreed to participate in the survey for the health care case. At the ZeS, I would like to thank Gisela Hegemann-Mahltig for enabling my stay, and the staff (Eric Seils, Herbert Obinger, Petra Buhr and others) for making me feel welcome at

the Barkhof and giving me the opportunity to discuss social policy developments and scholarship in Germany.

I am also grateful to a rather diverse group of people who helped me finish this dissertation in one way or another. To Mona and César as well as Amit and his family for their hospitality during my interview trips to Berlin, and to my friends back home in Bavaria and elsewhere for their support over the years “at a distance”. To my fellow PhD colleagues and friends in the Netherlands: Minna, for sharing good and bad times since we met in Fribourg; Gerry, Barbara, and Annelies, for good companionship, collaboration and keeping in touch during our projects; Nishavda, Laura and Geertje for your unfailing ability to listen and support at crucial moments. Simon, thank you for working speedily through this whole manuscript, and Marjet, for helping me to prepare the final draft chapters during your *stage* in Nijmegen.

Next to immersing myself in the details of reform proposals and processes, I also had the opportunity to get involved in other projects, the most enjoyable of which was participating in an enthusiastic group of PhD researchers in the NIG European Research Colloquium, organized by Markus Haverland and Ron Holzhaacker: I really enjoyed these meetings and learned a lot from them. I also appreciate the opportunity to spend a few summers working on my methodology skills. Attending Essex and Oslo Summer School courses taught by Charles Ragin, Christoffer Green-Pedersen, Max Bergman, Sean Carey and others, was an enriching experience and helped me to make headway on my dissertation.

Finally, I am immensely thankful to my parents for always being there for me and supporting whatever I chose to do in life. This latest undertaking called *Doktorarbeit* might have seemed virtually endless and abstract to you, but I can assure you it is now really done and has resulted in a tangible product (!) in the form of a book. Martin, my loving companion, I owe you thanks for everything: for neverending patience, for being a source of realistic optimism and for being there for me from the beginning to the end of this journey.

Table of Contents

List of Abbreviations	xii
1. THE PUZZLE OF INSTITUTIONAL STABILITY VERSUS SIGNIFICANT WELFARE STATE REFORMS	1
1.1 Introduction	1
1.2 Historical Institutionalism and Welfare Regime Theory	3
1.3 Structural Welfare State Reforms Do Happen: Definition and Examples	7
1.4 Why Study German Reforms in Particular?	13
1.5 Existing Explanations and Major Reforms in Germany	18
1.6 A Promising Solution to the Puzzle: Political Actors and Ideas	22
1.7 Conclusion	26
2. IDEATIONAL LEADERSHIP: DEFINITION AND ORIGINS OF A CONCEPT BASED ON LEADERSHIP AND THE ROLE OF IDEAS IN POLICY-MAKING	29
2.1 Introduction	29
2.2 The Problems of Two Literatures Trying to Explain Policy Change	30
2.3 A Bird's Eye View of Leadership: Theories and Concepts	34
2.4 Making Sense of Ideas: A Short Survey of the Ideational Literature	41
2.5 Unwrapping IL: Consequences, Aspects and Limitations	49
2.6 Conclusion	57
3. RESEARCH DESIGN AND METHODOLOGY	59
3.1 Introduction	59
3.2 Goals and Research Questions	59

3.3 Research Design and Strategy	60
3.4 Operationalizing Ideational Leadership and Structural Reform	69
3.5 Data Sources and Methods of Analysis	76
3.6 Conclusion	80
4. SURVEYING THE GERMAN WELFARE STATE: CHALLENGES, POLICY DEVELOPMENTS AND CAUSES OF RESILIENCE	81
4.1 Introduction	81
4.2 The Continental Welfare State and its German Prototype	82
4.3 Reacting to Pressures? Policy Developments since the Mid-1970's	88
4.4 Sources of Resilience: Political Institutions and Programme Characteristics	97
4.5 Conclusion	104
5. IL AND THE 2001 PENSION REFORM	107
5.1 Introduction	107
5.2 The Riester Reforms: Towards a Multi-Pillar Pension Scheme	107
5.3 The Reform Process: Chronology, Actors, and Policy Positions	110
5.4 Analysis Part I: Observing Ideational Leadership	115
5.5 Analysis Part II: What Role for Ideational Leadership?	125
5.6 Conclusion	132
6. HARTZ IV: IL LEADING TO STRUCTURAL REFORM IN LABOUR MARKET POLICY?	135
6.1 Introduction	135
6.2 Features of Unemployment Insurance and the Hartz IV Reform	136
6.3 The Reform Process: Chronology, Actors and Policy Positions	139
6.4 Analysis Part I: Observing Ideational Leadership	146

6.5 Analysis Part II: What Role for Ideational Leadership?	159
6.6 Conclusion	163
7. IL IN THE AREA OF HEALTH CARE POLICY: DID IT LEAD TO STRUCTURAL REFORMS?	165
7.1. Introduction	165
7.2 Selection and Delineation of the Case	165
7.3 Background on German Health Care Policy in the Early 1990s	169
7.4 Analysis of the Politics of Health Care Reform	172
7.5 Conclusion	195
8. CONCLUSION	199
8.1 Research	199
8.2 Findings	205
8.3 Reflections: Lessons Learned and Further Research	211
8.4 Final remarks	216
EPILOGUE: MORE STRUCTURAL REFORMS UNDER THE MERKEL GOVERNMENT?	219
References	224
Appendix - List of Interviewees	243
Samenvatting	244
Curriculum Vitae	249

List of Abbreviations

B'90/Grüne	Bündnis 90/Die Grünen (B'90/Green Party)
BA	Bundesagentur für Arbeit (Federal Employment Agency)
BfA	Bundesanstalt für Angestellte
BMGS	Bundesministerium für Gesundheit und Sozialordnung (Ministry of Health and Social Affairs)
BMWA	Bundesministerium für Wirtschaft und Arbeit (Ministry of Economic Affairs and Labour)
BR	Bundesrat
BT	Bundestag
CDU	Christlich Demokratische Union (Christian Democratic Union)
CSU	Christlich Soziale Union (Christian Social Union)
DGB	Deutscher Gewerkschaftsbund (German Trade Union Federation)
DGSB	Deutscher Städte- und Gemeindebund (German Federation of Towns and Municipalities)
DKG	Deutsche Krankenhausgesellschaft (German Hospital Association)
DLT	Deutscher Landkreistag (German County Association)
DST	Deutscher Städtetag (German Association of Cities)
FDP	Freie Demokratische Partei (Free Democratic Party)
GSG	Gesundheitsstrukturgesetz
IAB	Institut für Arbeitsmarkt- und Berufsforschung
KBV	Kassenärztliche Bundesvereinigung (Federal Association of Sickness Fund Physicians)
KV	Kassenärztliche Vereinigung (Association of Sickness Fund Physicians)
NOG-GKV	Gesetzliche Krankenversicherungs-Neuordnungsgesetz
KOG	Kommunales Optionsgesetz
SPD	Sozialdemokratische Partei Deutschlands (German Social Democratic Party)
VDR	Vereinigung Deutscher Rentenversicherungsträger (Association of German Pension Insurers)
VerDi	Vereinigte Dienstleistungsgesellschaft (United Services Union)
VfA	Verband forschender Arzneimittelhersteller e.V. (German Association of Research-based Pharmaceutical Companies)

1. The Puzzle of Institutional Stability versus Significant Welfare State Reforms

1.1 Introduction

During the 1990's, in the area of political science, there was a prominent tendency for scholars of the welfare state to explain the *persistence* of welfare institutions, even in the face of growing structural pressures for change. Among the theoretical approaches that identified the mechanisms responsible for the welfare state's resistance to change, historical institutionalism (Pierson 1994, 1996), and welfare regime theory (Esping-Andersen 1990, 1996, 1999) played an important role. The bottom line of these perspectives is that powerful institutional and electoral mechanisms, as well as regime-specific characteristics, are hampering efforts to restructure welfare states. Nevertheless, examples of structural or path-diverging change can be identified, especially from the late 1990's onwards, in many European countries, including Germany. This study argues that these empirical observations could not be predicted and cannot be explained by the theories of Pierson and Esping-Andersen. The main weakness of these approaches seems to be that they fail to pay greater attention to ideational leadership of influential policy-makers. The guiding proposition of this study is that, in certain circumstances, ideational leadership can overcome institutional obstacles to structural reforms. Two goals in particular are pursued in this thesis: Firstly, I will endeavour to explain under what conditions policy makers adopt structural welfare state reforms, in a context that is characterised by strong institutional and electoral resistance to such change. Secondly, I will test the guiding proposition that it is ideational leadership, which – under conditions determined later on – explains how policy-makers can overcome institutional obstacles to structural reforms. Since it can be plausibly argued that the German welfare state is the example *par excellence* of institutional and political resilience, the unexpected instances of structural social policy reform that occurred here constitute the theoretically induced empirical problem of this study.

The topic of the present study concerns the recent and current development of advanced welfare states. Beginning in the late 1970's, and well into the 1990's, many analysts sketched a doom scenario for the welfare state. Theorists envisaged dismantlement or at least a substantial scale-down of welfare provision. In the 1990's, however, the dominant view went about a change; despite relentless demographic, financial and political pressures for adaptation, the welfare state set-up in most advanced countries has remained remarkably stable and change has been, at most, incremental. Interpretations from political science and political sociology that tried to explain such institutional stability, have focussed on both regime- and programme-level mechanisms that seemed to preclude structural change (Pierson 1994; Esping-Andersen 1996; Pierson 1996). Whilst trying to explain resistance, they at the same time convey the impression that any change going beyond established policy patterns and regime characteristics only occurs under very specific circumstances and that therefore the probability of such change is very small. Indeed, the stability bias they have introduced into welfare state research may be said to have deflected attention from change more generally, and from the perhaps unspectacular, but nevertheless path-diverging reforms that are occurring. In my understanding, path-diverging (or path-breaking) reforms imply

Chapter 1

a rupture with the historical legacy of a policy sector by introducing different policy aims and/or instruments, which may lead to an overall change of the organization of welfare provision (Hall; Bonoli and Palier 2000a). This theoretical focus is one side of the puzzle that will be dealt with in this study. The other side is that analysts have observed and continue to observe welfare state reforms that according to the above-mentioned authors are nothing more than anomalies. Instances of such path-diverging reforms may be found in many countries across Europe (see Section 1.2.1. below).

The observation of such reforms is especially striking in Germany, because path-breaking reforms are not compatible with the frequently cited condition of *Reformstau* (reform deadlock), in which the country is supposed to have found itself, at least since the early 1990's. Both in public and academic discussion, this interpretation of policy continuity has a negative connotation, i.e. it stands for the absence of far-reaching reforms of both economic and social policy, which are deemed necessary for the very survival of the welfare state. In agreement with the perception of *Reformstau*, most of the literature up until and including the 1990's leaves no doubt about the institutional and political resilience of the German welfare state. Against this background of a high level of resistance to major reforms despite substantial reform demands, I will draw attention to the fact that Germany has nevertheless been capable of adopting some far-reaching reforms. The country will thus provide the context of this project, as will be elaborated in Section 1.3 below, and in the chapter on methodology (Chapter 3).

The present chapter will explain the rationale behind my dissertation project and outline the puzzle implied by the occurrence of major welfare state reforms, in Germany in particular, but also more generally. I start with a brief introduction to the work of Gøsta Esping-Andersen and Paul Pierson, who - both in their own way - have shaped the work of scholarly inquiry into the welfare state and the politics surrounding it. While giving due credit to their theoretical and empirical achievements, I will subsequently point out that their work suffers from a welfare state stability bias. In other words, their theories are not well equipped to explain the occurrence of major welfare state reforms. Following on from this, I will argue that despite the predictions of theorists as Esping-Andersen and Pierson, advanced welfare states have undergone major reforms in recent years, and analysts are likely to observe more of those in the near future. I will illustrate this argument with examples, including Germany, in Section 1.2 after introducing my definition of major change, the concept of "structural reform". Section 1.3 will motivate why it is worthwhile taking a closer look at Germany and the reforms that have occurred there. More specifically, both the country's political and welfare state institutions should, theoretically speaking, make any major reform quite difficult if not well-nigh impossible. This combination of theoretical "unexpectedness" and strong institutional obstacles makes Germany a prime candidate for systematic study. Having outlined the puzzle at the core of this project, Section 1.4 will look for solutions to the puzzle of unexpected yet major welfare state reforms. It outlines the main competing explanatory theories that have been discussed in the welfare state literature (economic factors, party-political factors, political institutions, ideational factors). Finally, Section 1.5 briefly introduces the ideational leadership explanation.

The remainder of the study is divided into seven chapters. Ideational leadership (IL) will be introduced in detail in Chapter 2, including the theoretical rationale for combining ideas and leadership, and the conceptual link between IL and its behavioural and communicative aspects. Chapter 3 explains the choice for a multiple case study as research design and the methodology used in the case studies. It elaborates on the operationalization of the main variables, IL and structural reforms, as well as on data sources and methods of analysis. Chapter 4 reviews macro- and meso-level sources of resilience found in the German welfare state, and takes a closer look at its institutional features and social policy programmes. Moreover, it summarizes the main

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

pressures that impact on existing arrangements in the policy areas of old-age pensions, unemployment insurance, and health care, and gives an overview of the responses of policy-makers from the mid 1970's onwards.¹ Chapters 5 through 7 report on the empirical case studies: the 2001 pension reform of Minister Riester; the 2003 merger of unemployment assistance and social assistance of Minister Clement; and the various health care reforms enacted by Minister Seehofer during the 1990's. Chapter 8 draws together the overall findings by providing a summary and compares the empirical results in terms of the validity of the IL hypothesis. It also considers the implications of these findings for the literature on welfare state reform as well as for theories of policy change more broadly. Finally, it reflects on possibilities for further research on the basis of the findings, including the use of other methodologies to evaluate the IL hypothesis.

1.2 Historical Institutionalism and Welfare Regime Theory

The puzzle to be addressed in this project is why major or "path-diverging" reforms occur contrary to the theoretical expectations of the dominant literature on welfare state stability, as exemplified by the main protagonists Pierson and Esping-Andersen. Therefore, the remainder of this section will try to shed light on the following questions: what is the gist of their theories and most importantly, what are the implications of their arguments with respect to institutional and policy change in advanced welfare states? And, regarding the focus of these theories, what makes them problematic? Below, I will briefly introduce the two dominant theories of welfare state types and development (Esping-Andersen), and of the contemporary politics of the welfare state (Pierson). Whilst highlighting and summarizing the most important features of their theoretical arguments as far as they relate to the puzzle, I will focus my critique on their "stability bias", i.e. a focus on explaining the relative stability of contemporary welfare states rather than recognizing that seemingly stable institutions may also undergo major changes.

1.2.1 Why a Revision of Dominant Theories in Welfare State Research is Needed

Welfare Institutions and Welfare State Change

Before embarking on the discussion of institutionalist accounts stressing the characteristics and consequences of welfare state institutions, it is necessary to recapitulate what this specific sort of institutions refers to. By welfare institutions, we commonly understand the characteristics of social policies, i.e. forms of organisation, policy goals, and practices that have acquired the status of institutions in a given country. The typology followed here divides welfare institutions into four different categories (Bonoli, George et al. 2000): the mode of access to social benefits, the structure of benefits, the mode of financing programmes, and the way of managing social policy programmes (involving the state, the social partners, and/or other actors). The latter category especially has direct implications for the degree of autonomy of a pro-reform government: the more widespread the practice of corporatist policy-making is, the more resistance to reform can be expected due to a greater number of potentially reform-hostile groups (Esping-Andersen

¹ Chapter 4 covers policy responses until and including the reforms of the Schröder government. Recent reform developments under the current CDU/CSU-SPD government led by Chancellor Merkel will be mentioned in the Epilogue.

Chapter 1

1990:151). The welfare state literature offers rather vague generalizations on how welfare institutions influence reforms: generally, it is assumed that welfare institutions restrict the possibilities for reform whilst at the same time telling us about the potential for change. This potential can vary across sectors within countries that belong to the same welfare state regime, since institutional designs are not necessarily uniform within the same regime cluster; and even within single countries we will find institutional differences across sectors.

Three Worlds of Welfare State Regimes

Esping-Andersen's work on welfare regimes (Esping-Andersen, 1990, 1996), recently joined by Pierson (2001),² implicitly relies on the assumption that welfare state institutions are subject to path-dependent processes. In his seminal work *The Three Worlds of Welfare Capitalism* (1990), he distinguishes three clusters of welfare states: a Social-Democratic, a Liberal and a Conservative regime. These regimes differ with regard to their mix of institutions that guarantee the provision of social security: the state, the market or the family. Secondly, they vary with respect to the kind of stratification systems upheld by their welfare programmes (referring to, for instance, the extent of status differentiation and inequality the system tolerates). Finally, the degree of de-commodification, i.e. to what extent people can make a living without having to rely on participation in the labour market, varies across these regimes (Rieger and Leibfried 1998: 37). Essentially, by devising these regime types, Esping-Andersen has contributed a widely used classification of advanced welfare states to welfare state research.³ Going one step further, what is his view on the prospects for policy change within these regimes? The three regime types are based on certain shared institutional characteristics, which, concerning the possible direction of reform, are said to determine regime-specific future policy trajectories as well. Therefore, if changes of policy do occur, they are very likely to stay within the previously set-out and regime-specific policy path. Moreover, when reforms are successfully adopted, this adoption is said to be dependent upon a broad consensus among various social interests (Esping-Andersen 1996: 266-267), as otherwise a regime's inherent resistance against change is difficult to overcome. Despite clear changes in the context of social policy making (as Pierson pointed out in his "new politics" argument) and politicians' efforts to adapt their welfare states to new challenges, until the late 1990's, welfare state regimes were not significantly diverging from their institutionally prescribed path, as Esping-Andersen has observed: 'the inherent logic of our three welfare state regimes seems to reproduce itself' (Esping-Andersen, 1999:165). This assumption of path-dependent change is also reflected in the expectations about the regime-dependent character of the politics surrounding reform: current patterns of change are explained and, by extension, ascribed to the type of welfare regime, i.e. ultimately to its particular institutional features (Pierson, 2001a: 454).

The "New Politics" of the Welfare State

In addition to the regime theoretical account of Esping-Andersen, another body of literature has added a yet greater stability-bias to theories on welfare state politics. In his conception of the "new politics" (Pierson 1994; 1996), Paul Pierson identifies three main sources of constraints on politicians wishing to pursue radical welfare state reform. First, the welfare state is protected by

² In the conclusion to his 2001 book, Pierson has adopted his version of 'new politics' to different regime types by outlining the likely processes of adaptation and their politics.

³ In their geographical variant, Esping-Andersen's regime types are also commonly referred to as Scandinavian, Anglo-Saxon and Continental regimes.

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

the fact that it, after decades of expansion, nowadays constitutes the status quo 'with all the political advantages that this status confers. Non-decisions generally favour the welfare state. Major policy change usually requires the acquiescence of numerous actors' (Pierson 1996: 174).

Secondly, there are electoral hazards involved in radical welfare state reform. These stem from the fact that social policy programmes not only continue to enjoy widespread popularity among the electorate at large, but also from that mature policy programmes have created new interests, i.e. those who produce and consume social services, and who act as defenders of these arrangements. The underlying assumption is that reforms that imply welfare state retrenchment are inherently unpopular with the electorate, which means that public opinion acts as a constraint on political actors, highlighting the need for politicians to follow blame-avoidance strategies. Thirdly, another obstacle that relates to the second one, stems from 'new organized interests, the consumers and providers of social services' (Pierson 1996: 175) who are claimed to strongly defend welfare state programmes such as social housing, health care, education and social security.⁴ These structures are associated with "path continuity", which implies resistance to change, and manifests itself in organised opposition to reform efforts. Pierson argues that such networks constitute proof of "path-dependent" processes, which rest essentially on mechanisms of increasing returns or positive feedback. In other words, once a certain course of policy development has been taken, setting these processes in motion, it is difficult to reverse it.⁵ Applied to welfare state programmes, this means that after a particular programme has been initiated,

Organizations and individuals adapt to particular arrangements, making commitments that may render the costs of change (even to some potentially more efficient alternative) far higher than the costs of continuity. Existing commitments lock in policymakers (Pierson 1996: 175).⁶

The concept of "path-dependency" is frequently associated with the school of historical institutionalism, which sees institutions as 'relatively persistent features of the historical landscape and one of the central factors pushing historical development along a set of "paths"'. The technical consequences of this are effects such as policy "lock-in" and "sticky institutions" (Pierson 2001: 23). This powerful combination of restraints is said to substantially limit the options available to policy makers. The implication is, in a nutshell, that path-breaking change is practically ruled out, although Pierson is careful to stress that 'the claim is not that path dependence "freezes existing arrangements in place"' but that 'change continues, but it is bounded change', i.e. within the previously chosen path (Pierson 2001: 415). Although Pierson, in his "new politics" account, draws on a picture of policy-makers caught up in a dilemma between mounting pressure and blame-avoidance strategies, he does specify four "political preconditions for significant reform". Accordingly, retrenchment will be facilitated by electoral slack, budgetary crises, strong chances

⁴ Rieger and Leibfried offer a slightly different view on the political consequences of welfare states' institutional entrenchment. Their picture of "claimant and provider classes", who 'try to monopolize their new income sources and to build up strong lobbying positions' is a more dynamic one than the one offered by Pierson, as these interests 'embody different potentials for the paralysis or the adaptability of welfare states' (1998: 366).

⁵ This argument has attracted some criticism. For instance, Howlett and Rayner criticize that Pierson's links between institutional densities, increased returns and the high cost of exit from institutions is simply asserted with no proof offered (Howlett and Rayner 2006: 11). In their perspective, some studies found evidence that institutions constrain change while others found the opposite, namely that institutions can also facilitate change.

⁶ More precisely, research on technological change indicates that 'increasing returns' are based on large set-up or fixed cost, learning effects, coordination effects and actors' adaptive expectations. For a more detailed treatment of the concept of path-dependence, its origins in the literature on technological change and its application to political science, see Pierson 2000.

Chapter 1

for reducing the visibility of reform, and good prospects for changing the rules of the game, or “institutional shifts” (Pierson 1996: 176-178). However, the value of these “tentative hypotheses”, as Pierson himself concedes, is doubtful, first of all, because he is not specific enough about what kind of outcome they are supposed to bring about: he seems to equate “significant reform” with “radical retrenchment” (1996: 176). Furthermore, Pierson does not specify whether any one of these conditions or a combination of them need to be met for significant change to occur, and he discusses them more in passing than in a systematic fashion. The points he makes about electoral slack and financial crises appear intuitively plausible, but as they constitute contextual conditions, they do not explain how policy actors go about tackling (and achieving) reform projects. Only the third condition, “reducing the visibility of reform”, does say more about the actions of policy-makers, but it is questionable whether and to what extent the substance of radical reform may be credibly hidden from a reform-anxious electorate. Finally, “institutional shifts”, especially when referring to EU-level policy-making, say little about how domestic policy-makers would utilize it to push reform through. All in all, Pierson leaves us with the impression that he did not seriously consider the conditions of path-breaking change; rather, in line with his argument, he sees persistence of the status quo as the most likely outcome in the short to medium term.⁷

Focusing upon Pierson’s relative disregard for the preconditions for major reforms, my first point of critique is the lack of attention paid to the role of political leadership, interests and choice in institutionalist accounts. Admittedly, policy makers do play a role in Pierson’s work, but their room for political manoeuvring remains severely restricted. In contrast to the “golden era” of welfare state enlargement, in the current “era of austerity”, leaders find themselves squeezed between external pressures and internal constraints. In particular, global economic and demographic pressures threaten the foundations of advanced welfare states while pro-welfare public opinion, entrenched interests and path-dependent institutions set the limits for the political feasibility of reforms (Ross 2000b). As a result, political leaders have little choice but to resort to blame-avoidance strategies, if daring at all to embark on risky welfare state reforms (Pierson 1994). I rather doubt whether this is a correct depiction of the strategic choices available to policy-makers nowadays, even in today’s austerity-driven political climate.

Secondly, as Ross has convincingly argued, Pierson’s portrayal of reform realities is much more de-politicised than it should be, despite his label of the ‘new politics’ of the welfare state. I share Ross’ view that accounts of welfare restructuring need to consider the role of political leadership, including how leaders might deploy, for instance, symbolic politics strategies. In addition, dismissing the role of leaders also has implications for how welfare challenges are conceived and what kind of political responses are at the disposal of policy-makers (Esping-Andersen 1996: 12). In line with Ross, a relative disregard for political choice should not simply be seen as a matter of meta-theoretical preference. On the contrary, political choice should be considered in terms of its analytical merits. Consequently, it seems advisable to opt for a better balance between the focus on structures inherent to mainstream theories and the possibilities for political agency to overcome the obstacles that structures pose to policy change.

⁷ Admittedly, the conclusion to his edited 2001 volume (Pierson 2001) goes one step further in specifying the conditions of change by hypothesizing about different reform paths for different welfare regimes. However, this text does not build upon his 1996 “preconditions for significant change”, but starts from a ‘broad reform consensus’ assumption and is essentially still historical-institutionalist orientated.

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

1.2.2 Criticism of the Two Bodies of Theory

As we have just seen, two dominant approaches in welfare state research have tried to explain the remarkable institutional stability of the welfare state until and including the first half of the 1990's. They have centred on both regime-level and programme-level mechanisms that seemed to preclude structural change.

I argue for two reasons that there is a case for revising these two approaches. My first point relates to the greatest strength of these theories: they are very well equipped to explain the relative stability of welfare states. However, the downside is that by overemphasizing the weight of institutions as obstacles to far-reaching change, they leave open few possibilities for such change and introduce a stability bias into welfare state research. In particular, change that makes a country diverge from the historical legacy of its welfare state institutions is nearly ruled out. Although both Esping-Andersen and Pierson give some thought to the conditions of what they call "significant" change, they see any real possibilities for leaving historically determined paths of welfare provision as severely limited. Therefore, they convey the impression that reforms going beyond established policy patterns and regime characteristics can only occur under very narrowly defined circumstances. As a consequence, this has deflected attention from actual patterns of change, including reforms which imply divergence from an existing policy path (see further on this point Section 1.3).

My second point of criticism concerns the associated lack of attention to the role of political agency in these accounts (Ross 2000a). It is true that policy makers do make an appearance in these theories, but their scope for significant restructuring remains severely limited. While Pierson sees financial crises, electoral benevolence, the opportunity to "hide" reforms, and changing the "rules of the game" as offering politicians rare opportunities for radical change, Esping-Andersen remains even more pessimistic about the capacity of policy-makers and thus political agency or leadership, as he reserves such reform for rare instances of broad social and political consensus. In his view, 'the alignment of political forces conspires just about everywhere to maintain the existing principles of the welfare state' (Hinrichs and Kangas 2003: 265)

To conclude, a strong continuity bias, the risk of overlooking empirical instances of welfare state adjustment, and the neglect of political agency as a potential motor of such adjustment seem to provide valid reasons for proposing a different approach to the politics of welfare restructuring. In addition to these points of critique, the fact that there are clear empirical instances of "path-breaking" reforms create the need for such a new approach, as will be discussed in the following section.

1.3 Structural Welfare State Reforms Do Happen: Definition and Examples

1.3.1 Questions of Definition: What Is a Structural Reform?

One reason why a great deal of the existing welfare state literature is hardly comparable is the lack of a generally accepted definition of welfare state reform. The extent and shape of reforms tend to vary greatly across welfare state regimes, individual countries and policy areas; they may even vary within countries and between policy areas. As a result, labels of reforms abound, as becomes clear if one considers the adjectives used to describe reform more closely. For instance, the literature mentions "incremental", "step-wise", "far-reaching", "radical", "path-breaking" and

Chapter 1

“major” reforms, to name just a few,⁸ but there is a lack of consensus on what these labels involve, and, in addition, often authors remain unclear about what it is exactly they are analysing. As Pierson has noted, ‘one of the striking features of current comparative research on the welfare state is the lack of consensus on outcomes’ (Green-Pedersen 2004: 419).

The proliferation of terms denoting welfare state change is related to the so-called “dependent variable problem”. Indeed, recently, the literature has acknowledged the problem of how to theorize and measure welfare state change. The term was coined with reference to the proliferation of differences in the conceptualization and operationalization of retrenchment as the dependent variable of welfare state analyses (Clasen and Siegel 2005). However, it has also been referred to as a broader problem, as it touches upon the very conceptualization of the welfare state, current limitations in theorizing about how it changes, and limitations of data. In response, a rough three-dimensional typology for categorizing change has been proposed, comprising recommodification, cost containment and recalibration (Pierson 2001a: 420).⁹ In a recent agenda for systematically exploring the problem, some authors have stated that it concerns the nature and scale of welfare state change, its conceptualization and measurement, and even how policy outcomes can be accounted for by causal factors (Stiller and Van Kersbergen 2005: 2). The latter aspect of the problem has been noted as the “independent variable problem” (Clasen and Clegg forthcoming).

In the literature, a great deal of different approaches to welfare state change exists, relying on both quantitative and qualitative conceptualizations of change.¹⁰ Studies that apply qualitative typologies of change (Hall 1993; Hemerijck and Van Kersbergen 1997; Leitner and Lessenich 2003; Schmid 2003) tend to draw upon more general models of policy change (Sabatier and Jenkins-Smith 1993; Hay 2001; Taylor-Gooby 2002) that have been adapted to a welfare state context.¹¹ In this study, I draw attention to a qualitative measure of change, “structural reform”, which seeks to capture shifts in the institutional set-up of policies. For theoretical reasons explained in Section 1.2, I am first and foremost interested in those reforms that differ from incremental changes, usually expressed in quantitative terms (e.g. changes in benefit levels or the duration of a benefit). Structural reforms fall into this category as they are too significant to be

⁸ Furthermore, the factor time may play a role here. For instance, Hinrichs and Kangas have argued that many incremental changes may turn out to be third order changes in the long run because their real impact is not always immediately visible (Hinrichs and Kangas 2003)

⁹ Recommodification refers to the attempt to ‘restrict the alternatives to participation in the labour market, either by tightening eligibility or cutting benefits’ (Pierson 2001a:422), that is to strengthen incentives to work. Cost containment refers to the attempt to control budgets by means of austerity policies, which include deficit reduction and tax containment policies. Recalibration denotes reforms that ‘seek to make contemporary welfare states more consistent with contemporary goals and demands for social provision (Pierson 2001a: 425). This threefold conceptualisation of change complemented the then dominating view of welfare state reform as ‘retrenchment’, which Pierson himself introduced in his earlier work (1994, 1996).

¹⁰ These approaches rely on three main types of indicators to capture (changes in) welfare effort, namely social expenditure data (e.g. social spending in percentage of GDP, ‘social rights’ indicators (e.g. measures of ‘decommodification’), and institutional characteristics (see for an overview e.g. Clasen and Clegg forthcoming). My definition of ‘structural change’ falls into the last category

¹¹ Taylor-Gooby notes that while the outcomes of quantitative analyses tend to stress stability and resilience to pressures, in case studies of policy-making processes are more likely to detect ‘current changes in political alignments and in the institutional framework of policy-making which may be opening the way to substantial restructuring’ (Taylor-Gooby 2002: 598). Statistical analyses tend to lead to an emphasis on continuity because they are necessarily based on data which covers a period stretching back into the past, whereas case studies ‘provide a greater opportunity to examine factors that are currently significant and thus direct attention to forces making for change’(ibid.).

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

mere routine adjustments of policy, and therefore distinct from the type of reforms historical institutionalism or regime theory would allow for or expect.¹²

In developing a definition of those reforms, I drew on previously developed and applied qualitative definitions of welfare state change. The first such definition was applied by Webber in his analyses of German health care reforms (Webber 1989, 1989). While it is based on the domain of health care, it may also be applied to other social policy areas (such as pensions, unemployment insurance, etc.), as long as they feature similar categories of structure. Webber used the following definition:

As structural reforms I defined purposeful state interventions which effected a structural change of the health care system. It was assumed that the health care system consists of three structures: a financing structure, a providing structure and a regulation structure. A structural reform (in contrast to other reforms) would therefore consist of a re-ordering of competences and responsibilities regarding financing, provision, and regulation of medical services (Bonoli and Palier 2000b: 263-264).

The financing structure concerns the question of who pays for the programme; the provision or service structure is concerned with who is supplying the benefits and/or services linked to a programme; and, finally, the regulatory or regulation structure specifies who makes decisions about managing the programme. Crucially, it is the reordering of competences and responsibilities which distinguishes structural reforms from other reforms.

Another qualitative typology of welfare state change has been suggested by Bonoli and Palier (Webber 1988 ; Pierson 2000). It is based on welfare state institutions or institutional elements of social policy programmes, which, as independent variables, 'pose a significant constraint on the degree and the direction of change'. When conceived as a dependent variable, they can structure a framework that helps to identify and distinguish reforms that go beyond mere retrenchment or cost-cutting (Palier 2002: 113). Therefore, when examining change, the following four institutional dimensions of a policy programme can be distinguished: a) the mode of access to benefits, b) the benefit structure, c) the financing mechanisms, and, finally, d) the actors who manage the system. In my opinion, this difference between sorts of welfare state institutions highlights the main structures found in any welfare state programme. In addition, it complements Webber's definition, which is more geared to the service-based health sector. Any social policy programme will offer either benefits and/or certain services (benefit structure) to those eligible under the programme's rules and conditions (mode of access); it will be financed by tax-payers and/or contributors through certain mechanisms (financing structure); and it will be regulated by either the state, social partners or other stakeholder groups, depending on the nature of the programme (regulation structure). For my definition of structural reform, I prefer to merge Bonoli and Palier's two benefit-related categories into one for reasons of parsimony, since both features relate to the benefit structure. In addition, it is difficult to disentangle the form of benefits from the conditions under which they are granted in empirical research. Drawing upon both the Webber and the Bonoli and Palier definitions of qualitative welfare state change, my definition of structural reform of any social policy programme will include shifts in either

¹² As a matter of fact, Pierson and Esping-Andersen do implicitly concede that even in welfare state regimes that are notoriously resistant to change and under conditions of institutional resilience and a political climate of austerity, some reforms remain likely. Pierson, for instance, concludes his 1996 study of the United Kingdom, the United States, Germany, and Sweden by arguing that 'over the span of two decades, however, some changes in social policy are inevitable (...). What is striking is how hard it is to find radical changes in advanced welfare states' (Pierson 1996: 174).

Chapter 1

- the financing structure,
- the benefit structure (both provision and rules of eligibility), or,
- the management or regulatory structure

of any social policy programme or policy. As Webber has argued, shifts in any of these structures are about re-ordering competences and responsibilities of actors. To illustrate these three structures, what kind of change effected in them would be called “structural”?

To start with, the financing structure may be based on taxation, on employment-related contributions, or on (insurance) premiums. A switch from a premium-financed health insurance to a national health care system based on general taxation would be a structural shift, while the mere downward or upward adjustment of contribution rates for the insured would be an incremental change. Secondly, a programme’s benefit structure may include means-tested, flat-rate, earnings-related or contribution-related benefits. Changes from one mode to another, for instance, from a contribution-financed to a means-tested system of unemployment insurance, I consider to be a structural shift. Similarly, concerning health care, the addition of a new group of health care providers would constitute such a change. Conversely, cuts in benefit allowances or the closing down of certain types of hospitals (as health care providers) would be incremental changes. Finally, the regulation or management structure of a policy may be comprised of different actors, such as the state, the social partners (usually trade unions and employers’ associations) and private actors. If, in pension policy, trade unions got a say in the regulation of (public) pension funds, or, in health care policy, a greater number of actors were to decide about the level of doctors’ enumerations, these would also constitute structural shifts. Conversely, if a change in the regulation sphere of such programmes leaves the existing distribution of competences intact, the change cannot be considered structural, but incremental.

Adopting a three-dimensional definition of structural reform offers various benefits: it allows to capture and classify particular reforms in terms of their consequences for the main structures of any social policy programme, as long as the implications of a reform can be distilled from their main provisions as they appear in legislation, regulations and the like (see Mahoney 2000, 1999 for an application to health care policy). In addition, looking to more than one dimension of structural reform also makes it possible to choose a threshold for defining a reform as “structural”. For instance, one could specify that a particular reform needs to introduce shifts in all three structural dimensions of a programme or policy in order to call it a structural reform. However, there may be theoretical and empirical reasons to relax such a strict requirement and define a change in any one of these three dimensions as a structural reform. In this study, I will choose the latter option, i.e. a lower threshold for a structural reform, not least because the literature cited above remains unclear on this point: any reform that causes a shift in at least one of the three structures of a policy programme will be seen as a structural reform. Finally, my particular definition of structural change should help to detect changes that go further than incremental reforms but fall short of being a - rarely occurring - paradigmatic reform that transforms all aspects of a policy programme (Hall 1993).

Admittedly, my conceptualization of substantial welfare state change makes no explicit mention of the notion of path dependency, one of the central concepts in historical institutionalist approaches, which is considered important for both understanding and explaining (the absence of) reforms in advanced welfare states (Ebbinghaus 2005; Jochem 2005; Kay 2005; Streeck and

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

Thelen 2005). However, path dependence has recently been perceived less as a synonym for institutional inertia (as Pierson emphasized) and its conceptual value has been subject to critical scrutiny (Pierson 2000; Jochem 2005).¹³ While the concept has certain merits, its utility has been found to be limited ‘if we want to detect empirically the degree of change [i.e. if it serves as dependent variable, SS]’ and the logic of changes in mature welfare states [i.e. the mechanisms of and explanations for change, SS]’ (Torfing 2001: 31). It seems that path-dependency suffers from a similar problem as the notion welfare state change: confusion about its conceptualization and measurement. The proposed definition of structural reform, which manages without the use of “path” terminology, circumvents this problem. In addition, studies based on the path-dependency concept tend to examine the development of welfare states as a whole (on the macro-level, i.e. the level of regimes) or the study of sectoral policies (meso-level, i.e. the level of specific policy schemes) over time. In contrast, the definition of structural reform is more geared to my research goals, i.e. exploring why single reforms were adopted at specific points in time. At the same time, structural reform can be seen as a more closely defined subset of a larger family of “path-diverging” reforms, i.e. reforms that leave old policy paths behind and open up new ones. However, no matter how the terms “path-diverging” or “path-breaking” are defined exactly,¹⁴ they seem to imply that a reform has affected (some of) the established parameters or institutional characteristics of a policy rather than fine-tuned its instruments, e.g. benefit levels, or the terms of access to benefits or services. It is precisely those usually unquantifiable, but potentially consequential reforms, which the argument turns to next.

1.3.2 Examples of “Path-diverging” Welfare State Reforms

The stability bias of welfare state typologies and historical-institutionalist theories of welfare state politics is one side of the puzzle that guides this research project. The other side is that analysts claim to have found reforms that are distinct from incremental changes, or, following Palier (2002), are changes in institutional arrangements (such as financing and management of social security) as opposed to mere rollbacks of social policy or retrenchment. Although theorists like Esping-Andersen and Pierson would consider such reforms as exceptions that prove the general notion of welfare state resilience, a fair number of instances of major or path-diverging reforms have been found across welfare regime types since the mid and late 1990’s. The following

¹³ Jochem (2005) argues that it first served as a descriptive ‘measure’ of resilience of welfare states, as well as to refer to causal mechanisms (embodied in welfare state institutions) that ensured reforms would not alter the overall logics of welfare state regimes or single programmes. On the other hand, it is too broad a concept to assess the nature of welfare state change and fades out the micro-logic of reform processes, especially the creativity of political actors. Similarly, Kay (2005) considers common points of criticism, for instance, that path dependency provides a label for the intuition that ‘history matters’ without a clear and convincing account of decision-making over time, or that it explains only stability and not change. However, despite its difficulties of theoretical vagueness and operationalization, ‘it is a valid and useful concept for policy studies’ drawing attention to the fact that ‘its proper application demands sensitivity from scholars to other temporal dynamics that may operate in policy development’ (such as an evolutionary perspective or a punctuated equilibrium model).

¹⁴ Ironically, although the concept of path dependency has been applied widely in public policy research since Pierson’s article on the underlying mechanisms, i.e. increasing returns (Pierson 2000), the concept of a ‘policy path’ is often not defined explicitly (see for an exception Torfing 2001:286, there, a policy path is ‘a relatively entrenched way of unifying, organizing and regulating a certain policy field’), which has obvious implications for assessing when a given policy path is left behind and when a new one is taken. In welfare state research, paths are often implicitly equated with Esping-Andersen’s welfare state regimes, and ‘path-divergence’ is frequently taken to mean that a welfare state has taken on characteristics of another regime.

Chapter 1

examples concern reforms in both Continental welfare states, where they have attracted considerable attention of analysts due to greater adjustment problems (see also Section 1.4 below and Chapter 4), and in the Social Democratic and Liberal regimes. As for the Scandinavian welfare states, Sweden carried out an important pension reform in the early 1990s (Torfing 1999; Andersen and Larsen 2002; Anderson and Meyer 2003); Denmark restructured its pension arrangements (Cox 2001) and made the transition to a “workfare” type of labour market policies (Clasen 2005; Hagen and Kaarbøe 2006); and Norway’s health care system experienced some important decentralizing reforms (Clasen 2005b). Liberal welfare states that have undergone some major reforms are the United Kingdom (Boston, Dalziel et al. 1999; Goldfinch and ‘t Hart 2003), New Zealand, Australia (Hacker 2002; Hacker 2004), and, to some extent, the United States (Hemerijck and Van Kersbergen 1997; Palier 2000).

As for Continental regimes, the Netherlands made a switch to more activating social policies in a formerly passive welfare state, which constituted one element of the much-envied “Dutch miracle” (Vail 2004). More recently, the Dutch health insurance system underwent a structural shift: the distinction between those insured via sickness funds and those insured privately was abolished (as of January 2006), setting the course for a less particularistic and more universal system.¹⁵ Even disability insurance, long considered a blemish on the Dutch record of exemplary socio-economic reforms has recently (as of January 2006) undergone a structural shift. Instead of focusing on disability as such, the reform stresses and seeks to improve people’s (remaining) ability to work, reserving full disability benefits only for those with hardly any or no future employment possibilities.¹⁶ In France, new paths have been chosen in the reforms of unemployment insurance, and in the financing base of social contributions (Ferrera and Gualmini 2000; Ferrera and Gualmini 2004). Equally, Italy managed to carry out important reforms of pension insurance in her run-up to entering Economic and Monetary Union in 1996 (Bönker and Wollmann 2000; Bussemeyer 2005). Furthermore, a recent major pension reform has been passed in Austria, although some analysts associate it with retrenchment rather than innovation (Schmidt 2003). Finally, analysts have signalled examples of path-diverging reforms in Germany concerning pensions, unemployment insurance, long-term care insurance and, to some extent, health care (Dyson 2001). The character of the reforms that have occurred in Germany and whether (some of) these major reforms also fit my definition of structural reform will be discussed in greater detail in the next section and in Chapter 3, where case selection is explained.

¹⁵ ‘Eine Mischung aus Prämie und Beitrag. Die Niederländer reformieren ihr Gesundheitssystem’, *Handelsblatt* 04.10.05, p.4

¹⁶ Centraal Economisch Plan 2005, Netherlands Bureau for Economic Planning Analysis (Centraal Planbureau, CPB), source: http://www.cpb.nl/nl/pub/cepmev/cep/2005/speciale_onderwerpen/wao.pdf; van Geus, A.J (2003) letter titled ‘Hoofdlijnen stelsel van arbeidongeschiktheidsuitkeringen’, source: <http://www.arbo-advies.nl/WaoGeus.htm>

1.4 Why Study German Reforms in Particular?

Finding path-breaking reforms is especially striking in the German context, as they seem to contradict the usual pattern of German domestic policy change, which ‘usually requires a longer planning period, is often incremental in nature, and borders occasionally on a degree of institutional inertia which critics describe as “policy immobilization” or “*Reformstau*” (Immergut 1990: 202). The *Reformstau* perspective implies that Germany has been struggling to carry out necessary reforms, and those reforms which have passed tend to be incremental adjustments that fail to effectively address underlying problems.¹⁷ Especially in public but also in academic debate about the future of the welfare state, this interpretation of Germany’s characteristic of (relative) policy continuity has a negative connotation, as it stands for the absence of structural reforms in socio-economic policy that are needed for its very survival.¹⁸ For those who believe in *Reformstau*, the issue at hand is not only the welfare state but also the (frequently assumed) stability or resistance to change of the German socio-economic model as a whole.¹⁹ In turn, this is linked to the question of reform capacity, which brings me to the much-discussed institutional and political resilience of the German welfare state that is due to its specific welfare and political institutions. They will only be outlined briefly in the following sub-section, as Chapter 4 addresses these issues in greater detail.

1.4.1 Reform Obstacles: Political and Welfare State Institutions

Firstly, resilience is related to political institutions as they are laid out in the constitution, i.e. the Basic Law. Here, we find that the resilience of German welfare arrangements is related to the nature of political institutions as the country’s numerous political-institutional obstacles complicate reform adoption. Among them, we find a large number of “veto points” (Scharpf 1988; Lehbruch 2000),²⁰ including the second chamber of parliament, the *Bundesrat*, the federal constitutional court; and a degree of institutional fragmentation only exceeded by few other countries, such as Switzerland (Bonoli and March 2000). German federalism with its strong role

¹⁷ This view of critics is in line with Pierson’s hypothesis about the politics of restructuring of social policy, which is likely to produce ‘more centrist – and thus more incrementalist responses’ (Pierson 2001a: 417)

¹⁸ The term was chosen as the ‘word of the year’ in 1997 (‘Reformstau ist das Wort des Jahres’, *Handelsblatt* 29.12.97, p.1) following a debate initiated by federal president Herzog’s 1997 Berlin speech, in which he demanded a common societal effort to break through what he diagnosed a state of reform paralysis (‘Aufbruch in 21. Jahrhundert’, Berliner Rede von Bundespräsident Roman Herzog 26.4.97,

source: <http://www.bundespraesident.de/dokumente/-2.15154/Rede/dokument.htm>).

¹⁹ Within the broader context of that model, however, my focus in this study is on reform paralysis in the realm of social policy. The latter is an integral part of the German social market economy or *Soziale Marktwirtschaft*, and may be expected to play a key role in the process of adapting the German Model to post-industrial challenges. Scholars from such diverse disciplines as economics, sociology and political economy have displayed an interest in its specific aspects, e.g. political economists have raised questions about the model’s capacity to adapt to changed contemporary economic and social circumstances. Such questions explore how institutional structures and/or policies are able to adjust in response to mounting problems stemming from financial, economic or demographic pressures. Asking these questions may be interpreted as a break with the not all too distant past, when ‘analysis of the German political economy has suffered from a tendency to reification of the German model, and as a consequence, from a failure to capture processes of change’ (Dyson 2001: 138).

²⁰ The ‘veto point’ argument states that incentives provided by constitutional structures (i.e. formal political institutions) shape the de facto decision rules in political systems and thus influence policy outcomes

Chapter 1

for *Länder* governments may result in inefficient policy-making (Kitschelt 2001; Anderson and Immergut 2005). Regarding the role of party systems, analysts have argued that their composition may have an impact on the chances of welfare state reform and/or retrenchment. The German combination of parties and their relative strength (weak liberal party; strong centrist and Social Democrat parties) means that retrenchment necessitates a “grand coalition” (Schulze and Jochem 2006). In contrast, the variable “political competition”, as an interaction of party systems, elections, and formal political institutions (Schmidt 1987; Esping-Andersen 1996), may work either way, helping or hindering reform efforts, as it ‘provides incentives for reform proposals, but impedes cooperation among government and opposition to solve policy problems’ (Anderson and Immergut 2005: 24). Germany shows high levels of political competition, especially since reunification, which has changed the consensus-dominated politics of the “middle way” (Esping-Andersen 1999) to one of more intense competition between parties and more conflictive political debate and political processes (Anderson and Immergut 2005: 24), not least about the contents and objectives of reform recipes.

Turning to welfare state institutions, Germany belongs to the group of Continental or Conservative welfare states, which face the greatest demands for adjustment in their core welfare arrangements compared to the other welfare state types (Scharpf 1997; Rieger and Leibfried 1998; Scharpf 2000a; Pierson 2001). In the words of Scharpf, ‘all Continental welfare states are at present confronted with two major problems: insufficient employment and an over-committed transfer system. Both these problems are closely connected’ (2000a: 222). The challenges include low rates of employment (including low female participation in labour markets); moderate taxation levels together with high reliance on social security contributions; moderate to high levels of social expenditure (depending largely on income transfers and little on social services); and low to moderate levels of wage differentiation and income inequality (Scharpf 2000a: 219). For post-reunification Germany, these adjustment challenges became especially relevant when unemployment figures rose sharply and the social security system, which had been extended to the new *Länder*, was burdened by benefit provision for the recently unemployed and pensioners. The rationale for focussing on Germany in this study strongly relates to its prominent position in this group of countries appearing to struggle with welfare state reform. Esping-Andersen described Germany as ‘the leading and most comprehensive exponent of the social insurance approach’ (1996: 84) and may thus be considered the prototype of the status-quo-oriented Continental regime. The gist of these observations is that the task faced by most advanced industrial countries, and Conservative welfare states in particular, is enormous. For instance, Pierson draws attention to the fact that the countries of this regime type face quite painful reform agendas that are bound to call forth considerable political challenges (Manow and Seils 2000). Other analysts have suggested that ‘in addition to the external shocks of globalisation, internal blockades of institutional policy in the welfare state have become the second great challenge for national governments at the turn of the millennium’ (Czada 1998: 378).²¹

While the preceding has referred to macro-level characteristics of the Continental welfare state, one can also discern programme-level mechanisms of resilience. The best example of these underlies the difficulty to radically change pay-as-you-go pension schemes. In such schemes,

²¹ Although the citation may suggest so, economic globalization is not a distinct challenge to national governments, but it also impacts on welfare states. However, the form and the scope of this impact remain contested among academics (see also economic explanations of welfare state change in Section 1.5).

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

current workers finance the retirement of the previous generation. Once the system has been in place for a long period of time, it will resist radical change for the following reason: a shift to funded, private arrangements would burden current workers disproportionately, forcing them to finance both their own and the previous generation's pensions. Path-dependency dynamics of this sort are also present in other policy sectors, such as health care, and, to a lesser extent, labour market policy, where actors coordinate their activities and invest resources according to the structures of the existing policy environment (Pierson 2001: 416).²²

1.4.2 Pressures for Reform, "Missing" Reform Outcomes?

The level of German welfare state resilience is even more perplexing if one considers the list of reform pressures, some of which are specific to the German context (see Chapter 4 for more detail): it includes persistently high unemployment and slow economic growth; a relatively high (non-wage cost-based) tax burden on labour (Czada 2004); the continuing social and financial impact of reunification (OECD 1996; Bönker and Wollmann 2001); and adverse demographic trends including the rapid ageing of the population, and relatively low fertility rates (Scharpf 2000b; Schmidt 2002b). However, these pressures have not been readily translated into reforms, at least according to analyses covering the period up to the mid 1990's. Pierson, for instance, contends in his assessment of welfare retrenchment in various European countries that, despite continuing demographic and budgetary pressures ensuring an 'atmosphere of austerity will continue to surround the German welfare state' and 'a fundamental rethinking of social policy seems a remote possibility' (Pierson 1996: 170), not least due to consensus-promoting political institutions.

Against this background of a high level of welfare state resilience, despite substantial demands for reform, I am drawing attention to the fact that Germany is nevertheless capable of adopting some far-reaching reforms. Despite the small theoretical likelihood of such reforms, in some instances, governments have tried to restructure the German welfare state²³ and even pessimistic observers of German politics cannot dispute that some important reforms have been undertaken during the 1980's and 1990's. In this respect, it is worthwhile considering that significant developments have taken place in each of the main social policy areas (some of which may qualify as structural reforms):²⁴ pension policy (partial privatisation of pensions 2001), labour market policy (Hartz proposals to reduce unemployment through temp agencies and other instruments 2002/2003, merger of unemployment assistance and social assistance 2003/2004), and health provision (attempts at cost-containment and opening up of health care provision during the 1990s, health care reform 2004, plans for a comprehensive financing reform in 2006). However,

²² For instance, Schreyögg and Farhauer (2005) identified path-dependencies in decision-processes concerning labour market and health care policy in Germany. The financing of the statutory health care system is based on contribution financing, which implies that current workers pay for health care services of the whole community including their own (Schreyögg and Farhauer 2005: 249-250). Leaving this path by for instance financing part of health care services by general taxation (like in Scandinavian welfare states) would meet strong resistance as 'solidarity' comes under attack. In German labour market policy, social partners are traditionally strongly involved in labour market policy. Trade unions and employers contribute through the negotiation of collective agreements to labour market performance, and they exert influence by lobbying on the political decision-making process (Ibid: 250-252).

²³ See Bönker and Wollmann (2000) for a discussion of relevant structural changes in the German welfare state in the 1990's.

²⁴ The exact scope, durability, and effectiveness of each of these reforms are open to dispute. However, my study concentrates on the events preceding the adoption of particular reforms, leaving aside issues of reform evaluation

Chapter 1

when this study was designed (during 2002), there were few (comparative) analyses showing that far-reaching reforms had been enacted or were under way in Germany; rather, analysts tended to argue that Germany had not been capable of significant reforms, at least well into the 1990s (Bönker F. and Wollmann 2001; Obinger and Starke forthcoming).²⁵ Analyses of social policy development in Germany stood in marked contrast to those of the United Kingdom, the Netherlands or Denmark, where significant reforms had been carried out and were widely acknowledged by analysts.

Why is that? Perhaps the reforms that have occurred in Germany were not striking enough to catch analysts' attention? Or is this due to a "time lag" problem, which delays one's attention to the most recent reforms under the two Schröder governments, explaining that they have not yet been recognised properly by analysts? Both explanations may be relevant, as well as the dependent variable problem I have discussed earlier (the disagreement among scholars about how to conceptualize and measure welfare state reforms). Moreover, many analysts of contemporary developments adopt a macro-level perspective on welfare state development (e.g. welfare state convergence),²⁶ rather than taking a case-centred approach to examine the underlying reasons for specific changes, although some analysts try to do both (see for a recent example Bleses and Seeleib-Kaiser 2004). Frequently, scholars ask whether the design of the German welfare state as a whole has (been) changed, that is, whether its initial institutional patterns have been adjusted, and if so, in what ways. In this respect, at least three diverging interpretations have emerged.²⁷ Firstly, certain authors detect signs of (a liberal-conservative) transformation;²⁸ a second group detects sector-specific developments (whilst not addressing whether these may affect the overall shape of welfare arrangements);²⁹ and, thirdly, some identify a pattern of relative continuity, more in

²⁵ Around the turn of the century, only few observers thought otherwise, such as the International Monetary Fund (IMF), which found that economic reforms coupled with steps towards pension reform and fiscal consolidation might be seen as the end of reform gridlock (IMF 2000 cited in Bönker F. and Wollmann 2001: 96).

²⁶ That literature explores whether different welfare states (and regime types) show signs of becoming more similar over time. A recent study carried out at the University of Bremen evaluates convergence trends among OECD states between 1980-2000 (Obinger and Starke forthcoming).

²⁷ Compare for a slightly different typology the introduction by Lütz in a recent edited volume on comparative welfare state developments (Lütz and Czada 2004).

²⁸ The edited volume by Lütz and Czada (2004) falls into this category as it attests a 'fundamental marketisation of welfare state ideologies, structure and ways of functioning' and a 'trend towards convergence within national diversity' (20), both of which they see confirmed by developments in Germany. As for others authors, Seeleib-Kaiser (2002), argues that a transformation has been taken place during the last 25 years: the decreasing commitment of the state to secure workers' former living standards, 'the key normative principle of the German welfare state' (Seeleib-Kaiser 2002: 25) is taken as one important sign of transformation. Another is that the state has increased its role through greater involvement in public family policy (see also in greater detail Bleses and Seeleib-Kaiser 2004). Similarly, Leitner and Lessenich highlight in their analysis of recent developments long-term care and old-age pensions that the 'frozen welfare state' thesis no longer applies. Instead, 'there have been major changes in the logic of exchange that represents the social foundations of the German welfare state' (Leitner and Lessenich 2003:341-342). Lamping and Rüb see the German welfare state on an "irrevocable path from a Conservative welfare state to a new new recombinant type" (Lamping and Rüb 2004: 169). Vail concludes after his analysis of recent labour market and pension policy reveals that 'not since the immediate post-war period has a Germany government acted so aggressively to reshape the labour market and welfare state' (Vail 2003:61). Furthermore, he agrees with Leitner and Lessenich, concerning the outdatedness of the 'frozen welfare state' thesis (Vail 2004). According to him, the approach of the government towards policy making has been shifted from traditional consensus to a more conflictive style of policy-making. Ross, in a recent comparison of reform outcomes in Germany and the UK, argues that path-breaking changes have occurred in both countries, as a result of "cumulative, largely endogenous and political processes" as opposed to the narrow circumstances assumed by path-dependence theories, that is by Esping-Andersen and Pierson (Ross 2006).

²⁹ For example, Hering argues that major institutional changes have been taking place in pension policy. These changes that have – unexpectedly – occurred in recent years were due to a mix of 'institutional interference', and 'creative opportunism',

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

agreement with historical institutionalism and the *Reformstau* perspective³⁰ (Green-Pedersen and Haverland 2002; Stiller 2006). However, in this study, the aim is not to settle this debate on long-term development (although I return to it Chapter 4 in order to put recent reforms into perspective), but to find and evaluate a plausible explanation for single striking reforms.

1.4.3 The Puzzle of This Study

Above, I have argued that a particular set of circumstances, the combination of sources of resilience, reform pressures and unexpected occurrence of significant reforms, makes Germany an engaging candidate for a study of unexpected welfare state reforms. Thus, the guiding proposition of this project, which specifies one possible way of overcoming reform resistance, can be evaluated in a challenging and intriguing context: challenging, because in Germany the impact of institutions on policy outcomes is strong, and because explanations for far-reaching change that do not give centre stage to institutional factors may be seen as theoretically inadequate. It is also intriguing, as despite the presence of pressures that were increasingly difficult to ignore by policy-makers, far-reaching reforms have been scarce up until the late 1990's. However, some reforms have occurred that have gone further than being merely incremental. How is this possible? Why do we observe significant reforms despite institutional theories predicting the overall continuity of existing structures to be the most likely scenario? What explains recent reforms in pension arrangements, changing practices in labour market policy and shifting visions of what constitutes appropriate health care provision?

The discrepancy between historical institutionalism and regime theory, backed up by supporters of the *Reformstau* perspective, and the observation of structural reforms in the empirical world, forms the puzzle of German welfare state reform. This puzzle serves both as a starting point for my analysis and directly translates into an important question: why do radical reforms occur despite the strong but questionable claims of scholars such as Esping-Andersen and Pierson to the opposite? The puzzle can hardly be solved by looking at historical institutionalism alone. I find that Pierson's "conditions for retrenchment" (1996: 176-178), even if they are assumed to apply equally to the restructuring of policies as well as to retrenchment, are only of limited value in explaining such reforms. German policy-makers did not experience more electoral slack than in earlier periods³¹ and the budgetary crisis argument in itself is too imprecise, since financial strain had been present continuously since reunification (although it varied across policy programmes). Opportunities for obfuscation and blame-avoidance, limiting the visibility of reform and policy-makers' responsibilities, are heavily dependent on institutional structures, and in

i.e. innovative and risk-taking political leaders. In the case of pension policy, these leaders 'employed new and untested electoral strategies and attempted to forge a new coalition for pension privatization, irrespective of existing electoral constraints, massive resistance from vested interests and hard-to-overcome legacies of existing welfare state programs by key politicians' (Hering 2003: 19-20; see for more detail Hering 2004)

³⁰ Here, for instance, Leibfried and Obinger question the transformation thesis, saying that definitions of the welfare state which stress transformation, 'do not adequately reflect the high overall stability of German social policy' (Leibfried and Obinger 2003: 214) Rather, they argue that Germany fits Pierson's 'new politics' well, as they find evidence of cost containment/retrenchment as well as of politicians' compensation strategies, but none for a dismantling of the welfare state.

³¹ More to the contrary, electoral competition between parties tended to intensify after reunification while the number of elections scheduled (not their frequency) tended to increase with a greater number of *Länder* compared to before 1989. However, electoral slack, when exactly understood in Pierson's sense of 'when governments believe that they are in a strong enough position to absorb electoral consequences of unpopular decisions' would have to be assessed for each reform under consideration.

Chapter 1

Germany's system of fragmented authority, Pierson suggests that 'governments (...) must fashion strategies that minimize the need to force multiple policy changes through institutional veto points' (Pierson 1996: 177). What these strategies involve and how they work is not specified further. Finally, a fair prospect of "institutional shifts" that may help reform efforts (with Pierson giving an example of the EU facilitating pretexts for tackling welfare state reform) is not a straightforward explanation either. "Changing the rules of the game", if understood as changing parliamentary procedures, for instance, is subject to high parliamentary hurdles in Germany,³² and the influence of EU level policies on national reform processes is far from evident and difficult to assess (Huber and Stephens 2001a).

From the puzzle at the core of this study I have deduced two research goals: Firstly, I aim to make a contribution to the understanding of the puzzle of structural reforms in the German welfare state, by analysing the conditions under which reform proposals were adopted. Secondly, I aim to contribute to prior theoretical work on the politics of welfare state reform. By designing a revised theoretical framework of far-reaching welfare state reform, it should be possible to gain a better understanding of processes of welfare state change. My framework implies that an answer to why Germany is capable of far-reaching reforms has to be answered on a case-to-case basis and should take the micro-level of analysis into account, that is, the role of key politicians. I consider both research goals to be complementary, since creating such a framework needs to be prior to its application in the analysis of case studies. The hypothesis deduced from the framework will then be used to explain a number of structural reforms (see Chapter 3). I will return to this hypothesis in Section 1.5.

1.5 Existing Explanations and Major Reforms in Germany

Building upon my criticism in Section 1.2, I argue that a revision of the dominantly institutionalist orientation of welfare state theory is needed in order to explain structural reforms in advanced welfare states. A strong continuity bias that blinds theorists to empirical developments of welfare state adjustment, and the negligence of political agency as a potential source of such reforms, are reasons enough to find alternative underpinnings. Such a revision should consider factors - in addition to institutional ones - that may be capable of a) overcoming institutional obstacles and subsequently, b) explaining change through distinctive strategies of political leadership. Since the late 1990s, the literature on welfare state politics has highlighted economic, political and, most recently, ideational factors as explanatory perspectives of welfare state reform and restructuring. I will now describe the main explanatory categories that have emerged in the welfare state literature (see also Castles 2001), and how they impact on the politics of welfare state reform.

Classifying approaches by types of explanations is one way of making sense of the plethora of theoretical approaches that seek to account for welfare state change. One can distinguish a) economic explanations, including studies of macro-economic challenges (Kemmerling 2005;

³² In July 2006, the German *Bundesrat* approved a reform of federalism (Föderalismusreform) that may help to disentangle competences between the federal government and the *Länder* and reduce the amount of issues on which both levels have to co-decide ('Bundesrat nickt Föderalismusreform ab', 07.07.06, [sueddeutsche.de](http://www.sueddeutsche.de), www.sueddeutsche.de/deutschland/artikel/141/80061). The effects of these changes on decision-making outcomes, in the realm of the welfare state and elsewhere, remain to be seen.

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

Kittel and Winner 2005), internationalization and globalization (Levy; Ross 2000c; Bonoli; Kitschelt 2001; Swank), b) institutional explanations, typically emphasizing political institutions (Green-Pedersen 2001; Pierson 2001), c) party-political explanations (Schmidt 2002a; Schmidt 2002b; Burgoon and Baxandall 2004; Ferrera and Gualmini 2004; Béland 2005; Natali 2005), and, d) idea-centred explanations including discourse and framing (Immergut 1992; Bonoli 2001; Howlett and Ramesh; Andersen; Stiller 2006).³³ While the first three types of explanations constitute the bulk of the literature, idea-centered explanations are a more recent addition. Since I consider the latter to be of special relevance to my argument, I will discuss them separately when developing my answer to the puzzle of stability versus change in Section 1.6. The first three categories of explanatory factors are outlined below and applied, in very general terms, to the German situation. What I am primarily interested in is whether these factors are useful in explaining the structural changes that have occurred.

Economic Explanations and Welfare State Change

This first category features a wide variety of mostly political economy approaches that stress the importance of economy-related factors in welfare state change. In part, these explanations consider contemporary pressures on advanced welfare states such as the frequently cited macro-economic challenges of high unemployment and fiscal strain on national budgets (see for instance Huber and Stephens 2001b; Castles 2001). On the other hand, arguments of internationalization and/or globalization as a result of intensifying economic integration are seen as affecting national (welfare) states, although it is far from clear whether increasing economic interdependence will eventually result in a “roll-back” or in expansion of welfare state arrangements.³⁴ Whatever the outcome, important mechanisms, through which internationalization affects national welfare states, are: the mobility of tax bases (e.g. financial capital and goods); social insurance countering risks posed by economic openness; and the much-cited “race to the bottom”, i.e. the scaling down of social standards by competitive pressures (see for an overview of these arguments and mechanisms Manow 2001). Globalization is felt in national welfare states through the “filter” of labour markets, changing the costs and benefits of social policy arrangements. This, in turn, heightens the need for reform. Regarding the implications for social policies, Andersen argues:

International integration is a gradual process, not a regime shift. Hence, the development will not display abrupt changes calling for sudden and drastic changes in welfare policies. However, the cost and benefits of welfare state activities will gradually be affected and this will eventually have some effect on both the size and structure of the welfare society (2003: 44).

On the whole, the weight that scholars ascribe to economic factors varies considerably; on the one hand, some treat them as contextual variables that narrow down policy-makers’ options for making social policy, on the other hand, others see them as significant influence and thus as an explanatory factor for welfare state reform and/or retrenchment.

³³ In addition, it is possible to add here Europeanization hypotheses which stipulate a link between European level policies and national welfare states (Ferrera and Gualmini 2004; Natali 2005; Stiller 2006). This category, in my view, bridges economic and ideational explanatory approaches.

³⁴ Such hypotheses also exist in the context of policy studies more generally. For instance, Howlett and Ramesh have found that “internationalization promotes the restructuring of political subsystems in such a way as to form hospitable circumstances for swifter and deeper policy changes than would otherwise be the case”, seeing this as a two-stage process (Howlett and Ramesh 2002)

Chapter 1

Regarding whether such explanations would help to explain the structural changes that have occurred in Germany, the picture is mixed. On the one hand, given the sluggishness of the German economy, economic explanations would seem to predict a lot more reform activity than has actually been observed. Economic factors like continuing fiscal strain on public budgets, high unemployment, stress on labour markets and tax bases would, in this perspective, open up the road to reforms. Similarly, globalization is supposed to add extra pressure on the German welfare state to reform its institutions. Although many economic explanations provide plausible arguments about how they affect welfare states, they tend to leave open the question of how this pressure translates into specific reforms. Above, I have already referred to the striking fact that Germany has remained remarkably stable in terms of its welfare arrangements well into the 1990's, despite mounting economic pressures, especially in the wake of reunification. Thus, economic factors may well be important as contextual factors in the politics of welfare state reform, yet they cannot explain why relatively few structural reforms have happened.

Political Institutions and Welfare State Change

In contrast to welfare institutions, which are created through social policy programmes, political institutions are the product of constitutional rules, which determine the distribution of power between the branches of the executive, legislative and judiciary. In the context of social policy reform, the impact of political institutions has been expressed by means of the concept of "veto points" (Rhodes 2001), i.e. possibilities built into the political system to block reforms. Another term frequently used is "veto player", which refers to 'an individual or collective actor whose agreement is required for a policy decision' (Tsebelis 1995: 293). Similar to welfare institutions (and possibly interacting with them), political institutions rather play a mediating role - between political actors such as individual policy-makers and political parties - on policy outcomes, than being a causal factor in producing them. In practice, this means that political arrangements influence actors' opportunities for pursuing and opposing changes, which translate into different outcomes (Bonoli, George and Taylor-Gooby 2000:26). Immergut summarizes this "intervening variable role" as follows:

Political institutions do not predetermine policies. Instead, they are an integral part of the strategic context in which political conflicts take place. Political institutions set boundaries within which strategic actors make their choices. [...] Political institutions can be thought of as the outermost framework for political conflicts. The institutions do not produce or direct political conflicts, but they do define the terms for these conflicts (Immergut 1992: 242-243).

Bonoli and Swank add another perception of the precise role political institutions may play. Bonoli (2001) finds that there is no straightforward relationship between political institutions and processes of welfare state adaptation in the sense that power concentration is related to the degree of success of welfare state change or to the extent of change. Alternatively, he concludes the following:

Power concentration, however, appears to be related to the form that welfare state adaptation takes: in contexts of strong power concentration, reform tends to be unilateral and geared towards retrenchment. In contrast, in institutional contexts characterized by veto points, reform tends to combine measures of retrenchment with expansion and improvements of existing programmes. (Sabatier and Jenkins-Smith 1993: 240)

Swank (2001), on the other hand, looks beyond the role of political institutions by linking the impact of globalization on welfare state retrenchment to more or less favourable institutional contexts. In doing so, he takes account of both domestic (i.e. fiscal stress) and international

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

pressures (i.e. internationalization) on welfare states and finds that ‘the welfare state effects of notable domestic and international pressures vary systematically across institutional contexts’ (Swank 2001: 232). His findings indicate that countries with weak social corporatism, exclusive electoral systems and decentralized policy-making authority would be the ones most favourable to retrenchment. Conversely, in countries with strong institutions of collective interest representation, centralized decision-making and universal welfare states, pressures from domestic and international sources were found to have either no retrenchment effect or to have been averted by social and economic interests defending welfare state arrangements (ibid: 232-233).

Would the application of political-institutional factors to the puzzle of few substantial reforms help to explain why these occur? As already discussed in Section 1.4, Germany’s political institutions (federal state structure with many veto points/players, a majority of legislative proposals requires agreement of both chambers of parliament) tend to explain the resilience of its welfare state rather than the occurrence of substantial change in political institutions. Even if one took Swank’s extended list of political institutions to include the electoral system, the strength of social corporatism, and collective interest representation, Germany’s score on these variables points towards an obstruction of potential retrenchment: a proportional electoral system and the enduring importance of corporatist decision-making including the role of the social partners form a solid basis for the defence of the welfare state status quo. In a nutshell, the basic orientation of German political institutions is rather to avert substantial change than to promote it. Therefore, we need additional explanatory factors to explain why veto players and/or veto points and other political-institutional features do not obstruct change in some cases.

Party-Political Influences and Welfare State Change

Furthermore, the factor “politics” in reform processes also includes political parties, whose impact on social policy outcomes has been increasingly studied in the last decade.³⁵ Indeed, the observation that political debate on any salient policy issue (of which welfare state reform is a prime example) is shaped by the programmes and behaviour of political parties makes intuitive sense. Political parties may impact on outcomes through competition (in the form of substantive debates and tactical behaviour) that takes place both within and between political parties (intra-party and inter-party effects), and which can work either way, potentially reinforcing or defusing institutional reform blockades. Predominantly, it is strategic competition between governing and opposition parties (the inter-party factor) that obstructs policy-making and reform. A related source of party-political influence may be rooted in intra-coalitional conflict, i.e. disagreements between government coalition parties about the course of reform.³⁶ Secondly, intra-party struggles may hamper agreement within a (governing) party on policy reform initiatives. The latter means that the (lack of) agreement on a common policy agenda regarding the direction of reform within parties may be crucial as to whether a policy reform does or does not get off the ground (Visser

³⁵ I will treat parties here as distinct from political institutions, following various overviews in the literature. Some studies, however, consider parties closely related to a country’s set of political institutions (see for instance Anderson and Immergut 2005).

³⁶ However, there are good arguments for attributing such effects to the design of political institutions rather than the existence of different parties. The explanation for this is that certain electoral systems are more likely to produce coalition governments than others (Lijphart 1984) and therefore make for potential disunity among the parties forming the government.

Chapter 1

and Hemerijck 1998). Below, I will outline some notable contributions of scholars who have considered party-political explanations for welfare state change.

Levy (1999) has looked at (especially social democratic) parties' opportunities to claim credit and pursue a "vice into virtue" strategy by conducting retrenchment together with benefits. Ross highlighted the reform capacities of political parties linked to their issue associations (Hemerijck and Van Kersbergen 1999). She argues that under certain institutional conditions, party politics can matter. Accordingly, leftist parties may be particularly successful in welfare state retrenchment following a "Nixon-goes-to-China" logic. Using an analogy with anti-communist President Nixon who opened up relations between the United States and China, that logic stipulates that 'when unpopular policies are on the agenda, the latitude for successful policy leadership is largely reserved for those who seem least likely to act' (2000c: 162). For the welfare state, this implies that precisely because of parties' issue associations - leftist parties are frequently seen as welfare state defenders by the public - some parties are in a more advantageous position than others to carry out reforms.

Furthermore, Kitschelt states in his work on strategic party configurations that certain characteristics of party systems make them more or less amenable to policy reform. Specifically, a) the combination of a strong liberal party plus the decline of welfare state defending parties, b) the absence of competing (leftist) parties, c) a party organization that is non-conducive to strategic inertia at grass-roots and elite level, and d) party competition centred around economic issues rather than socio-cultural ones makes for welfare state retrenchment (Kitschelt 2001). Similarly, Green-Pedersen (2001) has demonstrated the importance of party systems as they offer different opportunities to engineer a party-political consensus for retrenchment measures. From his study of the Netherlands and Denmark, it appears that the pivotal role of the Christian Democrats in the Dutch party system explains why retrenchment became possible, while in Denmark's bloc system a similar effect did not occur.

Are these arguments about the influence of the party-political factor able to shed any light on substantial changes in Germany? According to Kitschelt, the characteristics of Germany's party system do not make it prone to retrenchment: the country does not have a strong liberal party, while a strong leftist party – the Social Democratic SPD - forms part of the political competition, and the competition for votes is more centred on social than on economic issues. Judging the explanatory value of "vice into virtue" strategies and the "Nixon-goes-to-China" logic is more difficult: the former may have played a role in enabling the few structural reforms under the Schröder government, although it is debatable whether opportunities for credit-claiming (e.g. in the 2001 pension reforms) were sufficient to overcome the resistance of various veto players who also opposed the reform for electoral-tactical reasons. The "Nixon-goes-to-China" thesis has not been confirmed by the mixed record of the two Red-Green Governments, which certainly made less progress in conducting reform than the thesis would predict. All in all, partisan factors tend to be much better equipped to explain stability than change in the German context. From the above, it follows that one needs to look to other explanations than those dealing with strategic party behaviour.

1.6 A Promising Solution to the Puzzle: Political Actors and Ideas

After having reviewed various types of explanation and having stated their inability to explain significant reforms in the German context, this section will pave the way for my proposed solution to the puzzle stated earlier. In doing so, I will firstly describe some recent approaches that have

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

ventured beyond a sole focus on institutions in explaining welfare state reform - as my contribution also strives to do. Secondly, I will take a closer look at the contribution of idea-based explanations of change, and in a last step, explain why we should consider ideational leadership when explaining the politics of structural welfare state change.

1.6.1 Beyond Mainstream Institutional Approaches

Since the point of departure of this study is the dominance of approaches that emphasize the weight of institutions and related processes of path-dependence and lock-in, reform explanations can also be viewed in terms of their theoretical closeness or, conversely, their distance to institutionalist perspectives. While classifications of this kind are always, to some extent, subjective, we may roughly distinguish explanations, which allow for complementary factors whilst still (to a larger or lesser extent) acknowledging institutional factors, and those which, by looking explicitly at the influence of politics, wish to shed more light on the “how” of substantial welfare state change. Contrasting these two groups paves the way for my argument about explanatory factors that the previous typology of explanations did not contain, namely *political actors* and *ideas*.

A considerable body of welfare state scholarship echoes the resilience arguments of Esping-Andersen and Pierson. A first group of analysts ascribes considerable importance to the notion of institutional resistance, while formulating hypotheses based on other explanatory factors that may play a significant role in the politics of welfare state reform: their theorizing goes beyond Pierson’s (1996) limited discussion of strategies of blame avoidance with a view to effecting reform. The role of strategic configurations of party systems, corporatism and social pacts in shaping responses to reform pressures, may serve as examples here (Palier; Béland 2005; Starke 2006). Moreover, Pierson’s more recent insight that the politics of reform may differ, according to the type of welfare state regime in which it is taking place (Pierson 2001a), falls into this group.

The second cluster of studies goes one step further by challenging the dominance of institutions in explanatory approaches. These authors raise the question whether and, if so, how other political factors may play a considerable role in restructuring processes (although they vary in their claims on how important their influence is). Analyses of political agency and leadership strategies (Ross 2000a), party politics (Ross 2000b, Levy 1999, Green-Pedersen 2001), policy discourses (Cox 2001, Schmidt 2002a, 2002b), and opportunities for politicians to frame unpopular reform initiatives (Ross 2000a) belong to this category. In addition, a whole range of analyses seeking to explore significant changes in welfare provision has been inspired by the literature on policy learning and public policy analysis (Goldstein and Keohane 1993; Braun and Busch 1999; Blyth 2003). These latter analysts have also employed policy-learning concepts in theoretical and empirical accounts of welfare restructuring processes (Ross 2000a; Cox 2001; Schmidt 2002b). By doing so, they have contributed to shifting the focus in welfare state research from status quo analysis towards exploring the conditions under which structural reforms do occur. At the same time, they usually pay attention to institutional constraints without overstating their power. From these policy learning approaches, there is only a small step to another explanatory category, which has been the most recent addition to the literature (cf. Chabal 2003; Béland 2005), namely ideas.

1.6.2 Ideational Factors and Welfare State Change

Ideational factors usually refer to the role of ideas, norms and values in policy-making (see for an overview Hahn, Jung et al. 2004). In this context, it has been suggested that ideas may be

Chapter 1

instruments³⁷ in political actors' strategies to overcome reform blockades. For instance, politicians can use them to justify potentially unpopular restructuring measures by serving to overcome reform hurdles such as a parliamentary opposition reluctant to consent to a specific reform. Furthermore, ideas can serve as "road maps" to policy-makers, helping them to select feasible policy strategies out of a larger set of policy options (Thompson 1994). Moreover, they can 'give content to preferences and thus make action explicable' (Gallagher, Laver et al. 2001:702).

A growing number of analyses have, of late, focused on the role of framing and discourse in processes of retrenchment and other types of welfare state reform. This study is trying to make a contribution to this literature, as it addresses the role of ideas but considers them in conjunction with the role of political actors and their strategies (see for more detail Chapter 2). To mention a few noteworthy contributions to the framing and discourse literature, Ross looked into the conditions under which politicians can create public understanding for reforms. In her view, successful framing of issues can help politicians push through unpopular policy initiatives (Stiller and Van Kersbergen 2005). Similarly, Cox made a case that in the Netherlands and Denmark, policy-makers had been successful in creating a necessity for change, while in Germany, this condition was supposedly absent. He argues that politicians, who manage to create an "imperative for change", will be the ones who are able to overcome path-dependency of existing policies and/or institutions (Anderson and Immergut 2005). Finally, Schmidt made an argument for the impact of cognitive and normative discourse on reform outcomes after studying and comparing economic adjustment processes in several advanced welfare states. She argues that such discourse may be an independent explanatory factor in the politics of adjustment, while welfare state reform will not succeed (as in Germany) if such a discourse is absent (Lehmbruch 2000).³⁸

How would these approaches deal with the situation in Germany? Both Schmidt and Cox found, in their respective studies, the absence of a reform-facilitating discourse or a need for change, looking at the period before 2001. In this sense, these two perspectives explain stability rather than change. Regarding Ross' argument about the condition of successfully framing issues, the question is whether her conditions - based on a case study of the UK under Prime Minister Thatcher - would also hold in the German context. For this, one would need to test her conditions, i.e. frame compatibility (with existing frames), issues which lend themselves to divisive framing, and the trustworthiness and credibility of framing actors, in specific reform processes preceding instances of significant reform. Only then could it be decided whether they have explanatory value, which is why the value of existing ideational approaches cannot be adequately assessed at this stage: it is, at best, mixed.

While the above explanations focus on the role of ideas in the guise of framing and discourse arguments, they also, more or less explicitly, indicate that it is hard to ignore the ways in which ideas get linked to political agency and how the transmission of ideas is carried out by political actors. I will return to this crucial question in Section 1.6.3. While some strive to clarify the influence of ideas, and consider more explicitly how they are linked to policy-makers who use

³⁷ This use of instruments in the sense of argumentative "weapons" or "tools" is not to be confused with the more conventional notion of policy instruments.

³⁸ A recent example of such research in countries other than Germany is Béland (2005). He has underlined the "crucial role of ideas and frames in the construction of reform imperatives and in the elaboration of a coherent reform agenda" in a study (in the context of the UK and the US of "personal ownership and possessive individualism in the current neo-liberal attempt to restructure modern social policy and encourage the spreading of financial capitalism" (Béland 2005: 35) in the 1980s in the UK by Thatcher, and since 2003 in the USA by George W. Bush (2005: 35).

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

them in order to push for reform (Ross, Cox), others are far less explicit on this (Schmidt). This point will be discussed in more depth in Chapter 2. What matters most for the present argument, however, is that some scholars recognize that ideas do play a role in welfare state adjustment, usually in connection with other explanatory factors. The challenge ahead is to learn more about how such processes work. How can we go about this?

1.6.3 Political Agency and Welfare State Change: Towards the Notion of Ideational Leadership

In answering this question, I aim to focus on a combination of explanatory variables on the input side of politics. Having seen that other variables are of little explanatory value in the German context (Section 1.5), including ideational approaches, I consider political agency and ideational factors *together* to be essential in explaining why institutional barriers to reforms can be overcome. Therefore, my proposition on ideational leadership (IL) implies that influential policy-makers, who make use of ideas to justify policy choice and/or as principles for policy selection, may convince resisting actors of the need for and appropriateness of reform, and are thus able to overcome institutional barriers.³⁹ In the IL analytical framework, key political actors are senior politicians such as cabinet members (cf. Ross 2000b; Maier 2003; Béland 2005). They are assumed to possess the authority to take initiatives on reform proposals and see it as their responsibility to implement them. In addition, the framework relies on the assumption that instead of being pure office-seekers, some politicians tend to be more policy-oriented (Braun and Busch 1999: 342). This study will correspondingly focus on the impact of those policy-makers, who are mostly interested in making an impact on policy (policy-seeking), rather than being focussed on the benefits of office (office-seeking).

The choice for this proposition redirects attention to the relatively underexplored micro- or individual level of analysis, i.e. the role of political agents seen as individual politicians.⁴⁰ This approach contrasts with the explanations described in Section 1.5, which are found at other levels of analysis (with the possible exception of the work of Cox (2001) and Ross (2000a), as their analyses also highlight individual decision-makers): at the macro-level, which corresponds to the welfare state regime, we can find economic explanations, including arguments about internationalization and globalization, related discursive arguments, and arguments about the influence of political institutions. With regard to the meso-level, which corresponds to the level of welfare state programmes or policies, we can find “politics matters” arguments that include the influence of party-political factors and welfare state institutions.

Regarding the IL approach, which puts individuals at the centre of investigation, rather than politics or institutional characteristics, I am trying to fill a lacuna left by meso- and macro-level approaches, by evaluating whether IL as an individual-level explanation can overcome reform resistance, thus shedding light on the adoption of unexpected reforms. To be more succinct, my intention in this study is not to develop a complex model that combines all possible explanatory

³⁹ This proposition acknowledges that the capacity of policy-makers to do so cannot be seen in isolation from the influence of welfare and political institutions and the role of political parties.

⁴⁰ Related questions that have recently attracted the interest of scholars are why these agents decide to embark on electorally risky reforms in the first place (Stiller and Van Kersbergen 2005) and how political competition plays a role in actors' choice of reform strategies (Anderson and Immergut 2005).

Chapter 1

factors. Instead, I consider it more rewarding to concentrate on one explanatory factor, IL, and evaluate its relative influence vis-à-vis a limited number of contrasting explanations.

There are three points that need clarifying with regard to the relationship between IL and other explanatory factors: Firstly, the IL framework recognizes the impact of (political) institutions, as they shape the (decision) rules of reform processes and, in turn, have the ability to block other actors who have a stake in the status quo of welfare programmes. IL-type actors need to engage in and overcome ensuing resistance. Secondly, in addition to the role played by institutions, I acknowledge the role of political parties in processes of policy change and the struggles with the course of reform that can result both within and between parties (which can form an important source of reform resistance). In particular, there is a possibility that strategic actions of political parties can reinforce (due to the effects of interacting with political institutions) reform obstacles. Germany proves to be a good example of this relationship: the interaction between federal institutions (which imply negotiated solutions) and political parties (which follow a logic of competition) may lead to reform blockades (Blondel 1987). Ideational leaders, in their efforts at structural reforms, will tend to face resistance from party-political sources. Thirdly, I assume that key policy-makers use ideas as “justifying aids” in order to overcome institutional and party-political obstacles. This implies, in relation to the various ontological assumptions behind the role of ideas in policy-making, that my approach recognizes the importance of interests in policy-making, as opposed to more social constructivist-inspired approaches where ideas are seen as logically taking precedence over interests. Finally, even though my focus lies with the micro-level of analysis, it is important to realize that studies of welfare state change employing meso- and macro-level factors have made significant progress in explaining welfare state reforms. However, the point I would like to make is that they cannot explain every single unexpected reform, and, in fact, tend to generate too many contrasting explanations for the same outcome (Stiller and Van Kersbergen 2005).

1.7 Conclusion

This chapter has outlined the puzzle that lies at the core of my project: the unexpected occurrence of structural welfare state reforms in the light of institutionalist approaches. More specifically, I have taken issue with the welfare state stability bias present in the work of Esping-Andersen and Pierson. In my eyes, their theorizing fails to explain adequately the occurrence of major welfare state reforms. Furthermore, despite the predictions of these theorists, advanced welfare states have seen major welfare state reforms in recent years. I have offered a definition of such major but not usually quantifiable reforms, labelled “structural reform”, by drawing upon earlier work on qualitative notions of welfare state change. To illustrate my argument about theoretically unexpected, yet major reforms, I have presented examples from Germany and other advanced welfare states. I have also explained that Germany offers an intriguing context for investigating the occurrence of structural reforms due to its combination of reform obstacles (political and welfare institutions), and salient reform pressures from multiple sources of strain (socioeconomic, fiscal, demographic). All of these factors combine in a perplexing mix of institutional obstacles on the one hand, and large incentives to tackle reforms on the other, while theoretically unexpected but major reforms have even occurred in Germany.

In a brief search for solutions to this puzzle, I have shown that different types of explanations (economic, institutional, party-political), when taken by themselves, cannot satisfactorily account for those reforms in the German context. Finally, I have reconsidered the role of political agency and the ways in which it can be linked to ideational accounts of welfare state change, by

The Puzzle of Institutional Stability versus Significant Welfare State Reforms

introducing a guiding proposition on ideational leadership (IL). The rationale behind IL is linked to the weaknesses of other explanations. Since macro- and meso-level explanatory factors - in the German context - seem to be more appropriate to explain stability than major reforms, the solution to the puzzle may lie in looking for explanations found at the micro-level of analysis, such as IL. The IL concept is based on the insight that it is problematic to ascribe an independent influence to ideas without taking into account what policy-makers do with them. Moreover, it is difficult to show such an autonomous influence empirically. This is because ideas are abstract constructs and cannot “move” around the policy-making arena in the way political actors do. It is more likely to see them linked to an agent in some way or another (Moon 1995; Helms 2000; Goldfinch 2001).

It is important to realize, however, that IL cannot be seen as completely detached from welfare institutions on the one hand, and political-institutional and party-political factors on the other (all of which simply cannot be disregarded or controlled when conducting case study type empirical research). Therefore, it is important to explore and observe how IL interacts with these factors, which, at least in the specific German context, appear to be more reform-obstructing than reform-enabling.

Chapter 1

2. Ideational Leadership: Definition and Origins of a Concept Based on Leadership and the Role of Ideas in Policy-making

2.1 Introduction

In this chapter, I will explore the origins of the concept of ideational leadership (IL), present its different aspects and illustrate its relationship with the occurrence of structural reforms in the context of the welfare state. My main argument will be that there is an analytical advantage in drawing up a concept which combines elements from leadership approaches with elements from ideational approaches to policy-making and change. In this sense, I am resuming the discussion from Chapter 1 about the ways in which political agency and the merits of ideational approaches together help to explain structural change in welfare states that cannot be explained by macro- en meso-level explanatory factors. In particular, I will suggest that idea-based approaches can be improved by linking ideas to agency and will specify how actors make use of ideas in pushing for policy reform. In doing so, it is necessary to draw attention to causal mechanisms that link policy-maker's behaviour and policy outcomes, starting from the assumption that the quality of theories can be improved by specifying, as far as possible, the mechanisms linking variables and outcomes. On the other hand, theories specifying functional requirements of leadership can be made more concrete by insights from ideational approaches that offer input on how leaders communicate effectively in order to achieve policy change. As this chapter will illustrate, the IL concept draws on the extensive literature on the role of ideas in policy making (see for overviews Goldfinch and 't Hart 2003; 't Hart and ten Hooven 2004: 46), as well as on leadership (Jones 1994; Thompson 1994; Campbell 1998; Ross 2000b; Van Kersbergen 2002; Chabal 2003; Wight 2003; Hahm, Jung et al. 2004). I will argue that the "joint concept" of ideational leadership builds upon these two bodies of literature and compensates for some of their respective weaknesses.

The chapter is divided into four sections. Section 2.2 summarizes the weaknesses of the two literatures and introduces IL as a "joint concept" that bears both imprints of the ideational literature and the literature on leadership in a context of policy change. Section 2.3 reviews the literature on leadership: it first explains why organizational theories are ill-suited to inform IL and, following on from this, why political leadership theories draw attention to the importance of leadership but are less suited to provide building blocks than theories of leadership in policy-making contexts. Section 2.4 offers an overview of the ideational literature by way of examples that show how ideas influence processes of (social) policy change that can be linked to political agents. Subsequently, the building blocks of IL, various components or tasks of leadership that enable reform, and elements relating to the role of ideas in policy-making, are introduced (Section 2.5). This last section also presents the concept of institutional lock-in and introduces the constituent aspects of IL, including an assumption on the general orientation of IL-type actors. In the course of this discussion, I will refer to the relevant leadership concepts and work on ideas which have inspired the IL concept in one way or another. In addition, the causal mechanisms linking the aspects and institutional lock-out (as opposed to institutional lock-in, see Chapter 1) are explained.

2.2 The Problems of Two Literatures Trying to Explain Policy Change

2.2.1 Limitations of Leadership Concepts in Explaining Policy Change

There have been notable efforts in the leadership literature to spell out the relationship between leadership and policy change. A considerable amount of theorizing has developed on how leaders should behave in order to accomplish innovation and far-reaching policy change. In addition, scholars have been thinking about the conditions under which behaviour associated with leadership leads to important reforms. Notwithstanding these efforts, I argue that the leadership literature generally suffers from a shortcoming in specifying such behaviour and needs to be improved in some respects. More specifically, the problem lies in the following: although all leadership concepts that will be discussed point in fairly general terms to the possibilities for individual actors to change policy instruments or institutional structures, they tend to remain vague on how political agents need to behave and what they need to communicate to their audiences in order to successfully push through change. In other words, what I find lacking is a concise specification of what leaders do and say to achieve change, including the causal mechanisms between leadership-related behaviour and/or leadership tasks and structural reforms. Obviously, there is some variety between leadership theories regarding this aspect, which will be illustrated further in the literature review.

As a consequence, further efforts are necessary in order to improve theorizing on the types of behaviour linked to leadership. In my view, it is possible, with the help of the ideational literature (see Section 2.4), to formulate theories about reform-oriented leadership in more concrete terms with a view to improving them. Possibly, doing so will also contribute to an improved conceptualization and understanding of processes of major policy change. I argue that the key to improving conceptualisations of leadership (in that they explain the link between leadership and reforms in more concrete terms) lies in combining them with elements of idea-based approaches to politics and policy-making.

2.2.2 Limitations of Ideational Approaches

Just as there are weaknesses in the leadership literature, there are also problems with ideational approaches. To me, the first apparent limitation is that idea-based approaches to policy-making and policy change sometimes result in bold statements about the causal effects of ideas in relation to policy outcomes. That is to say, scholarly work on the role of ideas in policy-making tends to make claims about causal explanations, but fails to specify and demonstrate the causal nexus between the presence of certain ideas and their effects. This is regrettable, as specifying causal mechanisms is a way of making theoretical frameworks more sensitive to the dynamics of political struggles in policy-making (Andeweg 2000). Whether this omission is intended or not, fact is that evidence for the presence of certain policy ideas or a policy discourse is often implicitly linked to a policy outcome without providing further explanation as to how these are connected to a specific policy outcome. Schmidt, for example, rightly asks how to establish the causal influence of discourse, but instead of an answer, she formulates statements that sum up conditions: 'For discourse to have a significant influence in the adoption of a policy programme, in short, it must be able to help policy actors overcome entrenched interests, institutional obstacles, and cultural blinkers to change' (Schmidt 2002b: 251).

Secondly, in my view it is difficult to imagine ideas having an impact by themselves, i.e. completely detached from what policy-makers do, let alone show such a connection empirically. This is because ideas are cognitive and/or normative constructs, which cannot enter the policy-

Ideational Leadership

making arena on their own and, for that reason, need an agent to gather them, put them on a political agenda and communicate them to a certain audience (cf. Ross 2000b; Lieberman 2002). Even though there are various, and sometimes competing, theoretical perspectives on how public policy is made, few would deny that actors have some sort of impact on policy-making, even within the confines of institutional possibilities; the issues involved make up the seemingly intractable structure-agency problem (see for a lucid description of the problem Berman 2001). Some observers, however, ascribe more importance to agents, arguing that policy transitions should be understood in terms of a relationship between structural possibilities and political agency (Campbell 1998). I rather agree with the latter view as it helps to reintroduce the opportunities, implied by political leadership, into a perspective of politics dominated by institutions. To give an example, the actor in question may be a policy-maker who has developed a new vision on a policy problem and “sells” a new policy or reform initiative to the opposition party and interest groups. However, this seemingly simple act is likely to encounter difficulties in the political arena and cannot be performed by any political agent: ideas that effect changes on the political agenda must typically be promoted by influential policy-makers who enjoy institutional access (Béland 2005: ???).⁴¹ Those influential policy-makers would need to get an issue on their government’s policy or decision-making agenda, which is typically laid down in coalition agreements or similar public policy declarations outlining new policy or policy reforms. I take this observation as a prompt to study more closely the possibilities of political agency influencing the course of structural welfare state reforms: in order to bring change onto the political agenda (and ultimately to make decisions on particular reform initiatives), ideas must be promoted by political agents that enjoy institutional access. In my framework, these potential ideational leaders occupy posts of key policy-makers, that is, they are senior politicians such as cabinet members.⁴² To sum up, I argue that idea-based approaches to policy change can be improved by linking ideas to a certain actor or “carrier” and by specifying how this carrier makes use of them in pushing for policy reform. In this undertaking, it is necessary to think carefully about the causal mechanisms linking policy-makers’ behaviour and policy outcomes, starting with the assumption that the quality of the theories can be improved by specifying - as far as possible - the mechanisms linking agents and outcomes.

In order to address the limitations of the two literatures, I present the concept of ideational leadership (IL). It rests on the insight that leadership theories, which specify functional requirements of leadership, can be made more concrete with the help of ideational approaches, if these offer some input on how leaders communicate effectively in order to effect policy change. Concepts of leadership generally lack precision in describing how political agents behave when they get involved in the process of pushing through change. On the other hand, the ideational literature tends to claim that ideas have causal effects on policy outcomes without substantiating this claim and without considering their link to the policy-making process. In my view, these shortcomings may be addressed in two ways. To respond to the shortcoming of leadership concepts, it is necessary to shift the theoretical focus onto the carrier of such ideas, i.e. on political

⁴¹ Campbell is not specific about what he means by ‘political agenda’. In public policy research, one can find a distinction between different kinds of agendas, such as in Rogers and Dearing’s (1987) model of agenda-setting, which features a media, a public and a policy agenda (see for an overview of the field Parsons 1995: 110 ff.)

⁴² Only few studies on the impact of cabinet members, i.e. ministers, on policy outcomes have been undertaken, but they underscore the importance of taking the micro-level of analysis into account (see for an overview of the field Parsons 1995: 110 ff.) On the other hand, the scope of ministerial authority may be restricted by prime ministerial government, coalition leadership, a government programme or rules of collective decision-making (Andeweg 2000).

Chapter 2

actors and how they make use of or handle ideas in specific policy processes. Furthermore, in order to address the causality question and the lack of agency when considering ideas by themselves, it is necessary to engage in empirical research focusing on those actors. Such research may examine the role that ideas have played in actors' behaviour and, in doing so, describes or illustrates the causal mechanisms that link these ideas to policy outcomes. By developing a concept that captures these thoughts and by evaluating its plausibility, this study intends to make a contribution to both aims. It explicitly combines political actors, via the concept of leadership, and the role of political ideas, by asking how leaders make use of ideas in order to achieve far-reaching reforms even against the odds of institutional and political obstacles.

On a more general conceptual note, an explanation that considers both agency and ideas also goes some way towards seeing them both as determinants of policy outcomes. Indeed, some authors have pleaded for the influence from both interests and ideas to be considered instead of treating them as rival explanations (cf. Gibson and Fiedler 2000). Indeed, to ask whether either interests or ideas are the chief determinants of policy outcomes may be a misleading way of addressing the issue, because it neglects the possibility that the interaction between them is what counts. In the same vein, Ross has argued that 'two alternative, mutually consistent forces driving welfare restructuring are ideas and interests' (Helms 2000: 24). She argues that a combination of the two factors is slowly receiving more attention, as the disadvantages of exclusively structural (institutional and interest-based) explanations become clearer. However, to achieve changes on the political agenda, individuals need 'to grab new ideas and promote them' (ibid: 25). Furthermore, an integration of ideas and agency can help to advance knowledge about the role of ideas in policy-making, if better research methods are developed to evaluate the impact of ideas. For instance, in order to demonstrate that ideas matter as an independent variable, one should try to see whether it is possible to establish and demonstrate connections between ideas held by individuals and/or groups and the decisions ultimately made by political actors (Sabine 1973: 22). More recently, Béland (2005) has argued that institutionalist scholars may pay greater attention to ideational processes without abandoning their core assumptions, as policy ideas may matter in and beyond agenda-setting processes. At the same time, he stresses that further research on the role of ideas in social policy should develop methods 'to evaluate the concrete influence of ideas on welfare state politics' (Helms 2000: 14). In response to such calls for the integration of ideas and interests in explanatory models and improved methods for gauging the influence of ideas, this study makes a contribution in both respects: on a conceptual level, by considering how to combine agency with ideas in the IL concept, and by devising a research design to evaluate its impact.

2.2.3 Ideational Leadership: Reform-Oriented Leadership Plus the Role of Ideas in Policy-Making

IL is about leadership achieved with the help of ideas. Before going into its meaning in more depth, a general definition may be *key policy-makers who use strategies that are idea-based ("ideational"), and purposively aim for the achievement of change, even in view of institutional and electoral challenges ("leadership")*. The concept of IL describes a certain resource of key policy-makers that helps to transform the resistance of reform opponents against reforms into acceptance (or at least neutrality) towards a particular reform initiative. In this fashion, the presence of IL can plausibly be linked to the adoption of structural reform in policy areas belonging to the welfare state. More specifically, IL is conceptualized as a cluster of abilities of key policy makers, including 1) to expose drawbacks of old policy principles and policies built on them; 2) to make consistent efforts to legitimize new principles and policies (using cognitive and normative arguments), 3) to frame reform resistance as problematic for societal welfare (and

Ideational Leadership

possibly for the interests of lobbyist groups, in terms of their long-term welfare political influence); 4) to make efforts at political consensus-building in support of the reform initiative; and 5) to be predominantly policy-oriented. These patterns of behaviour taken together neutralize or at least decrease reform resistance by convincing opponents of the merits of new policy principles and allow the adoption of innovative reform initiatives (the aspects of IL are developed in depth in Section 2.5).

My hypothesis about IL thus associates key policy-makers' behaviour with the concept with the occurrence of structural welfare state reforms. The different aspects of ideational leadership, when taken together, reduce the level of institutional lock-in associated with welfare state arrangements and enable structural reforms to be adopted. This hypothesised relationship between IL and structural reforms may at first sight appear tautological, if one assumes that the observation of leadership necessarily implies achieving a certain outcome (structural reforms) or if one automatically associates the term leadership with reform adoption. There may be a certain danger in making this argument, but when taking a closer look at the issue, it is largely unfounded. Tautological here refers to the danger of formulating an explanation that is true by definition and therefore not falsifiable. The aspects of IL are all formulated with a view to specifying the relationship between them and the shaping of conditions for institutional break-out, which allow structural reform to occur. However, this does not mean that the specification or definition of IL (the independent variable), "includes" structural reform (the dependent variable). In my hypothesis, IL is merely related to, *but not equated to* structural reform; therefore, the presence of IL in a reform process does not automatically imply a structural reform: this clearly leaves room for falsifying the hypothesis. However, my opinion is that it can only be shown by empirical study of structural reform cases whether or not key policy-makers indeed acted in accordance with the hypothesized aspects of IL and, if this was the case, whether the role of these IL-type actors could be linked to the occurrence of structural reforms.

The core concepts of the hypothesis include "key policy-makers", which refer to those individuals who are most likely to wield ideational leadership. I consider them to be senior members of the executive (such as ministers and prime ministers) who are authorized to initiate or commission major reform proposals and who are able to perform as political leaders in the context of a reform process (cf. Gibson and Fiedler 2000; Helms 2000). Whether it takes one such individual or several of them to push through a far-reaching reform project is largely an empirical question, which will be answered in the empirical case studies. In addition, "reform resistance" is the sum of resistance that can be wielded against a reform proposal, mostly by formal veto power of an actor or institution, but also by other forms of visible opposition (for instance, strikes by trade unions). It stems from welfare state institutions, political institutions (e.g. parliament(s), possibly in interaction with political parties, whether governing ones or opposition parties), and societal interest groups (for instance, employers and trade unions). Finally, the term "structural reform" is used to denote major reforms. As such, it is conceptually different from incremental or stepwise reform.⁴³

⁴³ As explained in Chapter 1, a structural reform introduces changes to one or several structural dimensions of a social policy area, i.e. its financing, benefit or management structure. The financing structure determines who pays for a certain social programme and by which mechanism payment is effected; the benefit structure combines regulations on who provides services or financial provisions ("benefits"); the management or regulatory structure is about who is the competent body to regulate the policy field (Webber 1989). This definition is in line with criteria for institutional reform except for excluding the 'mode of access to benefits' as another institutional aspect (Palier 2002).

2.3 A Bird's Eye View of Leadership: Theories and Concepts

In this section, I will offer a review of leadership concepts that are relevant to the development of IL. During the discussion, I will both outline these concepts and point to their shortcomings. The focus will be on concepts close to contexts of politics and policy-making (as opposed to leadership in business and organizational contexts) that can elucidate processes of policy change. This selective approach is by no means intended to deny the wide variety of leadership concepts that has been developed in the field of business administration and management, where leadership enjoys considerable popularity and the attention of practitioners, but which are beyond the context of this study. After some definitional clarifications and a brief historical outline, the review takes a brief look at organizational leadership theories, explaining why they are less relevant to the argument I am going to develop, and then proceeds to concepts from the field of political and policy science that either help to underline why leadership can help to explain structural reforms or deliver building blocks for the constituent aspects of IL in Section 2.5.

Leadership is a ubiquitous concept⁴⁴ and enjoys considerable popularity as a topic of academic study.⁴⁵ Apart from the field of business economics and management, as stated before, leadership theories also have been of interest to political and policy science. A leader has traditionally been defined as “the person who leads or commands a group, organization, or country”.⁴⁶ Leadership has been defined as “the position of a leader” and “the ability to lead”,⁴⁷ of which the latter meaning comes closest to the definition of IL in this study: the focus will indeed be on the abilities of key policy-makers. A definition from the public policy tradition stresses the result-oriented element of leadership, described as ‘the actions of a person who (whether elected, appointed or emerging by group consensus) directs, coordinates, and supervises the work of others for the purpose of accomplishing a given task’ (Luke 2000: 191). A definition of leadership in political contexts refers to leadership as essentially an exercise of power “to get things done”.⁴⁸ IL, however, while focusing on what policy-makers need to do to get reforms adopted, differs from a pure exercise of power on the basis of authority, as it also stresses the clout of ideas in the process.

In political science, the phenomenon of leadership constitutes a classic area of scholarly interest. A recent overview of the field covering political leadership (Gerth and Mills 1948)

⁴⁴ Blondel expresses this ubiquity as follows: ‘Leadership is as old as mankind. It is universal, and inescapable. It exists everywhere, - in small organizations and in large ones, in businesses and in churches, in trade unions and in charitable bodies, in tribes and in universities. It exists in informal bodies, in street gangs and in mass demonstrations (...) Leadership is, for all intents and purposes, the no.1 feature of organizations. For leadership to exist, of course, there has to be a group: but wherever a group exists, there is always a form of leadership’ (Blondel 1987: 1)

⁴⁵ Since leadership is to be found almost everywhere in daily life of modern societies, it is not surprising that it is matched by a popular concern. Such concern is reflected in the amount of academic publications, where already in 1990, 7.500 empirical leadership studies were reported (Bass 1990 cited in Gibson and Fiedler 2000: 191). To employ another measure of academic interest in the field, the 1980s saw approximately five articles a day being published on leadership in the English language, while by the 1990s this amount had doubled to ten articles a day (Grint 1997: 2)

⁴⁶ The Concise Oxford English Dictionary. Ed. Catherine Soanes and Angus Stevenson. Oxford University Press, 2004. Oxford Reference Online. Oxford University Press. source:

<http://www.oxfordreference.com/views/ENTRY.html?subview=Main&entry=t23.e31569>

⁴⁷ Pocket Fowler's Modern English Usage. Ed. Robert Allen. Oxford University Press, 1999. Oxford Reference Online. Oxford University Press, <http://www.oxfordreference.com/views/ENTRY.html?subview=Main&entry=t30.e2207>

⁴⁸ ‘It (i.e. leadership) is power because it consists of the ability of the one or few who are at the top to make others do a number of things (positively or negatively) that they would not or at least might not have done. But it is not, of course, just any kind of power (...). Thus it seems possible to define political leadership, and specifically national political leadership, as the power exercised by one or a few individuals to direct members of the nation towards action. (Blondel 1987: 3)

Ideational Leadership

suggests that both normative and empirical approaches to leadership have been developing.⁴⁹ The normative tradition of leadership more generally as well as political leadership date back to the philosophy of Plato and his *Republic* and *Statesman* (about 500 B.C.) as one of the earliest examples,⁵⁰ although references to leadership were even found in ancient Egyptian documents (Gibson and Fiedler 2000: 191). Even before the beginning of political modernity, the so-called “*Fürstenspiegel*” was modeled on Thomas van Aquino’s *De regimine principum*.⁵¹ A radical change from such writings came with Machiavelli’s classic 16th-century work *Il Principe*, in which he formulated systematically the “technical” base of political leadership as power politics.⁵² With the arrival of modernity, the search for “good government” and “good political leadership” took on a different meaning: based on the thinking of Locke and Montesquieu, it was to be secured by institutional innovations (as the separation of power) and less through the leadership of one or more individuals.⁵³ In contemporary political science, normative approaches have resurfaced in contemporary political science, in studies of “good government” and a “code of good administration” in a mostly Anglo-Saxon debate on the ethical basis of leadership (Dobel 1998 cited in Helms 2000: 414).⁵⁴ While these normative approaches are important, they are less relevant to my account of ideational leadership, as IL does not include prescriptive goals but is explanatory in character.

In contrast to these historically prominent normative approaches, empirical approaches to political leadership can be roughly divided into personal, structural, and interactionist approaches. The first two can be seen as representing opposite sides of the same continuum: while personal approaches magnify the qualities and personal attributes of individual leaders, more radical versions of structural approaches leave very limited room for political leaders to influence government decisions. In the intermediate interactionist view, scholars try to incorporate both personal and structural factors; doing justice to patterns of interdependence and mutual dynamics. In addition, the influence of short-term contextual factors that may open unpredictable “windows of opportunity” is taken into account (March and Olsen 1989: 416-420). As an empirical approach

⁴⁹ This paragraph draws substantively on the overview in Hesse 2000.

⁵⁰ In the work of Plato, the idea of a leader is embodied in the ruler, most explicitly in the *Statesman*. The former is seen to play the main role in political absolutism, which is justified ‘in case the ruler is really an artist at his work’. Therefore, ‘in the ideal state the consent of subjects is no part of the ruler’s equipment, since the subject’s liberty according to the customs and traditions of the law can only work to hamper the free artistry of the ruler who knows his art’ (Sabine 1973: 81)

⁵¹ These fairly early normative accounts of leadership formed a ‘political-pedagogically motivated confrontation of ideal and image, of real picture and ideal picture of the ruler’ (Mühleisen and Stammen 1997, cited in Helms 2000: 413).

⁵² Machiavelli was the first to establish politics as an independent subsystem (within the state) and reflected upon it in the framework of a rational doctrine for action that rejected an individualistic normative-moralistic motivation for politics. However, he remained somewhat normative in the sense that he elevated the act of overcoming political crises to the highest norm for successful political action (ibid: 413) and therefore of political rulers or leaders. In the *Prince*, leadership appears as the exaggerated idea of the ruler’s power. ‘The ruler, as the creator of the state is not only outside the law, but if law enacts morals, he is outside morality as well. There is no standard to judge his acts except the success of his political expedients for enlarging and perpetuating the power of this state’ (Sabine 1973: 323).

⁵³ Rousseau acknowledged political leadership in the form of the “*legislateur*”, but ascribes to him rather the role of a catalyst in order to reach a desirable and institutionally bolstered finite state (Sabine 1973: 414).

⁵⁴ Other normative elements have been present in *ex post facto* evaluations of different styles of leadership of key politicians (Graubard and Holton 1962) and in the work on the leadership of US presidents and their leadership styles (Rockman 1984). In German political science, recent contribution in the field also have a normative connotation, for instance, when defining “state politics as leadership task”, assigning it function of leadership, orientation, organization, and conveyance. Accordingly, politicians are expected to determine and define problems, determine the outline of possible actions and goals of action; mobilize and unite necessary actors for collective tasks and organize consensus and acceptance for common ways of action and motivate the actors involved in such processes (Sabine 1973: 81).

Chapter 2

to leadership, my argument about IL finds itself in the last category, as it engages explicitly with the possibilities for leaders to break through resilient structures.

2.3.1 Organisational Leadership Theories

In organisational studies, leadership theories are divided in two types, one based on personal attributes and abilities of individuals,⁵⁵ and another based on transactional theories of leadership (Gibson and Fiedler 2000: 193).⁵⁶ In recent years, a third category has emerged,⁵⁷ adding transformational⁵⁸ and charismatic leadership⁵⁹ theories. There have also been attempts to go beyond conventional ways of classifying leadership in terms of leaders' traits, characteristics and behaviour that define ideal types focusing on traits, contingencies, situations and "constitution" ('t Hart and ten Hooven 2004).⁶⁰ These categories of leadership are concerned with understanding and predicting outcomes of leadership behaviour in organizational contexts (within private or public organizations). These notions of leadership may be appropriate in describing what leading

⁵⁵ These centre on personality attributes and traits, leader behaviour, and went on to consider also situational (i.e. organizational) characteristics (Gibson and Fiedler 2000:192-195).

⁵⁶ Transactional theories, which emerged in reaction to exclusively personality-based approaches, comprise so-called contingency theories which are also sensitive to the nature of the leadership situation when considering the effects of a leader on performance. Theories that fall into this category stress factors like motivational structure and situational control; the characteristics of followers and tasks; level of participation granted to followers; and include complex models allowing for a variety of leader behaviour and intervening group process variables.

⁵⁷ This most recent group focuses on effects of certain personalities (using a more parsimonious set of indicators than previously) expressed in the types of charismatic and transformational leadership (Ibid: 195-200). The latter (together with visionary leadership) are among the more common theories of organizational leadership and share the following elements: having a compelling vision challenging the status-quo; infusing that vision in a way that inspires and motivates employees; empowering others and enlisting followers in the vision and developing mutual trust and personal loyalty between leaders and followers (Luke 2000: 47-48)

⁵⁸ Transformational leadership, based on the historical analysis of political and social leadership by Burns (1978), has resulted in two functions of leadership within the organizational context. It stimulates high levels of performance within organizations and it can help to transform organizations in response to rapidly changing environments (Luke 2000: 46).

⁵⁹ A charismatic leader draws upon a bond between him and his or her followers, 'where the leader grips followers with a specific vision for action or by other means than merely emotional appeals to survive a crisis' (ibid.). Charismatic leadership is rooted in the typology of legitimate domination by Max Weber (1921), referring to three different bases of authority as 'pure' or ideal types: traditional, charismatic and legal-rational forms of legitimization (Gerth and Mills 1948: 78-80). The traditional form of authority is associated with traditional 'rulers', such as kings and other dignitaries, who derived their power from 'ancient recognition and habitual orientation to conform'. The second category (which Weber qualified as the one political scientists should be most interested in) is 'charismatic' domination, resting on 'the authority of the extraordinary and personal *gift of grace* (charisma), the absolutely personal devotion and personal confidence in revelation, heroism, or other qualities of individual leadership'. As examples, Weber refers to the 'magician and the prophet on the one hand, and in the elected war lord, the gang leader and *condotierre* on the other hand' (ibid: 80). Furthermore, as examples of *political* leadership (which Weber saw as a sub-category of charismatic leadership), he refers to the "demagogue" of the ancient city states and to the parliamentary party leader of the contemporary constitutional state. Finally, domination can be based on 'legality', which hinges on the 'belief in the validity of legal statute and functional 'competence' based on rationally created rules' (ibid: 79).

⁶⁰ In the 'trait approach', the 'essence' of the individual leader matters more than the context in which he or she operates. A 'contingency approach' implies that both individual traits and the context in which a leader finds him- or herself are 'knowable and critical' (Grint 1997: 5), assuming that leaders have an awareness of both their skills and the context in which they find themselves to assess when their leadership style is advantageous in a given situation, and to make use of their leadership skills when necessary. Third, the 'situational approach' is similar to the contingency approach regarding the situation while the leader is supposed to adapt his behaviour and actions to suit the situation. Finally, the 'constitutive approach' suggests that it may be impossible to know the true essence of both the leader and the situation. This approach contends that we may not know the true essence of a leader or the situation he finds him- or herself in, and instead be dependent on other people's accounts to make judgments on the person and/or the context.

Ideational Leadership

individuals do in those contexts. However, the environment in which an ideational leader operates, differs from the context in which a hospital manager or business leader functions: key policy-makers function within institutionally defined roles (cf. Maier 2000), they are publicly accountable for their actions and subject to electoral concerns; in addition, in accomplishing their tasks, they have to deal with a wide variety of other (and potentially resisting) political and institutional actors. Furthermore, ‘policy leadership targets solving complex, boundaryless public problems in highly interconnected policy arenas’, is ‘intergovernmental and intersectoral in nature’ and consequently ‘faces constraints and challenges substantially different than those facing contemporary organizational leadership’ (Lieberman 2002: 48). In other words, despite the wealth of approaches in the organizational field (and some overlap in classification of approaches), the concept of IL cannot gain from their insights. Next, I will turn to concepts that are more geared to contexts of political and administrative science.

2.3.2 Political Leadership Concepts

For the building of the IL concept, the seminal work of Burns on political and social leadership (1978) is of relevance. For Burns, throughout history, leadership in society has been either transformational or transactional. Transactional leadership involving an exchange between the leader and his follower(s) can be of many kinds (such as economic, political or psychological), but the relationship between them is limited to bargaining. Transformative leadership stands in contrast to that concept.⁶¹ Burn’s theory on how transformative leaders change their followers’ motivations can surely be applied to different (political) contexts, but is it also relevant for developing explanations for far-reaching social policy reform in contexts of institutional inertia? On the one hand, his concept of transformative leadership does seem to overstate the possibilities of leaders in multi-actor contexts of policy-making. On the other hand, his theorizing provides a convincing argument for considering acts of “non-coercive” leadership as a possible explanation for significant (and lasting) change, underscoring the importance of considering leadership-based explanations.⁶² In addition, Burns sees leadership as a necessary factor in achieving what he calls “significant” or “real” change,⁶³ which is compatible with my definition of structural change, that is, the creation of new institutions, leaving behind old policy paths. In other words, Burn’s hypothesis strengthens my case for focusing on leadership as a factor that helps to explain large-scale and impacting change.

To continue, Blondel has contributed a theory of political leadership in the interactionist tradition and he sees leaders as constrained by their environment, but also as counting upon ‘institutional and other resources’ (Blondel 1987: 182). His leadership typology is based on an assessment of its impact, which is closely tied to the external environment and the opportunities

⁶¹ ‘Such leadership occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality.[...] Transforming leadership ultimately becomes moral in that it raises the level of human conduct and ethical aspiration of both leader and led, and thus it has a transforming effect on both’ (Burns 1978: 20)

⁶² ‘Paradoxically, it is the exercise of leadership rather than that of “naked power” that can have the most comprehensive and lasting causal influence as measures by real change’ (Burns 1978: 439)

⁶³ ‘Real change means the creation of new conditions that will generate their own changes in motivations, new goals, and continuing change. Leadership analysis, with its emphasis on motivation, improves explanation by enabling the analyst to identify purpose among all the eddies and cross-currents of the many forces at work – purpose that can be measured in itself to some degree and compared to intended results (real change)’ (Burns 1978: 441).

Chapter 2

and constraints this offers.⁶⁴ Blondel's thinking on leadership is important for IL, as his typology points out a link between innovative leaders and "large changes", which again underlines the rationale for taking up leadership as one component of IL: it indicates, similarly to Burns, that for achieving large-scale change, innovation carried out by leaders is necessary, which is what I argue IL to be all about. Surely, this raises questions about what "innovative" involves, i.e. what precisely leaders need to do in order to achieve far-reaching change.

2.3.3 Leadership in a Context of Policy-Making and Change

While the leadership concepts of Burns and Blondel have emphasised the general connection between leadership and far-reaching change (and thus underline my choice for looking at leadership as an explanatory factor for structural reforms), the question is how leaders prepare the way for such change. To answer this question, I will turn to leadership concepts in the context of policy-making. These offer more precisely defined elements for developing the IL concept, as they are conceptually closer to the events investigated in this study (structural reforms in advanced welfare states) than the concepts presented in the previous sub-sections. Theorizing on how leadership manifests itself in public policy contexts needs to reflect the context of constraints and challenges leaders are dealing with in policy-making. Such contexts were absent or specified to a much lesser degree in the concepts of political leadership we have seen above. In addition, leadership concepts tailored to policy-making contexts identify, at least crudely, functional aspects of the behaviour of those working towards policy change. I will discuss the concepts of policy, innovative and reformist leadership, all of which are closely tailored to a policy-making context.⁶⁵

"Policy leadership" refers to a form of leadership that 'works in political and inter-organizational contexts where authority is shared and power is dispersed [...]' (Maier 2003:49). It consists of four essential tasks, which represent a 'more complex set or pattern of activities and processes commonly found in successful policy leadership efforts'. Out of the four tasks, the three relevant ones are: a) raising the issue on the public and policy agendas by focusing attention on it; b) convening the set of individuals, stakeholders etc. needed to address the issue; c) forging agreements on policy alternatives and viable options for action (ibid: 49-50). These three tasks are directly related to the stages in the policy process, which I consider to be relevant for the IL concept.⁶⁶ The first step requires 'leaders to intervene in the policy arena by directing attention towards an undesirable condition or problem, defining and framing the issue in a way that can

⁶⁴ Blondel conceptualises leadership impact along two dimensions, as the extent of change (none [i.e. status-quo maintenance], moderate, large) and the scope of change (wide, moderate or specialized). The first dimension serves to 'distinguish the "great" leaders [from one another], depending on the extent to which they are concerned with maintenance or change in the society'; the latter 'helps to differentiate between "great" leaders and policy-makers by assessing the scope and range of intervention' (Blondel 1987:94). Nine different types of leadership impact result; concerning the specialized scope or policy area dimension, there are 'managers' (no change), 'adjusters' (moderate change) or 'innovators' (large change). However, leadership cannot be assessed without paying due attention to the environment of leaders, who are subject to internal (from within the polity) and external (from outside the polity) which both create constraints and create room for manoeuvre (ibid: 113).

⁶⁵ Luke's work on policy leadership has been customized to the US context of policy making, and Moon's innovative leadership concept relates to the empirical context of the UK. Finally, 't Hart's reformist leadership concept has been applied to macroeconomic policy reform in Australia ('t Hart and Goldfinch 2003).

⁶⁶ The fourth task, 'sustain action and maintain momentum during implementation' corresponds to the implementation phase of the policy cycle and is beyond the scope set for IL. For the sake of completeness, this task involves policy legitimization, building constituent support and advocacy coalitions, create implementation structures, resource accumulation and mobilization, rapid information sharing and feedback, and maintaining a policy learning approach

Ideational Leadership

mobilize others around the search for responses'. The second aspect entails that policy leaders have to bring the necessary people together to address a situation earlier defined as undesirable. Such mobilization of an collective effort may be achieved by, for instance, 'advocacy coalitions, collaborative alliances, issue-oriented networks, political action committees, and stakeholder groups' and may either be organized around the problem itself or around particular solutions (Luke 2000: 52-53). The third aspect is perhaps the most critical one: policy leadership requires coming to agreements, which involves 'multi-party problem-solving among diverse interests that results in the development of multiple strategies to achieve agreed-upon outcomes' (ibid: 53). While it is difficult to devise a theoretical perspective to guide this process, it is said to involve direction setting, option generation, searching, designing and crafting policies, selecting policy options and authorizing and adopting them (ibid: 56-58). In some respects, policy leadership remains deficient. For example, in Luke's view, policy leadership cannot be associated with any one individual, since the context of public policy making makes for the 'decreasing [of] the ability of any one individual, agency or institution to mobilize a sufficient number of individuals behind any particular policy agenda' (Braun and Busch 1999:49). Policy leadership thus rests on a different view of agency compared to the one I adopt for IL. Furthermore, some tasks of policy leadership remain underspecified; the third task, for instance, 'forging agreements on policy alternatives and viable options for action' leaves it to the reader's imagination to decide how a policy leader would go about doing this.

Moon (1995) bases his concept of "innovative leadership" on two dimensions, political will and political capacity, and develops a typology of office-holding. Therein, innovative leadership is characterized by a strong sense of political will and strong policy capacity. Other forms of office-holding, as a combination of absence or presence of these dimensions are zealotry, managerialism and inertia (Moon 1995: 3-4). The first characteristic implies commitment to pursue particular policies together with 'a partisan rather than consensus-seeking approach to policy-making'. It also implies 'determination to pursue policies beyond those which arise by force of circumstance'. Strong policy capacity, on the other hand, implies '(...) an understanding of cause and effect in the policymaking process which might assist innovation (...) enhanced by policy learning prior to and during office'. The latter is said to 'enable office-holders to increase their capacity to innovate in ways that might have been beyond them on election' (Moon 1995: 2). Essentially, innovative leadership combines political motivation with political or policy capacity, which distinguishes it from the earlier concept of policy leadership that was defined in terms of a sequence of tasks. In short, 'irrespective of its direction and goals, innovative leadership requires a sense of purpose backed up with some coherence' and 'it entails not just taking others along a path, but doing so in a fashion sufficiently informed to achieve lasting policy redirection' (Braun and Busch 1999:3). As with policy leadership, this leadership type requires 'an understanding of cause and effect in the policymaking process which might assist innovation'. While its aspects of commitment and cognitive insight in bringing about innovation are valuable insights for developing IL, the concepts again lack precision: the very general phrasing of the latter requirement does not tell us much about how political actors put it into practice.

Finally, "reformist political leadership" is perhaps the most useful concept to consider in assembling IL; it also has the closest links with the chosen context of policy reform (Maier

Chapter 2

2000).⁶⁷ It builds upon an earlier version of the concept, “reformist leadership” (‘t Hart 2000), which distinguishes a communicative and a strategic or coalition-building dimension. Reformist communication includes ‘unmasking the status quo’, ‘communicating will power’, and ‘propagating a solution’. In addition, the coalition-building dimension involves co-opting groups needed for implementation and controlling the game.⁶⁸ “Reformist political leadership” consists of a number of functional requirements: ‘articulating the need for reform’; ‘proposing a set of radical reform objectives’; ‘seeing to it that these are politically sanctioned’; and ‘guarding their integrity during implementation’ (Goldfinch and ‘t Hart 2003: 237). These are then translated into five propositions based on the policy change literature. Firstly, ‘articulating the need for reform’ stands for a - preferably dramatic - portrayal of current issues as serious and acute crises. Secondly, reform leaders are to gather allies in order to form a coherent team that will support important changes. Thirdly, reformers would have to ‘develop and employ strategies targeted at persuading their political environment that the proposed changes are both desirable and inevitable, as well as being practically feasible’. Fourthly, seeing to political sanctioning involves ‘managing to secure early support for implementing actors for their crisis-response strategy’. Fifthly, tight control of leaders over the crisis-management process, both formally and in terms of taking personal initiative, is a final requirement (Goldfinch and ‘t Hart 2003: 238-41). In short, ‘reformist leadership requires the embracing of novel policy ideas, the skills to “sell” them to diverse audiences, and the wielding of power to see them enacted’ (ibid: 237).⁶⁹

Compared to the concepts of policy and innovative leadership, reformist leadership has added value because it draws attention to the communicative and coalition-building aspects of leadership, an important distinction that will be translated to the IL concept, since it describes its essential elements in rather concrete terms. Thus, a reformist leader would be expected firstly to highlight the problems with the policy status quo, and then to communicate, resolve and propagate a solution to the problem. This makes it much more tangible than the concepts of policy or innovative leadership, where the communicative aspect of such leadership remained unaccounted for. However, even the specification of reformist leadership could be improved upon, by for

⁶⁷ To the best of my knowledge, the study of Goldfinch and ‘t Hart (2003) has gone furthest in evaluating the effects of reformist leadership in a context of policy change. Its aims are linked to the aims of this study, as the authors ‘seek to enhance the actor perspective on major policy reforms’ (Goldfinch and ‘t Hart 2003: 235).

⁶⁸ The aspects of this earlier concept are as follows (they only slightly differ from the later concept of “reformist leadership” discussed in the main text): the first element requires that leaders present the current situation in a policy area or the existing system as a threat to central societal values and interests. Secondly, leaders are expected to commit themselves forcefully (i.e. publicly and verbally) to the objective of a reform. Finally, they need to present their proposals as unavoidable, desirable and achievable, especially compared to competing policy option, if these exist. The coalition-building dimension involves co-opting groups needed for implementation and controlling the game. Co-opting of groups means that leaders ensure themselves early of the support of groups which are indispensable for the implementation of the envisaged reforms. Controlling the game, on the other hand, assumes that leaders exert (preferably personal) control over crucial forums, the timing and the ‘rules of the game’ in the reform process (‘t Hart 2000).

⁶⁹ In his more recent work, ‘t Hart has developed, based on dichotomy of communication and coalition-forming, three types of (reformist) leadership: a) constructive, b) reformist, and c) conserving leadership (‘t Hart and ten Hooven 2004). While the first type assumes creating or establishing new institutions or policies, only the last two types can be applied to the realm of policy reform. Reformist leadership closely resembles the concept in ‘t Hart’s earlier work and includes, as four conditions for successful leadership, the four aspects of reformist leadership discussed in his work of 2000. Conserving leadership is a sub-type of reformist leadership, preserving the valuable parts of the existing order while possibly doing away with or changing other parts of the same order. Such a leader may argue that further reform measures are impossible to realize; chose an incremental reform strategy, or add new institutional or policy goals to compensate for those that have been replaced in the course of reforms (‘t Hart 2004: 94-100).

Ideational Leadership

instance, spelling out more clearly what persuasive arguments involve and how it links certain leader behaviour to policy results.

2.3.4 Building Blocks for the IL Concept

During the preceding discussion, some important points about the usefulness of leadership approaches, but also about their shortcomings, have been highlighted. As the shortcomings are to be compensated for by the linkage of elements of leadership and ideational approaches, a number of elements become relevant for accurately defining the IL concept. I consider three features to be important building blocks, namely 1) “unmasking” or rejecting the status quo, 2) consistently propagating the solution, and 3) making efforts at political consensus-building. The first two seem essential in preparing the ground for and making an argument for innovation in any policy sector, while the third one recognizes the fact that even relatively autonomous political actors will typically have to secure some support from other actors (whether individuals or organizations), in order to assure the success of a reform project (exceptions to this may apply in presidential systems without checks and balances, or autocratic states, which do not concern us here). For these reasons, these three aspects have entered into the conceptualization of ideational leadership.

2.4 Making Sense of Ideas: A Short Survey of the Ideational Literature

2.4.1 Defining and Classifying Ideas

As I have stated at the beginning of the chapter, the leadership literature does not sufficiently specify what political agents need to do in order to bring about change. I have also argued that this gap may be filled by considering the role of political ideas and ask in what ways policy-makers make use of them to promote reforms. However, it does not suffice to contend simply that political leaders who make use of political ideas when pleading for reforms are more effective in decreasing reform resistance. What is also needed is a theoretical account of how political ideas are linked to the occurrence of far-reaching or structural reforms that imply a break-through of institutional and political obstacles. Devising or, to use a more graphical metaphor, “building” a concept that combines scholarly thinking on leadership with the insights of the role of political ideas in policy-making may be better at explaining how structural policy change in the context of the welfare state occurs. This section discusses the merits of some idea-based approaches and shows how they complement the three aspects of leadership, which are to be incorporated into the IL concept.

To begin with, it is necessary to consider what is actually meant by “ideas”. While the term is used in everyday speech to express anything from thoughts to opinions, beliefs or feelings, the definition of an “aim or purpose” comes closest to its use in the study of public policy-making processes. Since the 1990’s, the role of ideas in policy-making has been the subject of lively discussion in political science, even to such an extent that some labelled it ‘the decade of ideas’ (Goldstein and Keohane 1993). In a broader sense, the interest in ideas as explanation of policy outcomes in various areas (e.g. in foreign policy) increased considerably after the end of the Cold War (Maier 2000; Bonoli and Palier 2000a). However, this evolving field of political research is marked by a high level of heterogeneity, as authors hardly use the term “idea(s)” as a generic concept to describe the object of their research. Many contributions use ideas in a wider sense of the word, referring to “paradigms”, “discourse”, “norms”, “world views”, “narratives”, “beliefs”, “frames” or “knowledge” to name just a few of the terms used (see for a systematic overview of the field Braun 1999).

Chapter 2

Within a wide variety of ideational approaches, the ones of interest for this study focus on the role of ideas in processes of policy-making and policy change. Such approaches are ‘not looking in the first instance [...] at who will get what, when and how, but rather at what has been the role of ideas for policy change, how the ‘environment’, i.e. institutions, distribution of power and interests, affects the role of ideas and in what way ideas are transformed into political action’ (Braun 1999:189). This focus generates questions such as how much ideas matter, when they have some influence on the policy-making process, and how they relate to actors’ interests and choices, and which have already generated a great deal of theoretical and empirical work. In this connection, Braun and Busch offer a list of functionally defined categories of ideas (Parsons 1995: 4), according to which ideas may:

- provide “resources” for political cooperation,
- legitimize policy action,
- structure policy options as “cognitive frames”,
- provide catalytic element of changes in policy instruments/institutions as well as inhibit such change,
- help to understand institutional change different from power-based approaches, by emphasising learning processes and policy evolution, and
- transform perceptions of interest and change actors' strategies in significant ways

As a corollary to the amount of ideational approaches, there is no lack of attempts at classifying ideas in policy-making. This is, however, not the place to map out all possible classifications. Instead, I would like to suggest a definition of “idea” in policy-making that may be used to pin down the “ideational” element in the IL concept. To this end, I use a classification which assumes that ideas can play different roles in policy-making: they justify decisions, help to select policy strategies, or serve to define interests (Sabatier 1999).⁷⁰ In the first perspective, informed by the rational choice tradition, actors refer to ideas when justifying their courses of action, which they base on exogenous, i.e. given, interests. Ideas thus function as “justifiers” and are seen as mere instruments in reaching a set goal. In addition, ideas may serve as “road maps”, helping actors to choose between different courses of action, policy strategies and so forth (Béland 2005:13-14). In the second perspective, ideas gain more leverage when uncertainty helps actors to select a strategy from different options, given they lack the necessary information about all of these. Finally, in the third view, ideas are seen as much more influential than in the previous two. Its advocates argue that ideas precede the formation of (material) interests and therefore define those interests in the first place, challenging the nature of interests as “given”, as the rational choice tradition suggests. The last perspective is clearly inspired by a different world view, in which material interests are not fixed, but subject to “intersubjective” understandings, i.e. commonly held and shared conventions which only then “constitute” interests. It assumes, as Maier (2000) puts it, an ‘endogenization of interests, and their explanation in terms of ideas’ which is ‘the hallmark of the social constructivist approach’ (Cox 2001: 22).

Given these three positions on the role of ideas, which one is the most appropriate as a basis for explaining potentially contentious processes of social policy reform? I propose that the first

⁷⁰ A related classification groups ideas according to how agents use them in policy-making. Accordingly, ideas may serve as direct solutions to policy problems, act as constraints to policy makers’ options, and constitute aids for policy-makers to frame their policy proposals in a way that legitimises reforms (Campbell 1998:398).

Ideational Leadership

view on the role of ideas may be the most useful one to analyze how political actors manage to bring about structural reforms. Ideas that are used to justify potentially unpopular welfare state reforms may play a role in convincing crucial reform opponents, e.g. veto players, to adopt reforms.⁷¹ This view is compatible with thinking of ideas as “justifiers” in seeking to overcome reform blockades. Additionally, it can be helpful to view ideas as “road maps”, aiding a selection of policy strategies, if one was interested in predicting what reform strategies are chosen by policy makers. However, this study does not pursue this line of research.⁷² Regarding the third and social constructivist view, which stipulates that all interests are based on ideas, I consider it inappropriate for an analysis of reform processes that take place in the context of many stakeholders and vested interests. I think that the interests of actors in maintaining or gaining political power can hardly be “deconstructed” into ideas, although, as I will suggest later, it is possible to view interests as both having a material and ideational component. For the purpose of this study, it is irrelevant whether the interests of leaders (or of resisting stakeholders) can be traced back to certain ideas, since it is not primarily concerned with the origins of key policy-makers’ interests; instead, the focus lies on how leaders use available ideas in their quest to get reforms adopted. More importantly, by conceiving the role of ideas as helping policy-makers to justify policies, IL can be defined as an actor-centred explanation that incorporates ideas as justifying devices for overcoming institutionalist obstacles of welfare state change.

2.4.2 Different Views on the Role of Ideas in Policy-Making or How Do Ideas Enter Policy Processes?

The rise of idea-based approaches in public policy research may be seen to some extent as a counter-reaction to the focus on corporatist intermediation (in the 1970’s) and network theory (in the 1980’s), both of which assumed that political negotiations were essentially based on interests. In the 1980’s, there also emerged a number of studies examining organisations and networks (in their approach they were close to network theory), which, however, were not compatible with an interest-based approach and pointed to an ideational dimension in politics.⁷³ Among these novel network and community approaches, which for a large part also sought to offer more general explanations of the relationship of ideas and policy-making, the studies of Sabatier and Jenkins-Smith (1988, 1993) and Kingdon (1995) stand out, as they address the issue of how ideas matter (Schmidt 2002b: 173). In their analyses, the central issue is how, within so-called policy

⁷¹ The notion of veto players as actors that can potentially and actually block reforms is based on the work of Tsebelis (1995), see also Chapter 1.

⁷² In this view, ideas assist to reject policy options (given there are several plans for adjustment and uncertainty about which one to choose) that are incompatible with norms and values held in a polity about a certain policy area, for instance, pension or labour market policy. Given the fact that in contemporary welfare states adjustments to the institutions and policies are necessary, but that the direction of change can be controversial, this implies a need for ideas that can help policy-makers to make that decision. Even though the options of policy makers may be pre-structured by certain characteristics of welfare institutions (Bonoli and Palier 2000a), it is plausible to consider cognitive and normative ideas as guiding principles in helping to decide the course of reform.

⁷³ Rather than looking at interest groups, they stressed the role of advocacy coalitions, epistemic communities and discourse coalitions (Etheredge 1985, Jobert and Muller 1987, Heintz and Jenkins-Smith 1988, Heman 1988, Sabatier 1988; cited in Braun 1999:11), using novel metaphors to describe (parts of) the policy process, such as ‘coalitions’, ‘streams’, ‘sub-systems’ and ‘networks’. The emergence of such approaches went hand in hand with a general questioning (from different intellectual sources) of the hitherto predominant rational choice approach in the field of political science. Neo-institutionalist, normative, neo-Marxist and interpretivist approaches aimed to explain the role of ideas, beliefs, word views etc. to supplement or to substitute interest-based explanations (Braun 1999: 11-12)

Chapter 2

communities and networks (composed of politicians, civil servants, experts, policy analysts, and stakeholders such as interest groups), ideas are advocated within certain policy areas. The rationale behind this focus was that by examining such networks or community, analysts were to learn if and how an idea has had an impact on policy outcomes. In the advocacy coalition framework developed by Sabatier and Jenkins-Smith, the interaction of various advocacy coalitions - containing actors from various institutions and their shared set of policy beliefs within a policy subsystem - is the focal point of analysis. There, major policy change is a result of competition between advocacy coalitions and events outside of the policy subsystem. Ideas here appear in the form of policy beliefs of various sorts, which are diffused by processes of policy-oriented learning (Sabatier 1999: 9).

In contrast, the role of agency is more pronounced in Kingdon's multiple stream model (Kingdon 1995). Major policy change is said to occur when a policy entrepreneur succeeds in making use of a "window of opportunity", connecting the otherwise independent streams that make up a policy process: the problem stream (data on problems and proponents of various problem definitions), the policy stream (proponents of solutions to policy problems), and the politics stream (elections and elected officials) (cf. Converse 1964; Schmidt 2002b:9). The policy entrepreneur is thus the crucial carrier of ideas in this framework (cf. Gerth and Mills 1948).⁷⁴

2.4.3 Ideas and Social Policy Reform

The two preceding sections have specified a view of the analytical relationship between actors and ideas (actors using ideas primarily as "hooks" and possibly as "guideposts"), which is appropriate to the current research context. They have also looked at relevant approaches that make the role of ideas in policy-making more concrete, associating them with advocacy coalitions and policy entrepreneurship. The next step will be to explore how ideas may be connected to political agency, that is, to key policy-makers trying to promote social policy reforms. In parts of the ideational literature focusing on social policy change, this aspect of the role of ideas has also received due attention: ideas often appear there under the guise of "discourse" or "framing". For instance, Cox argues that the 'social construction of an imperative for change' explains why substantial social policy reforms happened in Denmark and the Netherlands, but not in Germany (Arthur 1989). In order to achieve such understanding, Cox sees "path-shaping" processes, in other words, the framing of issues in ways that generate widespread support for reform, as a crucial factor:

The explanation (...) lies in the ability of Dutch and Danish policymakers and the public to construct a new discourse that facilitated reform and the failure of the Germans to do so. By carefully framing issues, Dutch and Danish leaders overcame the path-dependent constraints of existing policy institutions (Cox 2001: 496).

This example shows that politicians who successfully created a public understanding for policy change are singled out as the explanatory factor for reforms. It highlights the need to consider agency as a necessary factor in convincing the public of the need for reform and stresses the

⁷⁴ The concept of "epistemic communities" takes up a position between the two frameworks (Haas 1990). Being closely connected to network or community approaches, 'epistemic communities' consist of professionals who share common causal and political beliefs or values and are committed to translate these convictions into public policies to enhance human welfare. Haas also highlights the role of policy "brokers", who bring ideas into the policy process, is crucial, while the persuasiveness of an idea that is brought forward, and making alliances with the dominant political coalition also matters (Parsons 1995: 174).

Ideational Leadership

importance of “framing”, which needs to be examined in more detail.

As another example of an idea-based explanation for welfare state reform, Ross specifies necessary conditions for successful framing of policy initiatives by political leaders. She links these conditions to the characteristics of different welfare regimes and applies them to a specific case of reform in the United States (North 1990). Her concern is under what conditions politicians may successfully frame reform proposals, which are assumed as potentially unpopular. Framing is presented as an intentional strategy of actors to overcome reform obstacles:

Framing and the selective application of political discourse, the process whereby the advantages of a policy are styled and communicated, is one means by which leaders attempt to compensate for the disappointment and loss of legitimacy that usually accompany the attrition of popular social supports (Ross, 2000a: 170).

The conditions for such framing are related to extant or existing “frames”, actors, institutions and the nature of the policy arena. Successful framing is more likely where new frames respond ‘to those already operative’. Secondly, the credibility (i.e. knowledgeable of the subject matter) and trustworthiness of actors, and when issues allow themselves to be depicted in divisive terms (when, for instance, the programmes involved are means-tested and count on relatively little support from medium and high-income earners) are favourable factors. Thirdly, certain institutional state structures, such as particular types of federalism, can facilitate the reframing of issues. Finally, a variety of conditions attached to a particular policy arena can help to reframe policy issues (Ross 2000a: 173-176). However, when it comes to specifying to what extent framing contributes to a concrete policy result, Ross merely points to the difficulty of estimating its precise impact, as ‘framing does not occur in an institutional and political vacuum’ (Ross 2000c: 188). Ross sees it as a conditional (or intervening) variable rather than an independent variable in its own right: ‘where cultural, institutional and policy legacies are conducive to reframing welfare, political leaders can hope, in Levy’s (1999) view, to turn “vice into virtue”,⁷⁵ especially if they enjoy public trust on the issue’ (ibid: 188). While her work makes a valuable contribution by further specifying the contextual conditions for framing, it fails to directly spell out what the framing exercise itself should entail. However, this is precisely what we need to know in order to make the ‘ideational’ of the IL concept more concrete.

This gap is filled to some extent by another study. In her recent work, Schmidt specifies the conditions for how, where and when discourse is supposed to matter (Hecl 1974; Ferrera and Gualmini 2004). Discourse is conceptualized as having a content or ideational dimension (including cognitive and normative aspects) and an interactive dimension (the coordination and communication of the discourse). It is said to capture:

(...) not only how policy actors managed to reach agreement on the construction of the policy programmes that changed political-economic practices but also on how political actors sought to gain acceptance for these policies and practices through legitimising discourses capable of convincing the public that change was both necessary and appropriate (Hall 1993: 308-309).

In contrast to Ross’ more cautious argument about the impact of framing, Schmidt posits that discourse may be an explanatory factor in the politics of economic adjustment. She addresses the question whether one can specify the causal influence of discourse in the politics of adjustment

⁷⁵ The Levy argument states that ‘vice-into-virtue’ reformers target ‘inequities within the welfare system that are either a source of economic inefficiencies or substantial public spending’. By focussing on such “vices”, reformers have been able to pursue “virtuous” objectives (Levy 1999: 240).

Chapter 2

alongside other variables such as culture, institutions and interests. To this end, the role of political-institutional context (single versus multi-actor systems) and its consequences for policy-makers and envisaged policy adjustments are explored, if the content and/or the communicative dimension of the discourse fail(s) to function properly. After carrying out a comparative case study of macro-level economic and welfare reforms, she argues that discourse can explain change (or its absence): ‘discourse has mattered to the adjustment process in all three countries, with its presence in many cases easing adjustment, while its absence in many cases stymieing reform’. In this process, discourse is said to matter in two ways:

[First] ideationally, by representing a policy programme as conceptually sound – cognitive function – and resonating with national values – normative function. [Second,] it mattered interactively, by serving policy actors as the basis for constructing a policy programme – coordinative function – and political actors as the basis for persuading the larger public as to its merits – communicative function. (Schmidt 2002b: 256).

Regarding the causal influence of discourse, she contends that, firstly, the success of discourse in the process of adjustment depended on the ideational dimension as well as on the interactive dimension,⁷⁶ and secondly, that

Discourse matters most in moments of crisis, when the accepted ideas and discourse no longer sufficiently explain policies, the policies no longer appear to solve the problems of the day, and/or the practices they facilitate no longer work. The crisis itself is mostly the result of external events, although it may also come from internal contradiction in and/or between the discourse, the policies, and the practices (Hemerijck and Schludi 2000: 309).

While the conditions for successful discourse are an interesting extension of Ross’ theory on framing, Schmidt’s account of the causal influence of her various conceptions of discourse lacks a clear-cut causal mechanism linking discourse and adjustment and could be improved in this respect. The essence of these examples presented from the discourse and framing-related literature is that idea-based argumentation and justification may be either a conditional (Ross) or independent (Schmidt) explanatory factor in welfare state restructuring, and some of its elements are important for building an idea-based explanation for structural reforms. Following on from this, I will specify which aspects of ideational approaches will be drawn upon for the conceptualization of IL.

2.4.4 Building Blocks for the IL Concept

Which elements of the ideational literature are suitable for complementing the building blocks already drawn from the leadership literature? Firstly, the analyses by Cox and, in particular Ross, draw attention to actors’ framing efforts and suggest that politicians may be at an advantage by framing their reform message in a careful way. In that respect, these contributions re-emphasized that it was necessary to look at how actors relate to ideas about policy. Furthermore, they underscore my earlier choice for seeing ideas as “hooks”, helping policy-makers to justify policies. By taking up the role of ideas, as theorized in the framing literature, it is possible to think of IL as

⁷⁶ On the ideational dimension, this depended on both how convincingly actors made the necessity for new policies and how ‘appropriate’ they were in the light of existing national values. On the interactive dimension, success is said to depend on whether the discourse was causally important before or after the fact (i.e. to enable policy-makers to gain agreement before agreeing on a programme or to change opinions and win elections (Schmidt 2000b: 308-9).

Ideational Leadership

an actor-centred explanation that incorporates ideas as justifying devices for overcoming institutionalist obstacles of welfare state change.

The second relevant ideational element of IL concerns the substantive characteristics of argumentation that policy-makers use in their statements about and on policy. Here, the ideational dimension of politicians' discourse, an important theme in Schmidt's work, becomes relevant. In essence, a persuasive (and therefore successful) policy discourse is composed of cognitive and normative arguments that are each based on a different logic: the "logic of necessity" and the "logic of appropriateness".⁷⁷ Cognitive arguments are said to justify policy choice through the 'logic of necessity'. Such arguments provide 'core ideas with great potential, demonstrate relevance, applicability, coherence, and greater problem-solving capacity of a programme' (Schmidt 2000b: 218, Table 5.2). The logic rests in that cognitive arguments establish a causal link between a policy problem and the solution proposed by a policy-maker. On the other hand, normative arguments are said to legitimize through the "logic of appropriateness", implying that they 'respond to problems of the polity and reflect/affect national values' (ibid.). Therefore, normative arguments justify policy solutions in terms of (societal) norms and values, which are compatible with the belief systems of those to be persuaded. How can these observations help to develop the IL concept? They inform its second aspect, "consistently propagating a policy solution", in the sense of specifying the substance of propagating. By taking up the ideational element of Schmidt's argument about policy discourse, it is possible to clarify what propagating involves by stating that IL-type policy makers need to rely both on cognitive and normative arguments in order to legitimize their reform plans persuasively. In other words, the second aspect of IL becomes "consistently legitimizing the policy solution with cognitive and normative arguments".

The insights into the substantive components of discourse raise some questions about how the choices of individuals can be influenced. In order to conceptualize what successful ideas are all about, one needs to spell out some assumptions on individual choice made in ideational approaches. For these approaches, the human search for meaning precedes the making of choices.⁷⁸ In addition, they assume that how individuals arrive at decisions does not only depend on their interests or preferences, but also on cognitive frames and belief systems,⁷⁹ which allows ideas to form part of their decision-making. The search for meaning involves cognitive frameworks which enable actors to know what "is" and what is "feasible"; in a second step,

⁷⁷ Note that Schmidt's 'logic of appropriateness' that underlies the quality of normative arguments differs from the one used by March and Olsen in their work on political institutions (1989). Their *logic of appropriateness* relates to action that it instigated by institutional rules, routines and obligations based on institutionally defined roles. Therefore, it contrasts with the other great logic behind human action, the *logic of consequentiality*, in which 'behaviours are driven by preferences and expectations about consequences' (March and Olsen 1989: 160). While March and Olsen see political and social institutions to define what is appropriate behaviour for a person in a specific situation (ibid: 23), Schmidt sees national values as a base of normative arguments to legitimize policy programmes and to underlie her 'logic of appropriateness'. By the second logic, the 'logic of necessity' (which is not explicitly defined) Schmidt seems to imply that the justification of a policy programme (by using cognitive arguments) demonstrates the necessity for its adoption, presenting it as a solution to current problems and to avoid possible problems in the future. Thus, her 'logic of necessity' is related to March and Olsens' *logic of consequentiality*, which stresses that action is based on rational calculation of consequences. Equally, Schmidt assumes that policy-makers who point out cognitive cause-effect (or consequence) relationship can make a convincing (or successful) case for a policy proposal.

⁷⁸ At least two processes characterize the search for meaning: cognitive frameworks of the mind help to order, retain and understand information about the world; norms and values enable their evaluation (Inglehart and Klingemann 1978: 206).

⁷⁹ This term was coined by Converse and refers to a set of beliefs held by actors which are related to each other in a coherent fashion (Converse 1964)

Chapter 2

evaluation enables actors – on the basis of values and norms – to find out what they “ought” to do (Goldstein and Keohane 1993). In order to consider how individuals can be influenced in their decision-making processes, it is useful to draw upon a distinction made by Braun between different types of interests, “material” and “ideal” ones (Braun 1999: 13-14), drawing upon Max Weber’s distinction between the two concepts (Weber in Hall 1993: 61 ff.), before the rational choice tradition reduced interests to strictly material concerns.⁸⁰ The difference between the two lies in that ideal interests are based on value orientations (such as image considerations or normative principles underlying an organization), while material interests are based on goal-rationality. If one accepts Braun’s conclusion that actors’ choices are either driven by material or by idealistic motivations, depending on the difference between a particular situation and actors’ need structures,⁸¹ this enables the communicative message of ideational leaders to “speak” to these motivations and potentially be in a position to influence and change them. This conceptualization may be applied to individuals and collective entities alike.

Therefore, the third building block of IL relates to Braun’s conceptualization of interests in relation to the choice of actors. I think that conceptualizing ideal interests, as being distinct from material interests, has important consequences for thinking about how reform resistance can be overcome. This is because this distinction between types of interests offers insights on how IL may reduce or neutralize such resistance. In the context of reform resistance caused by institutional lock-in effects, resisting actors (individual or collective ones) may hold ideal interests, i.e. considerations about their public image or reputation alongside their material interests, for instance, related to their bargaining position and the welfare of their constituents. How can this insight be linked with the behavioural aspects of IL? An ideational leader may deal with resisting actors in the following ways: by framing this resistance as a) problematic for societal welfare,⁸² and b) detrimental for the bargaining position of interest groups and the long-term welfare of their constituents.⁸³ While the latter option remains possible but is contingent on several theoretical assumptions (such as, whether actors actually do believe it affects their bargaining position and the relative influence of interest groups), I consider the first possibility, appealing to opponents to be sensitive to societal welfare, more plausible, as well as easier to test empirically. It will therefore be taken up as the third aspect of the IL framework as “framing reform resistance as problematic (to societal welfare)”. Having assembled the ideational elements for IL, the next section summarizes the complete theoretical framework.

⁸⁰ Braun’s concern was to better understand the relationship between belief systems and interests to assess ultimately the influence of belief systems on the choices of (individual or collective) actors.

⁸¹ ‘Cognition helps not only to determine what ‘is’ but also what actors perceive they can do to solve the conflict between their ideal and material need structure on the one hand and their perception of the real situation on the other hand. The result is then, either actions based on “goal orientation” or actions based on “value-orientation” (Braun 1999: 14)

⁸² The idea behind this is that reform opponents confronted with the charge of being indifferent to societal welfare (which according to political actors is in danger when reform is delayed or blocked) may care about the consequences for their public image (which forms part of their ideal interests) and adapt their stance.

⁸³ In that case, opponents confronted with the prospect of future material losses for their constituency and their own position may be more likely to accept possible short-term losses implied by reforms to avert losses in the longer term.

2.5 Unwrapping II: Consequences, Aspects and Limitations

2.5.1 Structural Reform as Reversal of Institutional Lock-in

The ideational leadership hypothesis deals above all with institutional obstacles to reform, induced by institutional lock-in. With regard to the second obstacle, electoral resistance, it is assumed that politicians who dare to launch structural reform proposals are either not concerned with electoral pressure at the time of taking such action (because of their timing well ahead of elections), or are prepared to take a political gamble, in the sense that they hope to convince voters of its added benefits in the medium or long term, although it may be costly to them in the short term.

Turning to the issue of overcoming institutional obstacles, it is instructive to reconsider the literature on institutional lock-in including recent work that specifies how this condition can be reversed, i.e. under what conditions an institutional break-out is likely to occur. The origins of such thinking lie in attempts to explain technological and economic change (Hemerijck and Schludi 2000). In brief, lock-in theory specifies why and when suboptimal policy alternatives are difficult and impossible to replace (“lock-in”), and when it is possible (“break-out”) in the presence of a superior alternative, taking into consideration factors such as positive feedback, network externalities and sunk costs. Following North’s suggestion (Kahneman and Tversky 1979) to transform this body of theory in such a way as to allow the study of institutional change, the study of institutional lock-in has by now moved beyond its initial context. Since then, several disciplines, such as institutional economics, law and economics, and political science, have discovered the concept (Woerdman 2002). As for political science, Pierson has tried to adapt techno-economic lock-in theory to a institutional context within the study of politics (Ferrera and Gualmini 2004). In contrast to Pierson, who focussed on the conditions of institutional inertia, Woerdman has systematically worked out a theory of lock-in including conditions for its reversal, i.e. institutional break-out and thus institutional change (Woerdman 2002: 475). He states that four conditions need to be present in order to cause an institutional break-out: a) a superior alternative is available, b) existing policy suffers from a decreasing problem-solving ability, c) information on the alternative needs to be improved, and d) switching costs are lowered.

The first condition refers to the assumption that, in order to prepare the way for innovation and structural policy change, there has to be a superior policy alternative, proposal or plan. It is argued that this is both a necessary condition for an institutional lock-in, as well as for a lock-out, which is what we are interested in (Windrum 1999, cited in Woerdman 2002: 91), as it enables structural reforms to happen. Secondly, the status quo of policy must be such that its problem-solving capacity has been or is in the process of being reduced, that is ‘when it becomes less (or ceases to be) effective with a view to a particular policy target’ (Woerdman 2002: 92-93). When existing policy is being viewed as becoming ineffective, the policy actors concerned will begin to discuss policy alternatives (Simon 1997, cited in Woerdman 2002). Here, Woerdman also notes that the visibility of deterioration matters and is highest when a crisis is at hand so that the attention of both politicians and the public will be raised (Nooteboom 2000, cited in Woerdman 2002). Thirdly, improving the information about the alternative means actively reducing uncertainty about a change to the alternative policy, by either providing more and better information or by making this information known among as many decision-makers as possible (Woerdman 2002: 91). Finally, the lowering of switching costs to an alternative policy may involve a number of different aspects: solving legal obstacles; inducing cultural change in favour of an alternative; reducing or stopping lobbying efforts by vested interests or even reducing the vested interests themselves (Woerdman 2002: 96-97).

Chapter 2

I argue that the above insights from institutional economics on lock-out situations can be applied usefully to the study of how political actors carry out structural reforms in contexts of institutional inertia. To re-state the IL hypothesis, I theorize that the different aspects of ideational leadership, when taken together, have effects (through distinct causal mechanisms), reducing the level of institutional lock-in in a given policy area and enabling structural reforms to be adopted. The mechanisms behind the IL aspects taken together establish four conditions for institutional break-out (superior alternative and decreasing effectiveness of the status quo, more and better information, decreasing switching costs) outlined above. Once these conditions for institutional break-out exist, I assume that structural reform proceeds, given that there is a proposal for reform. In practical terms, this means that the proposal will be adopted, usually by parliamentary vote. There are four causal mechanisms that together link the different aspects of ideational leadership with the outcome of structural reform:⁸⁴ a) policy failure or loss of effectiveness brings on the search for alternatives; b) creating insights into the logics of appropriateness and necessity behind the innovation helps to lower switching costs and re-define values underlying old policy and institutions; c) reform-critical interest groups that are made to “face the facts” or redefine (the perception) of their interest, lower switching costs; and d) forging consensus based on policy-seeking and not power-seeking motives reduces switching costs.

The assumption about the effect of these mechanisms is that they together create a situation of institutional break-out that reverses earlier lock-in and policy stickiness, the typical mechanisms of path-dependency. Engineering an institutional break-out enables policy-makers to push through structural reform, which transforms existing institutional structures (the status quo) in any one social policy area. On a conceptual level, I associate at least two sorts of causal mechanisms with IL’s capacity to overcome the situation of institutional lock-in: one sort operates at the level of beliefs (both cognitive and normative) of opposing actors and the level of (ideal) interests. Here, one can speak of an “ideational mechanism” working through a change in cognitive and normative preferences (compare Section 2.4.4), which relates to Heclo’s concept of “puzzling”.⁸⁵ Secondly, the other type relates to interests and changes the perception of opposing actors’ interests, which is reminiscent of the notion of “powering within puzzling” (Braun 2000).⁸⁶ The combination of these two mechanisms, which effect changes in beliefs and norms as well as in ideal interests, creates the conditions for an institutional break-out, and allows structural reform to materialize. Subsequently, I will discuss each of the aspects of IL, describing the causal mechanism they “trigger”, i.e. how they contribute to a situation of institutional break-out, and, subsequently, structural reform.

⁸⁴ The causal mechanisms linking the separate aspects and the outcome of policy reform draw on insights from the literature on the role of ideas in policy-making, institutional change and policy change more generally.

⁸⁵ These terms refer to Heclo’s often-cited distinction between two dimensions of policy-making: ‘Politics finds its sources not only in power but also in uncertainty – men collectively wondering what to do. Finding a feasible course of action includes, but is more than, locating which way the vectors of political pressure are pushing. Governments not only ‘power’ (or whatever the verb for that approach might be); they also puzzle. Policy-making is a form of collective puzzlement on society’s behalf; it entails both deciding and knowing. Much political interaction has constituted a process of social learning expressed through policy (Heclo 1974: 305-306).

⁸⁶ Alluding to Heclo’s distinction, they argue that powering and puzzling may not be separate activities but ‘crisscrossing’ ones, as policy actors try to organise consensus around preferred policy solutions and the puzzling process tends to be disturbed by political considerations (Ferrera and Gualmini 2004: 25-28).

2.5.2 Constituent Aspects of IL and their Links to Structural Reform

2.5.2.1 Exposing Drawbacks of the Status Quo

This first aspect is concerned with key actors identifying and signalling the drawbacks of the policy status quo and the old policy principles it is based upon. In other words, the existing situation in a policy area is linked to themes like failure, inefficiency, crisis, loss of welfare and the like. The rejection of the status quo is theoretically close to the literature on policy learning (Braun 1999; 't Hart 2000; Goldfinch and 't Hart 2003). This literature argues that human insight into failures is a necessary condition for bringing innovation onto the political agenda. Policy failure can lead to policy learning and is in fact commonly seen as its prerequisite. A well-known definition of policy learning phrases it as 'a deliberate attempt to adjust the goals or techniques of policy in the light of the consequences of past policy and new information so as to better attain the ultimate objects of governance' (Weaver 1986:278). Moreover, as Hemerijck and Schludi argue, policy learning 'requires a readiness to subject pre-established policy ideas to critical insights, new information, and experience across time and place' and 'is about the mobilization of ideas and expertise to identify problems and propose solutions' (Pröpper and Bleijenbergh 1995: 131). With regard to the leadership literature, this aspect resonates with the concepts of policy and reformist leadership. The first aspect of policy leadership is relevant here, as it involves getting an issue on the policy agenda by focusing attention on it. However, Luke leaves it to the reader's imagination how such focus can be achieved. For the "how" of achieving policy change, reformist leadership offers further inspiration. It is the communicative aspect of that concept, which is of relevance here, as it stresses that leadership needs to 'unmask the status quo' and 'articulate the need for reform'.

The causal mechanism that links the policy failure aspect with institutional lock-out allowing for structural reform, works in the following way. In lock-in theory, developing insights among important actors into the declining problem-solving capacity or effectiveness of existing institutions/policies is necessary for any possible changes to new structures. In drawing upon more complex psychological concepts, Hecló highlighted that learning from failures, which is usually invoked in notions of policy learning, is analogous to "operational conditioning" (where actors select options based on positive or negative reinforcements obtained by trial and error), as opposed to "pavlovian learning" (see Hecló 1974). Underlying such conditioning is a consequentialist logic, which regards negative stimuli (i.e. penalties associated with ineffective behaviour or failure) to be more important than positive ones; this is due, in turn, to the negativity bias that characterizes social actors: they tend to be more sensitive to losses than to gains (Pröpper 1989).⁸⁷ Whatever mechanism best describes the importance of the insight into failures, such failure needs to be established before a breakthrough of institutional blockades or lock-in processes can induce a transition from one set of institutions to another (Woerdman 2002). This mechanism is an example of an ideational-type mechanism, as it impacts on the cognitive preferences of actors: by referring to the "fact" of policy failure, IL-type policy-makers make resisting actors aware that the status quo is no longer viable; consequently, these see the policy status quo in a different light than previously and start to allow for possible changes in their set preferences.

⁸⁷ For this line of the argument, I have drawn upon Ferrara and Gualmini's analytical framework of institutional change (Ferrera and Gualmini 2004).

Chapter 2

2.5.2.2 Legitimizing New Policy

The second aspect specifies that IL-type policy-makers consistently attempt to legitimize new policy principles. In part, this aspect draws upon earlier work about the importance of showing commitment and consistency in pursuing reform, which may be found in reformist leadership ('t Hart 2000; 't Hart and Goldfinch 2003), and in innovative leadership (Moon 1995). Two elements of innovative leadership, the sense of commitment and coherence in pursuing a particular reform, underscore this aspect; and the same is true for two elements within the communicative dimension of reformist leadership, 'communicating will power' and 'propagating the solution', both of which relate to the legitimization of new policies and their underlying principles.

While commitment and consistency in pursuing a particular reform course lends a sense of credibility to policy proposals, another component of this aspect stresses the substantive quality of a policy discourse. In other words, the communicative efforts of policy makers should consist of cognitive arguments (linking problems and solutions; expressing a "logic of necessity") and normative arguments (linking proposals to national values and beliefs; expressing a "logic of appropriateness"), in order to be convincing and, in the final analysis, "successful" (Schmidt 2002b).⁸⁸ Cognitive arguments in a given discourse should demonstrate the relevance of the policy programme, applicability, coherence and place it in relation to other programs; normative arguments in a discourse show how it resonates with entrenched values and identity – they may even serve to change them (Schmidt 2002b: 219-221). In Schmidt's framework, the logics behind a persuasive discourse rest on a model of individual choice that is based on cognitive frames and belief systems as well as on interests rather than on interests alone. This is a relevant observation for the concept of IL, as it underscores the earlier named assumption of seeing interests as both material and ideal (or idea-based).

It is possible to discern a causal mechanism between the legitimization of new policy principles and institutional lock-out, which leads to structural reform. The act of legitimizing new policy principles impacts on the conditions for institutional break-out, as specified in lock-in theory: policy-makers who use plausible, cognitive arguments about policy proposals facilitate information about superior institutional alternatives, which is necessary in order to end institutional inertia. Additionally, normative arguments relating to existing values or possibly redefining them as a way of accommodating reform, are important in terms of lowering switching costs to alternative institutions (Woerdman 2002:96-97). The combined effect of this second mechanism is that IL-type leaders, through their consistent use of cognitive and normative arguments, stressing why their alternative works and how it fits existing societal principles, persuade reform opponents. As the policy failure mechanism, this one is also ideational: it brings about the preference for change in reform opponents, who move from rejection or denial towards acceptance of new policy principles. Such movement, in turn, contributes to decrease institutional lock-in.

2.5.2.3 Framing Reform Resistance as Problematic

The third aspect of IL stipulates that key policy-makers frame reform resistance as "problematic", that is, potentially harmful to societal (or collective) interests. The reasoning behind this is that

⁸⁸ The distinction between cognitive and normative arguments used by Schmidt is by no means the only one. Dunn, for instance, offers a detailed classification and analysis of policy arguments and the knowledge claims they contain. For instance, he distinguishes - amongst others - authoritative, explanatory and pragmatic and value-critical arguments (Dunn 1993).

Ideational Leadership

senior politicians may request that policy stakeholders (such as organized interest groups or certain segments of the population, for instance, pensioners) subordinate their particularistic interests to some greater societal interest once politicians have decided on the necessity of far-reaching reforms that are supposedly in accordance with and serve such societal interest. The assumption behind this runs as follows: although the preferences of political or societal actors are frequently equated with their particularistic (and material) interests; actors are free, in principle, to act according to the collective interest, subordinating their particularistic ones.⁸⁹ This aspect implies that policy-makers denounce the abuse of stakeholders' interests (which manifest themselves by blocking behaviour) as detrimental to reform processes, while appealing to stakeholders to re-think their opposition in favour of reform in order to achieve consensus. This element of IL assumes, based on the conceptualization of interests as "ideal" and "material" interests (Marsh and Furlong 2002), that such pleas induce policy stakeholders to think twice about the policy implications of resistance. More specifically, it may impact on the perception of their ideal interests; for instance, as far as considerations about their public image are concerned.

While such appeals from key policy-makers can be seen as a way of lowering resistance by lobbyists and interest groups, it may also be viewed, in the terms of lock-in theory, as an attempt to get them involved in the reform process by making them "face the facts", that is, the primary reason behind the need for a reform initiative. Therefore, the causal mechanism between such appeals by policy-makers directed towards reform critics and the achievement of an institutional lock-out, which leads the way for structural reform, works like this: it represents a strategy to cope with the resistance of vested interests that can help reduce switching costs to alternative institutions and facilitate an institutional break-out (Woerdman 2002: 97-98). The mechanism behind this aspect is based on ideal interests, not material ones. It states that IL-type policy makers, by appealing to the consciences of reform opponents, may influence the ways in which they perceive their interests (which, in turn, helps to create one of the conditions for institutional break-out). By understanding certain reform measures in the light of the greater, societal interest, it is hypothesized that they adapt their behaviour accordingly (although this switch may also contain an element of self-interest, so as not to appear backward-looking and to show that they can adapt to new circumstances).

2.5.2.4 Efforts at Political Consensus-Building

The fourth aspect of IL is concerned with policy-makers' efforts at political consensus-building. In essence, consensus-building serves to mobilize support for a particular reform plan and can be found in several leadership concepts, such as reformist and policy leadership. Reformist leadership, in its strategic or coalition-building dimension, distinguishes one relevant element in particular, namely 'controlling the game' (Hall 2003; Gerring). It refers to the exertion of influence on the organization of decision-making or, in other words, procedural leadership (Gerring 2005: 241-242). However, there is one important difference between this element and the fourth IL aspect: whereas Goldfinch and 't Hart indicate that leaders might use manipulative tactics when 'controlling the game', the consensus-building aspect of IL emphasizes that a leader does not act manipulatively, but is policy-oriented in his motivation (see Section 2.5.2.5 below). In addition, this aspect is informed by the third task of policy leadership, 'forging agreements on policy

⁸⁹ See Braun for a detailed discussion of the conditions which may induce actors to step back from particular interests and endorse collective or societal interests and institutionalised arenas where some of these conditions apply (Braun 2000).

Chapter 2

options and alternatives'. Once policy leaders have brought together stakeholders and knowledge-holders, they need to 'help convert and transform their concerns for the issue into viable policy responses'. Rather than being a linear and well-ordered process, this task resembles 'a stream of individual sub-decisions and multiple iterations between information gathering and processing, generating and exploring options, narrowing down, and selecting options' (Luke 2000:54-55). If this is a correct portrayal of matters, perhaps it is futile to try and theorize in more detail about consensus-building (which may involve potentially chaotic and idiosyncratic processes) and concentrate on its result, i.e. the emergence of such a consensus. What counts is that an ideational leader, who strives to propagate a particular reform proposal, also cares about assembling sufficient support whilst at the same time this activity does not preclude him from staying open for suggestions from other actors.

The causal mechanism between efforts at political consensus-building strategies and institutional lock-out can be formulated along the following lines. Attempts by an IL-type actor to gather support in favour of a particular reform proposal have two effects: to lower the level of resistance and to heighten the chances of having a proposal accepted by those actors (whether institutional or individuals) who might otherwise veto it. The mechanism assumes a certain receptiveness on the part of such veto players. They are more likely to be convinced by IL-type leaders (that is, politicians who plead for the replacement of policy by new, credible initiatives) who also actively reach out to those criticizing their plans, than by those who do not. In the terminology of the institutional lock-out framework, forging of consensus may reduce switching costs to an alternative policy and thus facilitate an institutional lock-out.

2.5.2.5 The Orientation of an Ideational Leader

As the IL framework is nearing completion, I will finally draw attention to the orientation or motivation of IL-type actors. While the four aspects of behaviour associated with IL refer to procedural aspects of actor behaviour (belonging to a particular process), I believe that such actors also share a fifth characteristic, as a kind of general orientation. Politicians may base their actions on several motivations. In the political science literature, it is common to distinguish at least two motivations, which allows drawing a distinction between "policy-seeking" and "power-seeking" individuals. Policy-seeking is usually described as the motivation to have an impact on public policy, and is associated with an interest in "good" policy (when translated to the current context, an interest in the substance of a particular reform project).⁹⁰ As such, it is opposed to power-seeking and/or office-seeking, where acquiring and maintaining a position of authority as well as consuming the rewards of public office form the central motivation.⁹¹ From the discussion thus far, it will have become clear that IL-type actors are closely associated with the policy-oriented or "good policy" motivation. However, this does by no means imply that they are completely unaware of their own authority and sources of power. On the contrary, a certain awareness of their

⁹⁰ For another interpretation of policy-seeking, the thinking of Max Weber is relevant. In his essay 'politics as vocation' (Gerth and Mills 1948: 115), he argued that 'three preeminent qualities are decisive for the politician: passion, a feeling of responsibility, and a sense of proportion. In other words, 'passionate devotion to a "cause"', 'responsibility to this cause' and 'his ability to let realities work upon him with inner concentration and calmness' constitute the strength of what Weber saw as a "political personality" '.

⁹¹ Some authors work with a more fine-grained typology of motivations. Weaver, for instance, in focusing on blame-avoiding behaviour also distinguishes credit-claiming and non-electoral motivations next to a 'good' policy motivation. He describes the latter as follows: '[policy makers] may act because they think an action is worthwhile even if it has no political payoff' (Weaver 1986:372)

Ideational Leadership

position of authority to launch policy innovations and of the limitations on mustering political support (relevant for the fourth aspect of IL, making efforts at consensus-building), distinguishes them from policy-makers whose actions are exclusively focused on maintaining power. IL-type actors, in contrast, are able to think goal-oriented, whenever the search for a consensus on a reform project dictates it, but exhibit a preference for argumentative efforts (as the first three aspects of IL illustrate). They follow a pragmatic political strategy with a dual view of politics: as the 'realization of cooperation for common goals', trying to present and frame policy goals in line with normative ideas held in a polity and as a "power contest", where making concessions to one party can contribute to the goal of building overall consensus for a reform initiative (Gerring 2004).

This dichotomy between policy-seeking and power-seeking, which serves to illustrate what IL is and what it is not, can also be illustrated by another pair of concepts: the Habermasian pair of "communicative action" and "strategic action" (Habermas 1981 cited in Pröpper 1989: 478-479). The first term relates to Habermas' notion of communicative rationality, and the behavioural type of communicative action.⁹² What is the implication for the IL concept? The concept of communicative rationality (and action) underpins the idea of "policy-seeking", as well as its counterpart, strategic acting, the idea of "power-seeking". It underscores the notion that ideational leaders do clearly distinguish themselves from other policy-makers who choose to act strategically.⁹³ In addition, some of Pröpper's criteria for rational discussion⁹⁴ serve to back up the two first behavioural aspects of IL-type actors: I expect them to show commitment to their goal of policy innovation and to consistently underline their case with reasoned (cognitive and normative) arguments.

All in all, the policy-orientation of IL-type leaders contributes to the workings of the four causal mechanisms described earlier. The assumption is that reform-resisting actors are more easily influenced by someone who legitimizes a policy proposal on the basis of policy substance than by someone who acts on the basis of strategic motives, that is, to maintain or increase power. The discussion in this section so far leads to the following conceptualization of IL:

⁹² Communicative acting applies if someone tries to reach mutual agreement (on the basis of a 'speech act', i.e. in a discussion situation) by giving arguments which are as plausible as possible. The more such arguments he or she presents in a given speech, talk etc., the greater the communicative rationality of his or her action will be. Communicative rationality, in turn, can be divided into a material and a procedural component. Material rationality refers to the extent to which an argument is acceptable in the context of an act that has to be justified: here, the quality of the arguments used is crucial. The material rationality of a speech act therefore increases the more plausible or acceptable it is on the basis of the arguments the speaker uses. In contrast, procedural rationality is about the form of someone's argumentation and whether the way in which someone justifies or pleads for a certain way of action is acceptable. Procedural rationality thus increases the more someone abides by the discussion rules (Pröpper 1989: 68).

⁹³ Note that strategic action is understood here in the Habermasian sense of the term, that is, violating the rules of procedural rationality by trying to use material (or other) compensation, coercion and deception to achieve one's aims and not by presenting plausible arguments (Pröpper 1989: 478-480). Strategic acting presupposes that a person does not use plausible arguments and does not adhere to the rules for a rational discussion, but exerts power. This implies using means such as money, coercion and deception to achieve his or her aims instead of resorting to plausible arguments.

⁹⁴ These include a committed attitude (fulfilling obligations that have been entered into), accountability (statements should be supported by arguments), consistency (in terms of speaking and acting), relevancy (of arguments contributed in relation to the conclusion reached), objectivity (avoiding untrue, tendentious and personal statements) and openness (avoiding barriers to others and their contribution in the discussion). See Pröpper 1995 for a more practice-oriented adaptation of these rules.

Chapter 2

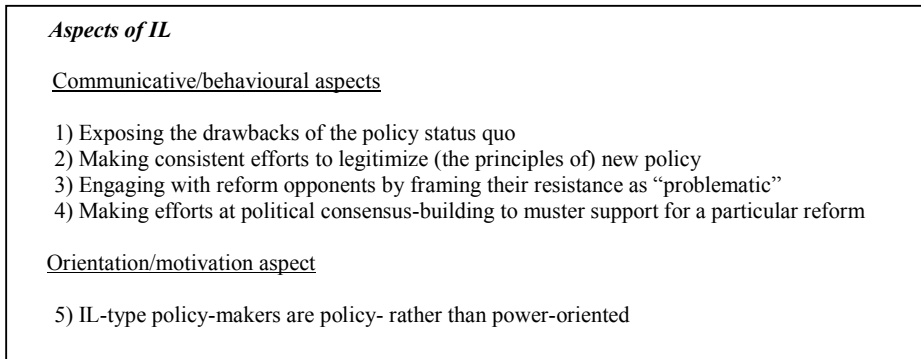


Figure 2.1: Conceptualization of IL

2.5.3 Institutionally Informed Conditions for IL

Having discussed the concepts’ constituent aspects, I will briefly formulate some theoretical expectations regarding the plausibility of the IL hypothesis during the various stages of a reform process. These expectations may also be described as conditions under which I expect IL to be more or less effective.⁹⁵ They are influenced by two factors: the different phases of a reform process, which I classify as agenda-setting, legislative, and decision-making phases and the varying relevance of institutional veto-players during the different phases. It should be noted that this categorization of the policy process differs from the common model of the policy cycle, which, based on the classic works of Harold Lasswell (1951) and Gary Brewer (1974), was formulated by Charles O. Jones and James Anderson (Collier and Mahoney 1996: 11). The latter model includes the following phases or stages:

- agenda-setting (process by which problems come to the attention of government)
- policy formulation (process by which policy options are formulated within government)
- decision-making (process by which government adopts a particular course of action or non-action)
- policy implementation (process by which government puts policies into effect)
- policy evaluation (processes by which the results of policies are monitored by state and societal actors; possibly leading to re-conceptualization of policy problems and solutions)

Deviating from this model, I am using a slightly different classification. The agenda-setting phase refers to the period during which the government sets priorities for concrete reform projects and then puts them on its political agenda. During this period, I expect IL to be present and instrumental in reducing societal and political resistance that prevents a government from tackling a specific reform project. This is because institutional veto-players have no formal say at this stage of the process (in the classic policy cycle model this phase would include both agenda-setting and

⁹⁵ The classification of policy-making phases and institutional veto-players is admittedly tailored to the German situation and would have to be adapted accordingly when studying structural change in other countries.

Ideational Leadership

policy formulation).

In the following legislative phase, the government - possibly with input and involvement from the parties in the governing coalition and interest groups - works out and presents a reform plan or draft bill which is eventually debated in parliament, possibly amended, and finally put to the vote (in the classic policy cycle model, this still corresponds to the policy formulation phase). During this phase, I expect IL to be present and effective in taking away any societal and political resistance that is mounted, either by political parties or interest groups against the specific reform proposal of the government. The purpose of IL at this stage is to achieve a vote of the coalition parties sufficient to adopt the proposal. Very often, such acceptance by the first chamber of parliament, the *Bundestag*, is not sufficient if a draft bill also concerns the interests and competencies of the *Länder*. In this case, the second chamber of parliament, the *Bundesrat*, is able to veto a proposal, after which a mediation procedure is set to begin.

Therefore, I distinguish a third and final phase in reform processes, namely a decision-making phase (as in the classic policy cycle model), during which the Mediation Committee, a joint body of *Bundestag* and *Bundesrat* members, engages in compromise-seeking, in order to find a solution. This is precisely when institutional veto-players have the greatest power to block reform proposals; besides, the negotiations at this stage often involve horse-trading between coalition and opposition parties because often, more than one draft bill is discussed by the committee at the same time. During this stage, I expect IL to have but little effect: this is because persuasive argumentation, appeals to stop resistance and consensus-building become subordinated to the dynamics of negotiations and, frequently, political deals. In short, the expected role of IL during those three phases outlined above is as follows:

Phase	Effect IL
Agenda-setting	medium to strong
Legislative	medium to strong
Decision-making	weak

Figure 2.2: Effects of IL during policy phases

During the empirical case studies, I will concentrate on these three phases and see whether my expectations about IL show any resemblance to real reform processes. The phases of policy implementation and evaluation are not considered in this framework of reform processes, because the definition of structural reform is tied to the actual legislative adoption of a reform, rather than to how a policy fares in terms of implementation and possibly evaluation. This means that for the purposes of this project, the phases of policy implementation and evaluation are not taken into consideration.

2.6 Conclusion

To complete the theoretical part of this study, this chapter has outlined a theoretical framework built around the concept of ideational leadership (IL). IL seeks to offer an answer to the puzzle that

Chapter 2

was presented in the first chapter, the contradiction between empirical reform realities - major reforms do occur - and theoretical expectations as expressed by historical institutionalism and regime theory. Section 2.2 has summarized my criticism of the ideational and leadership literatures (lack of specification of how leaders achieve policy change and why they want to achieve it, little focus on causal mechanisms, lack of political agency), arguing that the concept of IL is able to compensate for those weaknesses, particularly regarding their capacity of these approaches explaining major policy change. Sections 2.3 and 2.4 have reviewed the leadership and ideational literatures (including their origins and main relevant concepts) in order to locate the various building blocks for IL as a “joint concept”. To develop IL, I have identified leadership tasks that facilitate significant reform, and incorporated elements regarding the effectiveness of ideas in policy-making. In both reviews I have highlighted the specific weaknesses of existing concepts in more detail and explained how IL remedies them. In Section 2.5, I have explained the concept of institutional break-out and the outcome of structural reform; the roots of the distinct aspects of IL in various leadership concepts and ideational approaches; and the supposed causal mechanisms between the aspects and structural reform. I have also illustrated the general policy-oriented motivation of IL-type actors, contrasting with power-seeking and strategic action.

To conclude, IL is a concept that departs from traditional thinking about leadership as being essentially power-related. By contrast, IL focuses on innovation-mindedness and persuasion, and on breaking down vested resistance to change without purely resorting to underlying sources of authority. IL adds yet another leadership concept to the extensive literature and it is legitimate to ask questions about its specific contribution. My answer is that IL extends the meaning of leadership, in the particular context of politics and policy-making, in an interesting direction. As such, it contributes to research that ‘map[s] the complex interaction between policy ideas, vested interests and political institutions during all stages of the policy process’ (Landman 2000: 15). Whether the concept can be successfully applied to empirical contexts of social policy-making will be evaluated in the remainder of this study. Before presenting the empirical case studies, however, Chapter 3 turns to the question of how such an evaluation may be designed.

3. Research Design and Methodology

3.1 Introduction

This chapter deals with the research design and the methodological basis of this study. It has three aims. Firstly, starting with a short recapitulation of the rationale of the project, it presents the research design used to answer the research questions. Secondly, it elaborates on the operationalization of the IL concept introduced in Chapter 2. Finally, it provides an overview of the data sources and analytic methods used in the three case studies.

The structure is as follows. Section 3.2 presents the research questions and indicates which part of the study addresses which question. Section 3.3 starts with the argument that it is worthwhile carrying out a study of structural reforms in the German politico-institutional context, which, according to dominant theories, strongly inhibits major reforms. It then presents a multiple case study design exploring whether IL as a theoretical construct has empirical relevance, and in what ways it matters. Section 3.4 begins by recapitulating the different aspects of IL and shows how the concept can be operationalized in order to make it visible by means of empirical observation. Subsequently, I explain my choice of sources and the methods used to analyze them (Section 3.5). Finally, Section 3.6 summarizes the findings of the pilot case study (the first out of a total of three cases), which led to some amendments of the original conceptualisation of IL.

3.2 Goals and Research Questions

The aim of my research is twofold. Firstly, it explains under what conditions policy makers adopt structural welfare state reforms in a context that is presumably characterised by strong institutional and electoral resistance to such change. Secondly, it evaluates the working proposition that it is IL, which - under conditions to be specified - explains how policy-makers are capable of overcoming institutional obstacles to structural reforms. Since it can plausibly be argued that the German welfare state is the example *par excellence* of institutional and political resilience (see Chapter 1), the unexpected instances of structural social policy reform that did occur are taken as the empirical object of this study. The research questions guiding the project are:

- 1) In what ways and under what conditions can key policy-makers overcome institutional/electoral obstacles and succeed with structural welfare reform?
- 2) To what extent do we observe ideational leadership in the reform processes explored in the comparative case study and how is it related to the adoption of structural reforms?
- 3) What are the implications for dominant theories of welfare state research as well as for theories of policy change?

Question 1 has guided the theoretical part of the research by asking how the contradiction between theory, on the one hand, and the empirical world, on the other, can be overcome. Question 2 is the

Chapter 3

central empirical research question which was split into sub-questions for each case; Chapters 5 through to 7 will each answer this question separately, while Chapter 8 gives an overall answer on the viability of the IL hypothesis. Question 3 points to the theoretical implications of the findings, which are also explored in Chapter 8.

3.3 Research Design and Strategy

As I have argued in Chapter 1, the rationale for selecting Germany bears a strong relation to its prominent position amongst countries with Continental welfare regimes, which appear to be struggling with welfare state reform (Esping-Andersen 1996, 1999; Scharpf 1997). Equally, I have established that the choice for Germany should ensure that the IL proposition, which specifies one possible way of overcoming reform resistance, is evaluated in a challenging (many theoretical obstacles to reform) as well as an intriguing context (relative absence of substantial changes despite mounting pressures). Therefore, the context of the project will be the German welfare state (seen as a composition of various social policy areas with distinct policy legacies, instruments and institutions), forming the background of investigation for a case study-type research design.

Before outlining the parameters of this design, a few words are in place with regard to the efficacy of a case study or small-n study as compared to a large-n study. Rather than making a statement in the debate on qualitative versus quantitative research methods in favour of either of these, I would merely like to place my choice of methodological approach in the context of this debate, and, in addition, briefly reflect on my position in terms of ontology and epistemology (Collier 1993; see for an introduction relevant to political science: Collier and Mahoney 1996).

As far as ontology, the science of being, is concerned, I agree with the observation of Hall (2003) that the ontologies (when defined as assumptions about the nature of the social and political world, and particularly about the nature of causal relationships) of some theories used in comparative political science are no longer in line with the requirements for one of its most frequently used techniques, regression analysis. For instance, the ontologies underlying theories on path dependency are based on certain assumptions about causal structures that are not compatible with the assumptions required for standard regression techniques, which have established themselves as a popular comparativist method in the field. As a solution to this divergence, Hall suggests ‘small-n research designs based on systematic process analysis’ (Yin 2003:374). Concerning my ontological stance in this study, ideas, frequently seen as “subjective” constructs, are regarded as vital objects of research.⁹⁶ Although my study aims to generate knowledge about causal processes, which is generally acknowledged as an aim of positivist research, I think it is possible to pursue this aim while considering ideas as potential explanatory factors in the context of my research question.

As for my stance on epistemology, which reflects the way one looks at knowledge and the process of acquiring it, I gravitate towards a more subjective view than would be typical for a positivist approach. This is due to practical reasons and to my choosing to evaluate the IL hypothesis by exploring the presence of certain argumentative patterns and styles of leadership.

⁹⁶ The term “subjective” here is taken to mean “originating from ideas in peoples’ heads”, as opposed to “objective” or “material”, which implies an existence independent of human perception.

Research Design and Methodology

The slightly subjective stance towards epistemology becomes visible in my use of data sources: in addition to using documents, I chose to rely on information gained from semi-structured interviews. From a methodological point of view, data gathered in such interviews tend to be considered as more subjective (and unreliable) than other sorts of data, for instance, quantifiable survey data, and thus more remote and distinct from “objective” observable facts. Although I look at policy processes as chains of observable facts, I nevertheless acknowledge the value of perceptions and subjective views of the individuals who were either involved in or observed these processes, in order to re-construct the latter by way of analysis and evaluate the role of key actors’ leadership. In addition, I believe this “more subjective” ontological and epistemological position is compatible with choosing a case study design, which I now turn to.

Finally, some preliminary remarks on the current status of the case study in political science research are appropriate. As Gerring has poignantly observed, the role of the case study in contemporary political science lies somewhere between ‘an often-maligned methodology and a heavily practiced method’ (Mahoney 2000: 352). I share his observation completely and think that both methodological opponents and advocates of this ubiquitous method should be more sensitive to its potentials and limitations. The critics of the case study method need to admit that for some research contexts and questions, which do not allow the application of sophisticated statistical methods, small-n research offers considerable advantages. Its advocates, on the other hand, should discourage and avoid methodological criticism by a) better understanding the value and utility of case studies and b) improving the methodological soundness of case studies in terms of their validity and reliability. Trying to set a positive example, this chapter explicitly addresses issues of scientific quality, reflecting upon why a case study design is the most suitable design in finding an answer to my research questions.

There are at least three reasons that point to the case study as the most relevant research design: firstly, my actor-centred hypothesis on policy change involves the examination of actors’ communicative actions and patterns of behaviour, which do not lend themselves easily to quantification and statistical research. Admittedly, for some research questions the use of a quantitative approach to textual analysis of documents may be perfectly possible. However, this does not imply that this is true for my research question about IL. As it calls for a broader range of evidence of political behaviour over the time span of reform processes, a research design based on the quantification of terms or arguments used in public speech is not appropriate. On the contrary, a case study design offers a better way, by intensive study of patterns of political behaviour within certain time limits, of establishing which of these patterns were present and what role IL played among them.

Secondly, in order to be able to explain in as much detail as possible how IL matters for structural welfare state reform, it is worth tracing, as far as the available data allows, the mechanisms linking the different aspects of IL with the final outcome, the adoption of reform. This is in line with recent research on what causation entails: one of the criteria for providing good causal arguments is the specification of such mechanisms.⁹⁷ Causal mechanisms connect a supposed cause with a purported effect and without them, we cannot fully and thus satisfactorily explain how an X generates an outcome Y (Mahoney 2003: 178-9). Given the way in which I

⁹⁷ Other formal criteria for causal propositions are (Gerring 2005: 171): specification, precision, breadth, boundedness, completeness, parsimony, differentiation, priority, independence, contingency, analytic utility, intelligibility, relevance, innovation and comparison.

Chapter 3

formulated my theoretical framework, by connecting IL-type leaders and structural reform and by wishing to find causal mechanisms as ways of enhancing the value of explanatory theories, the next logical step is to find an appropriate research design able to identify them. The search for causal mechanisms is best achieved by a case-study type investigation, as it enables the analyst to make use of process-tracing or related techniques of causal inference in small-n analysis (Hall 2003, Mahoney 2003). In the context of the present investigation, the best way of tracing how IL is linked to structural reforms is by conducting a case study. As Gerring has stressed, an appropriate case study is capable of investigating causal mechanisms and, due to ‘its characteristic style of evidence-gathering – over-time and within-unit variation – is likely to provide clues as to what links a purported X to a particular Y (...). Ceteris paribus, case studies are more likely [than cross-unit analyses] to shed light on causal mechanisms and less likely to shed light on true causal effects’ (Mahoney 2003: 349).

Finally, even if it was possible to devise quantitative indicators for the IL concept and there were suitable data available for measuring and evaluating it, the specific nature of the dependent and independent variables would make the likelihood of many available cases or observations more limited. Firstly, the relevant outcome of reform, structural reform, due to its nature, is limited in numbers, which puts a cap on the number of possible observations (at least if one decides to limit the study to one particular country, for instance Germany). In addition, in any one country, there are only a limited number of potential IL-type actors, if they are assumed to be ministers responsible for social policy areas. These limitations due to theoretical reasons, together with the fact that the research question focuses on the intricacies of social policy-making processes that only allow structural reforms to happen in particular circumstances, suggests a small-n and therefore a case study design as the most suitable way of setting up the research process.⁹⁸

To summarize, the main reasons for choosing a small-n case study pertain to the nature of the hypothesis, which calls for the use of qualitative data to evaluate it; the intention to track down theorized causal mechanisms that explain how IL works, which can only be done by close scrutiny of case study material; and the practical limitation of the scarcity of structural reforms.

3.3.1 Type of Case Study and Case Selection

Having seen why a case study is the most sensible choice of research design, I would now like to turn to the object to be studied: processes leading up to structural reforms. I will consider several of these processes; therefore, the design is a multiple case study. Multiple case studies have become a more prevalent research strategy compared to single case studies and offer important advantages, as their results are considered as more compelling, and as they offer more “robust” evaluations than single case studies do. However, cases need to be selected carefully and should be considered in terms of a “replication” logic (as opposed to a “sampling” logic). This means that case selection should proceed in a way analogous to multiple experiments, with the expectation, at the outset of the study, of either similar or contrasting results arising from the cases (Yin 2003: 53). Cases are defined as political decision-making processes leading to the adoption of reform

⁹⁸ If the study had included more than five cases, an application of Charles Ragin’s qualitative comparative analysis or fuzzy-set techniques (Ragin 1987; 2000) would have been an alternative. This innovative technique allows analysts to gain knowledge about combinations of explanatory factors which are either necessary or sufficient for a certain outcome (QCA). In the case of fuzzy-set analysis, it is even possible to allow for a greater variation of explanatory variables (both quantitatively and qualitatively). See also Chapter 8.

Research Design and Methodology

initiatives. The research question on the link between structural reforms and IL suggests a literal replication of cases (ibid: 47), predicting similar results in terms of the presumed relationship between these two variables, which is to be evaluated in several cases. The empirical range of the design is restricted in the following ways:

- time-wise: for the selection of cases, the period from 1990 up to 2004 was considered, covering a period that saw different governments in terms of party composition (two Christian Democrat-led cabinets under Chancellor Kohl followed by two Social Democrat-led governments under Chancellor Schröder),
- space-wise: as already pointed out, the study focuses on the German context; this choice of a single country, in turn, was linked to the choice of
- a more intensive empirical range: the cases or reform initiatives belong to three prominent social policy areas (health care, old-age, pensions, unemployment insurance as a part of labour market policy).

It follows that the project is not comparative as traditionally understood in political science, i.e. comparing welfare states across countries, but in the sense that reform efforts are compared across different social policy areas within the context of one country. The underlying rationale is to explore whether distinct features of the respective policy areas (such as particular institutions, actor constellations, policy legacies, contextual factors) influence the chances of success for political actors to push through structural reform. For instance, will political leaders be able to justify structural reforms in the health care sector (characterised by strong interests of stakeholders), with the same ease - or difficulty - compared to the reform of unemployment insurance schemes (where the interests of the social partners matter)? In other words, the analysis within individual cases is complemented by cross-case analysis in order to see whether this yields additional perceptions of differences of reform across welfare state sectors.

The selection of cases was guided by three different criteria: methodological soundness (regarding selection on the dependent and independent variable); equal distribution across social policy sectors, and, to a lesser extent, timing of the reforms (see the paragraph on selection criteria below). The cases also differ in character: the first two cases cover two reform initiatives that turned into successfully adopted structural reforms. In contrast, the third case covers the period in office of a presumed ideational leader and his reform initiatives and achievements. This particular combination of cases was chosen to ensure variation on the independent variable, i.e. IL. In addition, each of the cases fulfils a slightly different methodological role within the multiple case study design, which means that their analyses differ in emphasis.

The first case study verifies whether it is possible to trace IL at all in the data collected. It was originally designed as a pilot study, but will be treated as a normal case since it only led to minimal adaptations of the theoretical framework. The second case serves to confirm the conclusions about the plausibility of IL from the first case, and to reveal its effects on the outcome of structural reform as clearly as possible. In the third and final case, the focus lies on evaluating the reform achievements of a presumed ideational leader. Furthermore, the analysis needs to establish whether the selection of that individual can be backed up by finding IL-related aspects in his behaviour. The selection of the third case entailed particular difficulties relating to the closeness of the dependent and independent variable in this study and necessitated extra caution, as the following demonstrates.

In order to select a policy-maker, I conducted a small expert survey of three “candidate” ministers, inquiring about four criteria that would help identify a presumed IL without relying on a

Chapter 3

detailed analysis of his performance in the context of a specific reform. The results favoured one particular minister. On closer inspection, it appeared that this result may have been biased, as the wording of the questions (particularly about the criteria dealing with legitimising reform and overcoming reform resistance) may have been read by respondents to imply that candidates had actually accomplished structural reforms. To be more specific, there was the danger that, as it were, respondents (being familiar with each minister's policy legacy) had made their answers dependent on their knowledge of whether these ministers had actually accomplished far-reaching (in the terminology of this study: structural) reforms. If this is a correct reconstruction (although it is hard to verify without repeating the entire survey, which is impracticable), the survey inadvertently produced results on the basis of the dependent variable, which conflicts with the aim to make a selection on the independent variable (IL). In order to avoid the risk of actually selecting a candidate on the dependent variable, structural reform, and to ascertain (or disprove) the results of the survey, I employed an additional criterion for that selection. This criterion can be deduced from the aspects of IL without being linked to the outcome of reform, and specifies whether candidates voiced their ideas on policy-making in their policy area before taking office or shortly thereafter.⁹⁹ After re-checking candidates' scores on this additional element, the candidate singled out by the survey could still be confirmed as a presumed ideational leader. In this fashion, the selection of the third case was conducted via triangulation of several selection criteria, trying to ensure an unbiased case selection on the basis of the independent variable, in accordance with the research design. The case study can thus be split into two phases:

Multiple Case Study, first phase:

- A first case selected on the dependent variable (successfully legislated structural reform, originally designed as a pilot study), evaluating the plausibility of the research hypothesis, and enabling the fine-tuning of the operationalization of the central concepts. This case covered the 2001 pension reform.

Multiple Case Study, second phase:

- A second case selected on the dependent variable (successfully legislated structural reform) with a theory-evaluating function. This case covered the 2003 Hartz IV reform, which merged unemployment assistance and social assistance.
- A third case selected on the independent variable (the presence of a supposed ideational leader) with a theory-evaluating function. This case was centred on one particular minister in the area of health care, in order to evaluate his reform efforts in the light of the previously defined criteria for IL and structural reform.

During the first phase, the focus was on checking whether the operationalization of the IL concept was viable. During the second phase, the aim was to establish whether the assumed hypothetical relationship between IL and reform adoption could be empirically corroborated.

⁹⁹ Since the ideational element of IL is essentially about using policy ideas (in a cognitive and normative sense) to legitimize reforms, it can be assumed that a potential ideational leader enters office with outspoken ideas he or she would like to put into practice.

Selection Criteria

In order to respect principles of methodological soundness, my case selection was based on a number of considerations. These included choosing cases on the dependent or independent variable; on the policy areas and their policy legacies; and on the timing of the reforms. The research design should ensure a reasonable test of the relationship between IL and structural reforms. This necessitates that a) the presence of the independent variable (IL) is examined while ensuring a certain outcome of reform on the dependent variable (structural reform), and b) the presence of a certain outcome of reform as a “value“ on the dependent variable (structural reform) is examined while ensuring the presence of the independent variable (IL).

What principles should the design respect in order to avoid the pitfall of selection bias, which can seriously distort or at least devalue the results of a case study? Firstly, ‘selection should allow for the possibility of at least some variation on the dependent variable’ (Berelson 1971:129). In addition, selection of cases on the independent variable is possible, as ‘selecting observations (...) according to the categories of the key causal variable causes no inference problems’ (ibid: 137). Finally, one should not select cases on both the independent and dependent variable, since ‘in so doing, it is easy to bias the result inadvertently’ or to commit a serious methodological error when ‘explanatory and dependent variables vary together in ways that are known to be consistent with the hypothesis that the research purports to test’ (ibid: 142).

My stance is that it is important to recognize these basic rules of small-n research, whilst at the same time not overstating their value. As Collier and Mahoney have argued (1996), it is doubtful whether selection bias, which is a term originating from the problem of how to choose one’s cases or observations in quantitative research, can be equally applied to small-n research.¹⁰⁰ The more immediate danger at hand, when violating the rules specified by King, Keohane and Verba, is to have non-variation on either the dependent and/or the independent variable in a research design that tries to demonstrate causal relationships (Clasen 2005). Moreover, as Collier and Mahoney argue, there are instances when a design based on non-variation (or limited non-variation, as in the design described here), is nevertheless sensible and justifiable. One relevant motive for the deliberate selection of cases on one extreme value is the wish to analyse an outcome of exceptional interest, zooming in on it in order to gain a better understanding of both the outcome *and* its causes. Another motive is that existing theories provide only limited insight into the outcome of interest. In this case, dismissing a non-variation design categorically may be the wrong choice if one takes into consideration the trade-offs of choosing a different design. If little is known about the outcome of interest, a more detailed study of few cases may be more fruitful than a broader study focussing on positive and negative cases. On the other hand, choosing few cases may mean losing analytic leverage. However, a careful contextualised study of very few cases

¹⁰⁰ Although selection bias is often used as an argument to criticise designs that are based on non-variation of the dependent variable, a number of counterarguments or alternative interpretations exist in the literature on comparative methods and small-N analysis (Collier and Mahoney 1996: 72-73). Firstly, Mills’ method of agreement, that is, seeking to identify features that differ across countries but account for the same observed outcome (Landman 2000: 29), and allowing to distil common elements from a diverse set of countries that have greater explanatory power (Collier 1993: 112) also enables analysts, by means of eliminating other explanations, to come to conclusions about causal inference, although it is considered a weaker tool than regression analysis. Secondly, designs based on non-variance can play an important role in discovering new explanations of known outcomes or new hypotheses which can, in the long run, feed into more large-scale comparative evaluations of the same information. Thirdly, counterfactual reasoning is often employed in such design, which compensates for the weakness of real variation in explaining the outcome (1996: 74).

Chapter 3

would be more productive than a less valid study of its occurrence and non-occurrence (ibid: 72-74). Both motives are relevant for the study at hand: indeed, too little is known about how far-reaching welfare state reforms come about and what causes them. Equally, instances of structural reforms provide a good example of outcomes “of exceptional interest”, precisely because they are deemed impossible by existing theories. Given the motives of this project, selecting cases on the criterion “structural reform” is defensible.

In addition, provisions have been made to limit the danger of non-variation on the dependent and the independent variable. By adding a third case, selected on the independent variable IL, the dependent variable to open to vary, since the reform outcome (structural or non-structural) is to be assessed through the analysis. Equally, at the outset of the first two cases, the independent variable, IL, was free to “vary” between “no IL-type actor” and “IL-type actor”, as the value of the variable was only to be established through the analysis. Therefore, the design allowed limited variation on the supposedly dichotomous variables IL and structural reform, on the basis of which one can better judge the relationships between them.

What is the purpose of the different case studies in the overall design? To start with, the first and second cases were chosen by selecting a structural reform (dependent variable) and analysing whether a key politician a) does have the qualities of an ideational leader, and b) his actions can be related to the realization of this structural reform. In contrast, the third case was chosen on a IL-type actor (independent variable), and is supposed to show whether IL leads to structural reforms.

As for the choice of policy areas, I selected the main policy areas of the welfare state. They include old-age pensions, unemployment insurance as a sub-section of labour market, and health care policy. A study of the various reform initiatives launched in these areas in the time period under consideration (both incremental and structural) brought to the fore that two reforms certainly qualify as a structural reform as defined in Chapter 1. This led to the selection of the first two cases: partial privatization of old-age pensions (2001), and the so-called Hartz IV reform (2003/04), which introduced cuts in unemployment assistance and created one uniform benefit for those long-term unemployed available to the labour market. Taking into consideration the comparative element of the project (comparing major policy sectors), it was decided to select the final case in the third important area of social policy, health care policy. This case is not centred, however, on a specific reform process, but for reasons of research design (selection on the independent variable, as explained above), on a specific leading politician and the evaluation of his policy legacy. With regard to the timing of the three cases, they fall under two different governments in terms of party composition; the ones led by CDU chancellor Kohl (1990-1998), and the first and second government led by SPD chancellor Schröder (1998-2002 and 2002-2005). As my argument about IL is not premised on any particular partisan incumbency, this spread of cases across time allows controlling for the political style of different governments.

3.3.2 Hypothesis Evaluation

The study relied on two related hypothesis-evaluating strategies. In the context of the pilot study or plausibility probe (first phase of the case study), I made use of explanation-building, which is a special variant of the analytical strategy of pattern-matching (Eckstein 1975: 120). While enabling a plausibility check of the operationalized theoretical concepts, the analysis of data concerning the German 2001 pension reform also served to evaluate the plausibility of the hypothesis, in the sense of being “workable”. In other words, the purpose was to fine-tune my explanation of structural welfare reform with the help of the pilot case, allowing for some conceptual revisions before proceeding to the remainder of the case studies. This is in accordance with the logic behind the explanation building technique, which relies on iteration: the findings of an initial case are

Research Design and Methodology

compared with an initial theoretical proposition; the proposition is revised, if necessary, in the light of the case, and the new proposition is examined further in other cases.

In the second phase, the analysis of the cases consisted of two tasks: 1) screening data for evidence for the presence of IL, making use of operationalized indicators for behaviour and speech acts of reformist leaders, and 2) screening data for evidence of alternative explanations that could have equally played a role in causing reform adoption or abandonment. This double strategy applies to the second case, where, based on the fact that structural reform has taken place, the workings of IL could be traced. In the third case, screening the data for evidence of IL was replaced by relying on a set of specified indicators of IL, which served to determine an IL-type policy-maker beforehand. The second task was to reconstruct the political processes surrounding reform efforts during a definite time period; to establish whether the ensuing reforms were structural or not; and whether IL could plausibly be linked to these results, or whether alternative explanations applied.

In order to provide some guidance in analyzing case study evidence and to define priorities for what should be analyzed and why, a case study analyst should have a general analytic strategy (Yin 2003: 109). In my study, it consisted of one main proposition, the IL hypothesis, and two rival explanations (see for different types of rival hypotheses *ibid.*: 113). While the indicators for IL provided general guidance as to what kind of data to collect and what to look for in the data, the second strategy was to define and evaluate rival, or as I prefer to call them, alternative explanations. Alternative explanations imply that a certain outcome is the result of influences other than the one(s) hypothesized. By collecting information about them, hypothesized explanations can become potentially stronger by excluding other plausible explanatory factors or alternative explanations.

In his volume on leadership (1975), Burns specified, from the perspective of individual actors, in what ways resistance to change may be overcome. He considered a number of possible strategies, including coercive, normative, utilitarian, empirical-rational strategies, power-coercive, and re-educative strategies. While choosing to exclude coercive strategies from his conception of leadership, he stated that ‘the common thread [...] running through these diverse strategies is their difficulty’, as most of them seem to aim at changing both attitudes and behaviour of ‘subordinate decision-makers in government or business or other collectivities who are supposed to administer the change’ (Burns 1978: 417). Based on Burns’ list, I chose two plausible alternative strategies of individuals that may help to overcome reform resistance and could be applied in an analysis examining whether such strategies mattered in concluding a particular reform process.

The first alternative explanation consists of political leaders trying to ignore or outmanoeuvre reform critics (both inside and outside parliament). This may involve “changing the rules of the game” in their favour, either through *ad hoc* strategies that effectively by-pass or neutralize potential veto players (such as a second chamber of parliament), or even by amending constitutional rules in order to make it easier to get legislation passed.¹⁰¹ Depending on the circumstances, this strategy may involve literally ignoring protests from interest groups or trying to use possibilities during a legislative process to neutralize parliamentary opposition. In short, this explanation sees politicians at least not engaging with reform criticism and at most adjusting the institutional context in order to push through their preferred policy adjustments. Therefore, in a certain sense, it reflects the use of political power.

¹⁰¹ The latter is, admittedly, an extreme and mostly theoretical possibility, which, in the German context would presuppose a two-third majority in the *Bundestag* to be realized.

Chapter 3

The second alternative explanation claims that key policy-makers offer concessions in order to push through reforms. The promise of some form of pay-off, i.e. financial benefits or other compensation for societal groups and/or political veto players, is another way to calm opposition and get reforms adopted. In this line of thought, political ideas are considered secondary and the distributional context of negotiations, i.e. the satisfaction of material interests, is dominant. Political leaders who make content-related concessions or offer pay-offs, may in turn receive support of opposing groups and/or individuals needed to realize their goals. Thus, this second explanation stands for quid-pro-quo transactions or exchanges. Theoretically, these two power- and exchange-related explanations can be distinguished from the IL hypothesis, which draws attention to processes of persuading critics and getting consensus for reforms.

In short, the value of rival or alternative explanations in the evaluation of IL is twofold: Theoretically, they remind us of the fact that the IL explanation should be seen in the context of other possible factors, i.e. that its operation may be related to other mechanisms being present at the same time. Methodologically, they offer a tool to “isolate” the causal workings of IL: By checking whether alternative explanations hold in the case of a specific reform initiative, and establishing that they do not apply, the case for asserting that IL has been present and effective in overcoming resistance, is strengthened.

In addition to a general analytic strategy, it is also necessary to evaluate processes within cases in order to come to conclusions (within-case analysis). One of the most frequently used techniques is pattern-matching (Eckstein 1975; King, Keohane et al. 1994). Pattern matching essentially ‘compares an empirically based pattern with a predicted one (or with several alternative predictions). If the patterns coincide, the results can help a case study to strengthen its internal validity’ (Yin 2003: 116). This approach further requires that the type of outcome is known in several cases and that the examination centres on how and why this outcome came about in each case. Analogous to using rival explanations as a general analytic strategy, the patterns of within-case analysis refer to rival explanations (IL or alternative explanations). Within-case analysis is possible since the values of the dependent variable (reform outcome) were either known (Cases 1 and 2), or were going to be identified (Case 3) as to evaluate the relationship between different explanations and reform adoption. By contrast, the third case served to corroborate the effects of a presumed ideational leader in terms of his reform record (rather than on showing in detail how he or she operated).

In addition to pattern-matching for independent variables, I employed the technique of process tracing, which is often associated with the possibilities of case study research for studying complex processes in their entirety, taking into account a variety of contextual factors. Following the scholars who coined the term in political science, process tracing refers to ‘the effort to infer causality through the identification of causal mechanisms’ (George and McKeown (1985) cited in Ragin 1994: 363). However, those who apply process tracing should also strive for methodological rigour as Mahoney stresses: ‘when using process tracing, methodologists need to explore more seriously the extent to which it is really possible to specify causal mechanisms as empirical hypotheses with directly testable implications’ (Mahoney 2003: 368)

Equipped with evidence found through pattern-matching and process tracing, the final question will be whether the IL hypothesis can be confirmed or needs to be rejected. In this sense, the comparison of the multiple case study results functions as a test. In order to make the test rigorous, a consistent decision guideline is needed, relying on clear criteria to evaluate the proposition on the basis of the collected evidence and allows the reader to judge the quality of the analysis. These criteria relate to two sorts of evidence: firstly, evidence of a key politician showing the five communicative/behavioural and motivational aspects during the policy process, introduced as ‘operationalized aspects’ of IL in Section 3.4 below. Secondly, evidence based on

Research Design and Methodology

documents and/or individual interview accounts confirming or disconfirming that communicative/behavioural and motivational aspects of a key politician contributed to the adoption of a reform. If we find such evidence for the presence of IL-related strategies and possibly also traces of the effects of such strategies (as formulated in the causal mechanisms set out in Chapter 2) in all of the three cases, there are grounds for confirming the proposition. Conversely, if the cases reveal only thin evidence of IL and its effects, or if aspects of IL are present, but fail to produce structural reforms (which is possible in the third case study based on the selection of the independent variable), the hypothesis is in trouble.

3.4 Operationalizing Ideational Leadership and Structural Reform

3.4.1 Aspects of IL and Empirical Indicators

As Chapter 2 has outlined in some detail, IL draws upon a host of concepts belonging to the literatures on political ideas and leadership, indicating that it contains more than just one “functional” aspect. In a nutshell, IL implies that key policy-makers display a small number of communicative and behavioural characteristics. The guiding proposition states that ideational leaders leave a significant imprint on political outcomes by transforming resistance of reform opponents into acceptance or neutrality towards reform initiatives, resulting in structural reforms.¹⁰² Figure 3.1 below reiterates the aspects of IL as presented in Chapter 2:

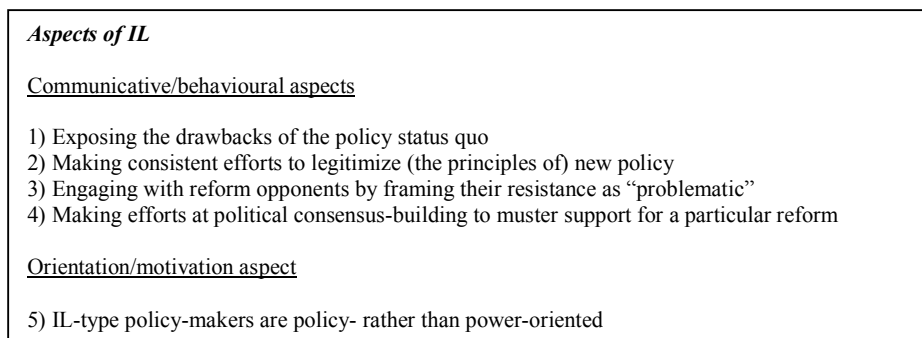


Figure 3.1: Conceptualization of IL

The process of operationalization is about translating abstract concepts and their components into more concrete and therefore measurable (but not necessarily numerical) indicators. Typically, in order to measure or otherwise identify abstract ideas and concepts one needs to develop indicators that will function as “proxies” for the original concepts. I will propose indicators for aspects 1

¹⁰² That such acceptance may not come ‘for free’ is of no concern here; possibly policy-makers may be forced to make concessions to reform opponents in other matters than the reform issue at hand.

Chapter 3

through to 4 in the following sub-sections below, where I make a distinction between the two main sources of collected data, documents and interviews (the two groups of sources will be discussed in more detail in Section 3.5). Following on from this, it needs to be verified whether this operationalization will suffice by confronting the indicators with empirical data. This can only be established after pre-screening the data with the help of the defined categories and indicators and, more importantly, performing a preliminary analysis by using them (Egle, Ostheim et al. 2003). I will address these latter issues in Section 3.4.2.

3.4.2 Indicators for Analysing Textual Data from Documents

In order to guide the search for aspects of IL in textual material, each aspect has been turned into an analytical category with one corresponding guiding question about the key policy-maker and one or several indicators.

Exposing the Drawbacks of the Policy Status Quo

The guiding question for this aspect of IL was: “did a key politician clearly reject the pension policy status quo (and its old policy principles)?” To answer this question, documents were examined in search for certain indicators, i.e. lines of argument that express one of the following (note that indicators may consist of one or several connected sentences rather than single words or groups of words):

- identifying pressing problems and associating them with the status quo of existing policies and institutions and/or underlying policy ideas;
- linking these problems to policy failure, crisis, inefficiency, loss of welfare etc..

To give some examples, arguments that fit this analytical category may stress that ‘old policies (and/or their principles) are no longer viable/effective because of...’ One genuine example of this is a statement like ‘(...) the statutory scheme has to respond to societal changes if it is supposed to still exist in the future’ or ‘what will be decisive is a fundamental turnaround: we no longer pay for unemployment but place people into jobs instead’. With this category, I am interested in whether such arguments are used at all, that is, whether key policy-makers evoke policy failure. A negative instance in this category (instance of non-occurrence) exists if a politician’s call for reform is legitimized without reference to the status quo or using arguments stressing arguments that ‘existing policy arrangements must be maintained’.

Making Consistent Efforts to Legitimize New Policy

For this analytical category, the guiding question was: “did a key politician clearly express and legitimize new policy principles, using cognitive arguments (related to problem-solving) and/or normative arguments (related to societal norms and values)?” In order to identify this aspect of IL empirically, I sought to identify lines of arguments that

- link suggested policy solutions and/or new policy principles with aforementioned problems (cognitive argument), for instance, ‘this measure will address the problem of contributions linked to work’; or
- link suggested policy solutions to norms and values present in society (normative arguments), for instance, ‘this measure is in congruence with our current understanding of social justice’.

Research Design and Methodology

To cite some examples from politicians statements, arguments in this category may read like ‘this concept was designed to provide not only a suitable but also a just answer to many future questions in old-age provision’, or ‘our maxim “*Fördern und Fordern*” is a guiding idea behind the new basic benefit for the unemployed: by implementing it, every unemployed person receives the support she or he needs’.

Here, we are interested in whether cognitive and normative arguments are used by policy-makers and whether they tend to occur closely together in a text. The latter may be assessed by recording instances of close re-occurrence. This second category can be considered as absent when policy-makers do not make an explicit link between problems and solutions, or when they do not refer to underlying values/policy principles while discussing a policy proposal.

Engaging with Reform Opponents by Framing Resistance as “Problematic”

The third aspect of IL translated into a corresponding analytical category, for which the guiding question read: “did the key politician appeal to critics to give up their reform resistance?” In other words, the search concentrated on arguments that point to the negative effects of opponents’ views by labelling their behaviour as irresponsible in view of the common interest or society as a whole.¹⁰³ Possible examples of this category are statements like ‘blocking this law is contrary to pursuing the common interest’ or ‘such a position is socially irresponsible’. Genuine examples from policy-makers’ statements read as follows: ‘the parliamentary opposition would have a severe credibility problem if it dared to veto the tax credits to citizens for private pension provision’, or ‘it is important to give a warning to those who make for pessimism in Germany (...) they must not and they will not stop our reforms’. In order to assess this aspect of IL, it is necessary to check whether such arguments appear in documents at all or whether politicians use other rhetorical means to deal with the resistance they encounter, or do not address it with at all in communicative terms. Correspondingly, we can refer to a negative instance for this category if politicians do not raise the issue of resisting or blocking behaviour by other political actors.

Making Efforts at Political Consensus-Building to Muster Support for a Particular Reform Initiative

The fourth aspect of IL, which the analysis of the first case (designed as a pilot) brought to the fore, relates to political consensus-building. It is perhaps the most troublesome aspect of the concept in terms of its measurement or identification. The question to be asked in order to find evidence for this category reads: “did a key politician engage in political consensus-building in order to push through reform, based on an interest in reform contents or does he engage in tactical games in order to keep his power?” Generally speaking, little information on consensus-building activities of policy-makers is available in publicly accessible documents on reform, which explains why I do not define specific analytical categories such as lines of argument that express consensus-seeking behaviour. Instead, evidence on consensus-seeking needs to be inferred from background information about reform processes, including press coverage and, most importantly, interview accounts.

¹⁰³ A second and distinct category of arguments, ‘point to the inconsistencies in opponents’ behaviour by confronting them with the consequences of non-cooperation for their interests (or those of their constituents)’ was dropped after the analysis of the pilot study (see Section 3.2.2)

Chapter 3

Policy-Orientation of Key Policy-Makers

This last aspect of the IL framework relates to the orientation or motivation of policymakers. As with the consensus-building aspect of IL, it is not easy to specify indicators for it; in addition, documents tend to contain sparse evidence of policy-makers' attitude towards their role in office. Again, it is most likely to derive evidence about policy-makers' orientations from background information contained by press articles and interviews. For instance, one may try to find remarks by different observers about a minister's motivations and attitude towards his office, concerning a particular reform project, or about his general political style. Taken together, such pieces of evidence enable us to come to judgements about whether an official is more led by policy concerns, or is, conversely, more office- and power-oriented.

3.4.3 Analysing Interview Data

In contrast to the analysis conducted on texts, the analysis of interview protocols did not rely on an explicit operationalization of IL in terms of its underlying aspects. It would be tedious and unproductive to ask different experts and observers very detailed questions on whether key politicians used particular arguments in presenting and defending the reform.¹⁰⁴

More specifically, the aim of the interviews was to collect substantive information about the whole of the reform process rather than to focus exclusively on the question of leadership as seen from within the reformist political camp. The range of topics covered included, of course, the leadership style of central political actors, as well as (the perception of) their strategies, but also other aspects of the process including other relevant actors, and the development of the process. All of these elements cannot be captured as easily by the study of a combination of documents. As regards identifying evidence for certain aspects of IL, such as political consensus-building and the political orientation of supposed ideational leaders, questions were asked about whether political actors were result-oriented and tried to use their political network to engineer enough support to push through their policy proposal, and whether this was done for reasons of maintaining power or making sensible policy choices (although this proved difficult to disentangle empirically). In order to organize and analyze interview data in a systematic manner, and to enable a comparison of different accounts, I employed an analytic grid based on the interview schedule that captured the gist of the answers based on interviewee-approved protocols.

3.4.4 Dimensions of Structural Reform and Empirical Indicators

In Chapter 1, I defined the dependent variable in this study, structural reform. To reiterate briefly, it concerns reforms that involve structural shifts, i.e. changes in the distribution of either competences or responsibilities in the financing structure, the benefit structure, or the management of regulatory structure of a social policy programme. The nature of a structural shift depends on the particular dimension in question. The financing structure indicates how a programme is financed, and financing may be comprised of general taxation, payroll contributions, or insurance premiums. For instance, a clear shift from reliance on one source of financing to another source, or creating a new combination of sources can be seen as a structural shift. Concerning the benefit

¹⁰⁴ Moreover, this strategy is problematic and little rewarding for the analyst due to the time elapsed between the reform processes and the interviews: interviewees tend to have difficulties remembering arguments in detail.

Research Design and Methodology

structure, benefits can be either means-tested, flat-rate, based on earnings, or based on payroll contributions, reflecting different rules of eligibility and ways of calculating them. I consider the reforms that stipulate shifts from one form of benefit to another form to be structural. Finally, the management or regulatory structure of a scheme specifies which actors take the decisions concerning its day-to-day management and/or implementation. Typically, this task rests with the state (or public agencies), the social partners or private actors. A structural shift in this dimension involves a change in the composition of managing actors, for instance, if the state decided to replace a managing body operating under public law with several private actors.

The analytical distinction of different structural dimensions of policy programmes forms the basis for operationalizing the concept of structural reforms, that is, to identify them among the large number of reforms that are passed in social policy programmes. In other words, identifying a reform as structural involves scrutinizing the provisions contained in social policy legislation for shifts in the three structural dimensions of financing, benefits, and management, as outlined above. These shifts constitute at the same time the empirical indicators for structural reform, if the provisions of a piece of social policy legislation imply a shift in at least one of the dimensions. In this study, I have resorted to a combination of secondary sources so as to avoid the time-consuming task of checking pieces of social policy legislation for these indicators. More specifically, these sources included a summary database of changes in German social policy legislation (Gohr and Seeleib-Kaiser 2003), analyses of German social policy developments that include the evaluation of reforms (e.g. Alber 2001; Schmid 2002; Schmidt 2005), as well as newspaper-based compilations of social policy reforms (*Süddeutsche Zeitung; Die Zeit*). On the basis of these sources, I identified two clear examples of structural reforms, the Riester pension reform and the Hartz IV reform, which provided the context for the first and second case studies. As far as the third case on health care is concerned, indicators of structural shifts in the three policy dimensions were applied to the different pieces of reform legislation as part of the analysis in order to establish their character.

While this part of Section 3 has elaborated on the operationalization of the independent (IL) and dependent variables (structural reform) of this study, the next part will address the usefulness of conducting a pilot study and discuss its results.

3.4.5 Refining the Theoretical Framework Through a Dialogue Between Theory and Evidence: the Pilot Case

3.4.5.1 The Rationale of a Pilot Case Study

Before elaborating on the results of the pilot study, some general comments about their sense and utility are in place. Although more frequently used in large-scale quantitative studies involving surveys, pilot studies can also be fruitful in more qualitatively oriented case-study designs involving no more than just a handful of cases. In his well-known work on the purposes of case studies, Eckstein used the term plausibility probe to refer to what I call a pilot study. According to his reasoning, ‘plausibility probes involve attempts at determining whether potential validity may reasonably be considered great enough to warrant the pains and costs of testing’ (Opielka 2004: 108). In this study, a pilot study was required to evaluate the validity of the initial theoretical framework. Regarding such evaluations, Eckstein argued that ‘at a minimum, a plausibility probe [...] may simply attempt to establish that a theoretical construct is worth considering at all, i.e. that

Chapter 3

an apparent empirical instance of it can be found' (Esping-Andersen 1990: 109 ; Bonoli and Palier 2000b).¹⁰⁵ Similarly, the authors of a much-acclaimed work on social science methodology state that

Pilot projects are often very useful, especially in research where data must be gathered by interviewing or other particularly costly means. Preliminary data gathering may lead us to alter the research questions or modify the theory. The new data can be gathered to test the new theory, and the problem of using the same data to generate and test a theory can be avoided (Palier 2002: 22-23).

In addition to these more general goals of pilot studies, the one carried out in this project had three specific goals, being of a practical, theoretical, and methodological nature:

- improving upon the initial operationalization of IL, starting from some initial dimensions;
- getting familiar with relevant sources; this applies mostly to documents but also to knowledgeable interviewees;
- designing and presenting methods of analysis that combine the informational value of both documents and interview data

From these goals, the first one (improving the initial operationalization of the IL concept) was the most important one theoretically-speaking, as the insights gained by focusing on the German 2001 pension reform were to be used to refine its dimensions. The ultimate purpose was, eventually, to come up with a hypothesis that is more useful to work with than the initial one (not to be confused with exploring the validity of the hypothesis). This process is in line with a conception of social research where data and/or evidence on the one hand, and analytic frames, derived from ideas and theory on the other, inform each other (see Chapter 3 in Siegel 2002). More specifically, it was believed that the IL concept could gain if confronted with empirical data about a recent reform process. By comparing the theoretically-derived dimensions of ideational leadership with the actions of the key politician in the case, Minister Riester, the analytic frame was to be refined and attuned in line with the complexity of real-world data and the analyst's understanding of IL, which developed in the process of data collection and analysis. At any rate, the goal was to come up with a workable theoretical framework that could be readily used in the second stage of the research design.

3.4.5.2 Results of the Pilot Study and Amendments to the IL Framework

This summary focuses on the implications of the pilot study's findings with relevance to the theoretical framework. Next to the empirical research question on the form and the effects of IL, the question was what the analysis of the case would suggest in terms of the plausibility of the operationalized theoretical framework and the methodology used. The exercise in textual analysis showed that it was possible to detect and record pre-defined instances of text reflecting dimensions of the rather abstract concept of IL. The method proved suitable to detect general patterns of justification in documents such as opinion articles, speeches and interviews. Regarding the usefulness of the analytical categories defined earlier, the results suggest that the indicators of the

¹⁰⁵ Conversely, a plausibility probe may reveal that empirical instances or a theoretical concept *cannot* be found and thus needs to be refuted. To allow for this possibility, I also formulated negative instances of IL aspects in my operationalization of IL.

Research Design and Methodology

first and second aspects of IL (giving arguments that de-legitimize the status-quo and legitimize reform proposals) may be used in the second stage of the research design with minor changes.¹⁰⁶ Judging the plausibility of the third aspect (framing reform resistance as problematic) is somewhat more difficult since statements about the behaviour of reform opponents occurred much less frequently than statements concerning the first two aspects. Moreover, they occurred in the context of direct confrontation of reformists with the parliamentary opposition, with the former denouncing the latter for playing tactical games so as to obstruct reform adoption. This casts doubt on the need for the distinction to be made in the operationalization of the third aspect (between societal welfare in general and the interests of certain societal groups). The reasons for this may lie in either the selection of documents (implying that arguments about reform resistance and interest groups may well be found in other documents), or in the fact that politicians simply do not use such arguments and, consequently, the third aspect might not be helpful for describing (and identifying) ideational leadership at all. I decided to keep the aspect in the framework, but to narrow it down to concern with societal welfare, and not necessarily with the bargaining position of interest groups and the long-term welfare of their constituencies. The first part of the analysis in the pilot study based on texts thus helped to identify the communicative efforts of key politicians and judge the usefulness of the analytical categories designed to do so.

However, much more information about the reform process and, especially, on how this communication was received, was gained through the analysis of interview data.¹⁰⁷ For instance, a majority of interviewees acknowledged leadership of Minister Riestler, in the sense of acknowledging his skilful communicative efforts to both inform about and justify reforms by argument. Yet many of those interviewed pointed to difficulties caused by the minister's leadership style in other respects, especially as far as the communication with the SPD parliamentary party and their junior coalition partner, the Greens, was concerned. Little sensitivity to reform-resistant circles and their potential influence, as well as the choice for developing a far-reaching reform project within the confines of the ministry before going public do not merely reflect a strategic choice, but also a lack of insight into how to build consensus for the proposal. In that sense, interviewees' observations highlighted the need for another aspect to the IL concept, which takes into account a key politician's awareness of, and sensitivity to consensus-building in the political arena.¹⁰⁸ In addition, this insight from the pilot study underpinned another aspect of IL. Apart from pointing out the need for an IL-type leader to engage in consensus-building

¹⁰⁶ Concerning the first aspect, the literature on reformist or innovative leadership and on policy learning and failure assumes that political actors break radically with the status-quo, pointing to its ineffectiveness. Yet the material on the German case illustrates that the minister referred to 'old' institutions, i.e. the statutory pension scheme, in almost respectful terms (this may be due to a political context where discrediting 'long-serving' institutions is not easily done, and to the characteristics of a PAYGO system which has created powerful legal rights based on contributions). This suggests that the indicators for the first aspect of IL ('exposing the ills of the status quo') need to be adapted accordingly, i.e. that an ideational leader may maintain some policy principles while introducing others. Yet, this does not change the core meaning of the aspect, i.e. pointing out the ills of the status-quo and adds an additional nuance. Concerning the second aspect, old policy principles are, in the pension reform case, not discarded completely as they are still seen valuable but no longer sufficient to deal with current demographic and economic circumstances; therefore they need to be complemented by new ones (see Riestler's motto 'Solidarität mit Gewinn'); this point complements the operationalization of the 2nd IL aspect.

¹⁰⁷ It should be stressed here that the purpose of the interviews was to reconstruct the reform process by and large through a wide range of different perceptions rather than to reconstruct it meticulously in all of its details. If the latter had been the goal of this study, hundreds of interviewees would have been needed, which would have exceeded the available time and resources.

¹⁰⁸ The aspect of consensus-building replaced an initial fourth aspect of IL named 'anticipating bureaucratic bottlenecks', was dropped from the framework due to a lack of relevance for the reform process and measurement problems.

Chapter 3

activities, it *also* reinforced another assumption related to the orientation or motivation of policy-makers, namely that IL-type policy-makers engage in far-ranging reforms not simply because it is their task or because they are driven by electoral concerns. They also do so because of a personal concern with the subject matter they are working on, which may induce such policy-makers to become competent and knowledgeable in all of its facets (compare Chapter 2, paragraph 4.2.5). Through his engagement in the pension reform case, Minister of Labour Affairs Riester provided a good example of such policy-orientation. In short, the results of the pilot led to the following conceptualization of IL:

<p>Aspects of IL</p> <p><u>Communicative/behavioural aspects</u></p> <ol style="list-style-type: none">1) Exposing drawbacks of the policy status quo2) Making consistent efforts to legitimize new policy principles (<i>amended</i>)3) Engaging with reform opponents by framing their resistance as ‘problematic’ for societal welfare (<i>amended</i>)4) Making efforts at political consensus-building to muster support for a particular reform (<i>added</i>) <p><u>Orientation/motivation aspect</u></p> <ol style="list-style-type: none">5) IL-type policy-makers are predominantly policy-oriented

Figure 3.2: Amended Conceptualization of IL

To conclude, this sub-section dealt with the purpose and results of the first case study, which was initially designed as a pilot. It started out with three goals of a practical, theoretical and methodological nature. To what extent have these goals been achieved? In terms of theory (improving upon the initial operationalization of IL), the analysis of both textual and interview data have revealed that the aspects of IL needed some fine-tuning, and amendments were made to the theoretical framework. In terms of the practical and methodological goals (data gathering and processing), the pilot has also served its purpose. Firstly, practice in locating suitable documents has been acquired as well as experience with selecting and approaching interviewees, and inquiring about contacts for subsequent cases. Secondly, the triangulation of data sources was found to be beneficial: for instance, while textual analysis of documents helped to spot evidence (e.g. examples of reformists’ argumentation) that could not be explored by interviews, the latter yielded hints about this argumentation was received (which is impossible to infer from documents alone).

3.5 Data Sources and Methods of Analysis

After explaining the general analytic strategy, this section turns to the sources and methods of data analysis in the empirical case studies. It will give a general overview of the materials and sources for gathering the data needed to answer the empirical research question. The sources used can roughly be categorized as documents on the one hand, and interviews conducted by myself on the other.

3.5.1 Documents and Methods of Analysis

The first group of sources, documents, can be further classified as either primary or secondary sources. Primary documents included parliamentary documents (plenary protocols, draft bills, motions, commission reports),¹⁰⁹ a variety of documents produced by individual members of the government (speeches, statements and biographical accounts) and ministries (ministerial declarations, policy draft papers, programmes, implementation schedules; communications by individual officials), and the government more generally (declarations on policy programmes, such as *Agenda 2010*, position papers on policy development and evaluation) as well as regular publications by ministries and other government agencies (e.g. *Bundesagentur für Arbeit*). This category also covered reports by commissions and working groups advising on or preparing input for reform legislation, internal communications of political parties, and policy statements, press declarations and publications by the social partners (especially by trade unions) and other policy stakeholders involved in the making or administration of policy (e.g. local government associations, sickness funds, health care providers). Regarding secondary sources, I consulted a combination of scholarly sources and press articles. The former consisted of research reports and working papers, academic journal articles, books and dissertations dealing with (aspects of) specific reform processes or with reform developments in German social policy (generally or concerning specific sectors). As for the latter, I drew on media coverage of policy developments and specific reform processes and relevant opinion articles in quality print media (such as the daily papers *Süddeutsche Zeitung (SZ)*, *Frankfurter Allgemeine Zeitung (FAZ)*, *Frankfurter Rundschau*, *Handelsblatt* and others; and the weeklies *Die Zeit* and *Der SPIEGEL*).

The aim of combining primary and secondary documents was to get a better overview of the development of policy proposals and relevant debates. Furthermore, both sources taken together provided an outline of the policy-making environment and the positions of relevant actors before the initiation of legislative processes by the government and the formal decision-making by parliament. While many of these primary and secondary documents served to gather information about the policy process in a general sense, those sources containing arguments of ministers, such as speeches, parliamentary proceedings and press interviews, were analysed more thoroughly. I selected sources, in which one could expect to find relevant arguments about policy failure and the legitimization (by stressing the necessity and appropriateness) of reforms. Texts produced by reformists themselves, and first and foremost those written or presented by the relevant minister, seemed a logical choice. For instance, I worked with a selection of available speeches (e.g. delivered in the context of a parliamentary debate or to a party audience), press interviews, articles written by ministers for newspapers and magazines; and, in the first case study, with a biographical account written after Minister Riester left office.¹¹⁰ The minister's biography constituted a convenient source revealing his thoughts on his largest reform project before, during and after the reform process. Despite its obvious limitations (biographical accounts seldom offer

¹⁰⁹ These were accessed via the online legislative databases of the Bundestag (<http://www.bundestag.de>), but I also consulted the relevant collections of 'legislative documentation' (*Gesetzesdokumentationen*) in the Bundestag Parliamentary Archive in Berlin.

¹¹⁰ I do not claim that the selected texts are comparable in all respects, since they vary considerably in length, audience and purpose. However, looking at materials written for different contexts and at different points in time during a reform process should ensure a fairly good representation of the reformists' approach to justify and legitimize reform proposals vis-à-vis the political arena and the public.

Chapter 3

neat answers to the particular questions of an analyst), it disclosed the perceptions of a central actor on the reform process, in a similar fashion to those explored in the expert interviews.¹¹¹ Regarding the other two ministers, Clement and Seehofer, biographical accounts were not available and neither did they consent to being interviewed, which necessitated consulting alternative sources and interviewees (but see Section 3.5.2 below).

The analytical method performed on this selection of documents is relatively straightforward and can be described as qualitative content analysis. In a first reading of the texts, documents were pre-structured according to functional criteria (such as introduction, presentation of policy goals and instruments and explication of the state of the policy sector). Next, passages containing relevant information surrounding the issue of reform were identified, classified, and recorded using the indicators belonging to the categories derived from the IL aspects. In this fashion, whole sentences or phrases within sentences were turned into evidence of pre-defined indicators and could (after their translation into English) be included as direct or indirect citations in the case study reports.

3.5.2 Interview Accounts and Methods of Analysis

Alongside the study of documents, I chose interviews as my second important data source. Despite the time-consuming and costly character of this method of data collection, I considered it a necessary complement to the analysis of textual material. The goal was to collect perceptions and views of a diverse range of individuals holding different positions in various organizations who had been involved either as direct participants in or close observers of political processes.¹¹² I considered these individuals to be an asset both for gathering factual information and personal views and experiences, and to reveal different viewpoints on the same social policy processes. For the study as a whole, I collected data based on conversations and other sorts of communication with more than thirty individuals; most of whom I met in the context of face-to-face interviews. The motive behind conducting these interviews was to reach a balanced understanding of reform processes, and to make a satisfactory assessment of the relative influence of strategies associated with IL. More specifically, the interviews were designed to generate first-hand knowledge about the course of the reform process, the strategies used by reformists, the leadership style of the minister, how it came to the acceptance of reforms and what factors may have helped reformists to push through reforms. The individuals to be interviewed included expert observers of policy development and policy-making, i.e. social policy specialists from private and public research bodies, as well as from universities. In addition, I aimed to consult actors involved in the policy process, such as parliamentarians specializing in social policy issues, trade union officials, and representatives of other stakeholders and interest groups.

The first case was based on nine interviews in total, eight of which were conducted in person and one via e-mail. For the Hartz- IV case, the count was ten genuine interviews, two telephone interviews and one communication via e-mail. Finally, for the health care case, thirteen face-to-face interviews were held. The style of the interviews was half-structured, rather than non-structured, in order to ensure that important points were covered and to obtain comparable

¹¹¹ Although former minister Riester was not available for an interview on his pension reform project, the availability of his biography made up for this to some extent. Given his account, I learned about his ideas on the need for reform and breaking away from the policy status-quo, and his views on policy-making and political power defining his political style.

¹¹² See the Appendix for more details about interviewees.

Research Design and Methodology

accounts of answers. In conducting the conversations, I made use of an interview schedule that covered the following topics and could be adapted for each case and interviewee if necessary: interviewees' perceptions concerning the process in general, the main actors in favour of and against the reform proposals, strategies followed by those who advocated the reform (consisting of a communicative strategy related to IL, and two strategies corresponding to the two alternative explanations), reasons for the increase in reform acceptance and factors that may have facilitated eventual reform adoption. Questions were pre-formulated based on the topics and, where necessary, followed up by probing questions.

Regarding the analysis of interview material, I worked with transcripts of the conversations that covered the main points made by the interviewee rather than complete word protocols. As with documents, I applied qualitative content analysis to the transcripts. By comparing and contrasting the accounts with the help of an analytical grid, I recorded relevant views, arguments, and other sorts of background information that were to appear as direct or indirect citations in the various case study reports. Since the great majority of interviewees preferred anonymity, the Appendix lists them by their position and organizational affiliation only. In order to ensure both accuracy and reliability of the three analyses of complex reform processes, the finished analyses were sent to those interviewees who had provided valuable input for writing them, as well as to the three key politicians concerned, Riester, Clement, and Seehofer, who had not been interviewed. The reactions received were positive and affirmative with regard to the scope and depth of the analysis. Those responding to my request found their views and opinions accurately represented and gave positive comments about the thoroughness of the analyses. Former Minister Wolfgang Clement personally endorsed and welcomed the analysis of the Hartz IV reform.¹¹³

3.5.3 Organisation of Cases and Data Collection

Figure 3, which serves as a heuristic device, illustrates the steps followed in organizing data collection and analysis in the context of the first two cases. The list of steps gives an impression of what the case approach entailed in terms of data collection and analysis, excluding the techniques used to conduct the actual analysis of the material collected. Concerning the third case, Step 1 did not apply since the time frame was already defined by the period in office of the minister chosen. Furthermore, the focus in this case lay more on re-constructing the politics surrounding the reforms, while paying attention to whether the minister's role reflected aspects of IL, to evaluate the initial choice of the minister as presumed ideational leader, and the assessment of reform outcomes (see Section 2.2. above and Chapter 7).

¹¹³ Personal communication, 22.11.06 and 28.11.06, see also Chapter 6, footnote 183.

Chapter 3

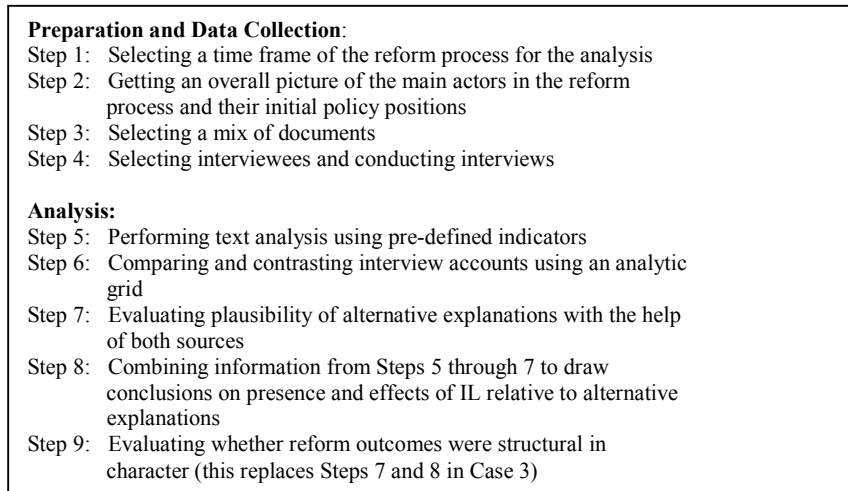


Figure 3.3: Case Study Organization

3.6 Conclusion

To conclude, this chapter has outlined and motivated the methodological choices I have made in this project. It has presented a variant of the case study method, the multiple case study, as a suitable research design to assess the concept of IL, searching for the theorized links between IL and the adoption of path-breaking social policy reforms. Next, it has defined the unit of analysis and the parameters of the case study, including the rationale for using a multiple case design and the analytic strategies used to evaluate the IL hypothesis. The main empirical question is to what extent ideational leadership can be observed in the reform processes, and how it relates to the adoption of structural reforms. Within the design, each case fulfils a distinct function and has a slightly different emphasis. The first case study primarily serves to check whether evidence of IL can be found in the empirical material at all. The second case is meant to confirm the conclusions about the plausibility of IL and to look at its effects on structural reform, as far as the data allows conclusions about them. In the third and final cases, the focus lies on looking at whether the reverse relationship holds, i.e. whether a presumed ideational leader also manages to adopt structural reforms and whether a selection on reputation-based criteria can be confirmed by (some of the) aspects of IL used in the first two case studies. Moreover, I have presented an operationalization of the main concepts, IL and structural reform, capturing the former in five categories of actors' communicative and consensus-seeking behaviour as well as motivation, and the latter in three structural dimensions of policy (financing, benefits and regulation). This was followed by reporting the motives for and the results of a pilot case study, explaining how this resulted in a fine-tuning of the initial theoretical framework. The chapter ended by presenting the study's main sources, documents and semi-structured interviews; my approach to data collection; and as a way to making sense of written and interview data, the analytic method of qualitative content analysis.

4. Surveying the German Welfare State: Challenges, Policy Developments and Causes of Resilience

4.1 Introduction

This chapter provides a link between the explanation of the puzzle at the heart of this study and its empirical part by taking a closer look at the assertion about the strong reform resistance associated with the German welfare state. It will zoom in on this resistance by providing an overview of the main macro-level (regime-level, political-institutional context) and meso-level (programme-level) characteristics of German social policy arrangements. Section 4.2 presents the main characteristics and principles on which this - in essence Bismarckian - welfare state regime is built. Some of these principles can still be seen more than 125 years after Bismarck created the first social insurance programmes. The discussion includes the principles of wage-centred social insurance; ensuring the former standard of living; familialism; and corporatism. The second part of the section describes the various “post-industrial” pressures that are impacting on mature welfare states and the specific reaction of the Continental type, leading to ‘welfare without work’ (Esping-Andersen 1996). In the specific German context, this implies that the effects of external shocks on employment and state finances have been buffered by using social policy programmes and their budgets. Section 4.3 summarizes what German governments have undertaken in reacting to the pressures on social policy arrangements and reviews overall trends in policy development since 1975. It is organized chronologically and considers the record of the Social-Liberal coalition, the Christian Democrat-Liberal coalition and the Red-Green coalition (see for 1998-2003 also Myles and Pierson 2001; Swank; Palier). The purpose is to illustrate how the major policy programmes evolved over time - complementary to and in more detail than the subsequent case studies are able to provide - and to show when patterns of cost-containment or consolidation were punctuated by reforms that went further than incremental changes, i.e. reforms inducing shifts in the structures of those programmes.¹¹⁴ Given the limited and deficient response of German policy-makers to pressures on the welfare state, Section 4.4 then turns to the supposed sources of resistance to comprehensive change. It first discusses the sources of “stickiness” on the level of political institutions and then probes into those linked to social policy programmes. Central to the discussion will be the three policy sectors to be analyzed in the empirical chapters: old-age pensions, unemployment insurance, and health care, whose features are also briefly introduced (see for detailed introductions of social policy programmes e.g. Leisering 2000; Palier 2002; Bleses and Seeleib-Kaiser 2004; Schmidt 2005). Policy-making on old-age pensions is subject to the influence of trade unions, employers and public pension insurers. The effects of policy legacies (and therefore

¹¹⁴ A survey of recent debates on social policy reform, some of which have the potential to make further inroads into traditional resistance to change can be found in the afterword. They concern pensions (increasing the legal pension age), further activation of the unemployed (revision of the Hartz reforms) and a financing reform of the statutory health insurance.

Chapter 4

path-dependence) are especially salient here because of the particularities of the PAYGO-scheme (which makes switching to another system especially costly),¹¹⁵ but also due to other programme characteristics. Secondly, the regulation of unemployment insurance, as one important element of labour market policy, is subject to the influence of the social partners. The relevant sources of resistance to change relate to self-governance and the ability of the social partners to agree collectively on the terms of work for labour. Thirdly, the health care sector is notorious for its plethora of interest groups and, specific to the German case, structures of self-governance, which are in many ways interlinked with political institutions. The effects of policy legacies can be felt, for instance, in the contribution-financed statutory health insurance. The remaining policy sectors, social assistance and long-term care, are arguably less relevant for a discussion of policy legacies and will only be addressed briefly.¹¹⁶

4.2 The Continental Welfare State and its German Prototype

4.2.1 Macro-Level Characteristics

Esping-Andersen's seminal contribution to the conceptualization of the welfare state was his work on welfare state regimes (Bleses and Seeleib-Kaiser 2004), which has widely been used in the literature dealing with social policy change and reforms, assessing, for instance, the extent to which there has been convergence towards one specific regime type. Next to the Social Democratic and Liberal types, Esping-Andersen distinguished the Continental or Conservative welfare state, which is my main concern here. This type of regime is based on the kind of social insurance introduced by Bismarck in the 1880's and has at least four main characteristics. While explaining these briefly, I will also point out why they are potentially linked to change resistance.

Firstly, the Continental welfare state rests mainly on the wage-centred social insurance principle. That is to say, its benefits and services are financed by contributions withheld from wages, rather than financed by general taxation. This defines both the nature of the benefit (contribution-based rather than flat-rate) as well as their financing source (workers and employees rather than the general population). At the same time, contribution-based benefits tend to be associated with "earned" or rather accumulated rights, which may pose legal and technical problems to retrenchment and reforms. In addition, trade unions, which represent contributors, may be expected to defend these benefits. Secondly, the Continental welfare state is biased towards granting benefits to male bread-winners. The usually generous provision of benefits is geared towards ensuring the previous standard of living in cases of illness, old age and unemployment. Thirdly, this welfare state type exhibits a focus on familialism, i.e. its programmes and benefits are tailored to the male breadwinner, while his family provides a safety net that plays

¹¹⁵ Under a PAYGO scheme, old-age pension benefits are financed mainly by wage-based pension contributions borne by employers and employees in equal parts. The level of benefits is dependent on the level of contributions (and ultimately this depends on employment levels, being vulnerable to demographic and economic developments).

¹¹⁶ Social assistance is also considered in Chapter 6, while long-term care, as the most recent social policy programme, will be considered more than an example and consequences of path dependence than a programme showing lock-in effects itself.

Surveying the German Welfare State

a supplementary role: it is expected to take over responsibilities that, in other welfare state types, belong to the state (e.g. the provision of public day care in Scandinavian welfare states), or are left to the market (e.g. the provision of private day care in Liberal welfare states). Such biases come at the expense of the availability of social care services such as they exist in Scandinavian welfare states. The last two principles define the beneficiaries of welfare state arrangements as well as the nature and generosity of benefits. As a rule of thumb, generous earnings-related benefits tend to receive more (political) support from large parts of the population than targeted and flat-rate benefits and reducing them may be much more difficult (Bleses and Seeleib-Kaiser 2004).¹¹⁷ It is to be noted that the first three characteristics are linked to the welfare regime type: ensuring living standards, putting a prime on the family as “service provider” and maintaining differences of status according to occupation.

Fourthly, as Schludi (2001: 63) points out in his discussion of pension reforms, Conservative welfare states also tend to be corporatist in nature. They usually allow for a partial decentralization of state authority to quasi-public administrative bodies which are often controlled by representatives of business and labour, i.e. the social partners. According to several authors, this characteristic increases the number of key actors in welfare state politics, giving them plenty of opportunities to delay or obstruct policy change contrary to their interests (Esping-Andersen 1996; Andersen 2003; Genschel 2004). In turn, this diminishes the state’s capacity to control social policy development, for instance, by adding actors who legitimately participate in debates about welfare state reform (Palier 2002). In addition, Myles and Pierson point out that the role for trade unions in the administration of social policy transfers grants them a *de facto* veto power against reforms (Leibfried and Pierson 1995; Scharpf 2002 ; Glatzer and Rueschemeyer 2005). Concerning the German context, Leisering states that “intermediaries”- organizations that stand between the state and individual beneficiaries - are characteristic of the provision of welfare. In as far as these organisations enjoy a privileged legal status as providers and coordinators of social services they form part of a state-regulated and corporatist structure of society. Potentially, such intermediaries can produce a high level of flexibility, but the extent to which they form a corporatistically regulated and solidified actor structure means that they also constitute a source of paralysis. Corporatism and regulation appear to many as a main source of inflexibility in the process of adapting to global challenges (Leibfried 2005).

Among the Continental European welfare states, the post-war German welfare state can be literally described as its prototype. During its “Golden Era”, that is, up to the mid-1970’s, it exhibited fully the characteristics identified by Esping-Andersen. Through the course of its historic development (Ferrera 2005; Steffen 2005), Germany became characterized by a wage-earner-centred social policy, which carried certain implications in terms of requirements for employment relationships and benefit recipients. Wage-earner centred implied two things: a social policy that applied more or less to male earners or bread-winners and an associated sphere of unpaid welfare services by married women. Moreover, the male bread-winner’s mode of employment was the standard employment relationship, resting on four assumptions: work as dependent work with a single employer, or as full-time job; a salary higher than the subsistence level; a continuous, as

¹¹⁷ Flat-rate benefits are less likely to be supported by medium and high-income earners than earnings-related benefits, as with rising incomes, flat-rate benefit will not contribute more to someone’s standard of living. The political implication is that flat-rate (and low level) benefit structures might be related to a lack of support from medium and high income earners. As wage inequality increases, such benefits are supported mainly for ideological reasons rather than based on material interest and are more easily subjected to criticism. Thus, it is easier to reduce flat-rate/means-tested benefits than contributory ones (Palier 2002).

Chapter 4

well as sufficiently long employment history; a life course following the education-work-retirement track; and, income and social policy status of the earner's wife and children derived from and dependent upon the male breadwinner status (Muckenberger 1985 cited in Stiller 2006:18). From these assumptions, the wage-earner approach establishes some rules concerning the entitlement to social benefits: before receiving them, someone must have been in employment; benefits are based on the level of previous earnings; and, while someone is receiving benefits, he or she should demonstrate his willingness to work (this does not apply to retirement benefits). While these rules define entitlements for those who have formerly been or are currently able to work, only those who do not meet such criteria should resort to other forms of benefits, i.e. tax-financed social assistance. The corollary is that this social policy model can only function as long as the majority of the working population is in a standard employment relationship (implying also that women stayed home for care) and employment is freely available (Lewis 2002: 18-19).

From these assumptions and rules we can clearly recognize the aims at the core of Continental welfare states: familialism and securing current standards of living. The focus on bread-winners ensured that women tended to look after their children (although it did not exclude them from work completely), and the link between previous earnings and benefits ensured that those receiving benefits could more or less rely on an income in case of old-age, long-term illness or unemployment. This brief discussion of the wage-earner principle indicates that some crucial conditions need to be met in order to make the system work properly. Since the end of the welfare state's "Golden Era", however, some of these conditions have certainly been eroded, which was mirrored in the literature by a focus on its "crisis". After having zoomed in on the core principles of the Continental welfare state and the specific implications of the wage-earner approach for German social policy, I now take a closer look at adjustment pressures and how Continental welfare states have reacted to them.

4.2.2 Pressures on Contemporary Welfare States

By the end of the 20th century, it had become indisputable that modern welfare states had come under pressure to adapt their institutional make-up in response to changes of a political, social and economic nature. This concern has also been reflected in the comparative welfare literature since the mid-1990's (Bonoli 2005). One basic problem of Continental welfare states (and other welfare state types) is that the post-war conditions, under which the welfare state was created and its programmes were developed and implemented, no longer hold (ibid: 21). To recapitulate the more specific sources of pressure, these are changes in social and economic conditions which threaten the fundamentals of the welfare state's policy arrangements: they include the changing nature of employment and the development of post-fordist labour markets, changes in family composition and the role of women, and, finally, unfavourable demographic developments such as ageing and declining birth rates (Pierson 1998). The combined effect of these developments has affected the standard employment relationship, the male bread-winner model, and the earner-centred contribution base, upon all of which the Continental welfare state was built. Some of these developments are challenging some specific programmes more than others; I will now discuss each of them in turn, focusing on endogenous sources of strain.¹¹⁸

¹¹⁸ To these largely endogenous sources of strain on welfare states, one may add a decline of traditional corporatist patterns of interest intermediation as well as external pressures stemming from developments such as globalization and intensified. European integration (van Kersbergen 2000: 22). For reasons of space, these trends are not discussed in detail here.

Surveying the German Welfare State

Firstly, changes in family values and gender roles have resulted in a decline in the traditional family, which has been increasingly replaced by households made up of single persons and single (or divorced) parents. In addition, the division of labour within families has been changing. The former has led to relatively more claims on social benefits and/or child care services from these households; the latter development has resulted in a questioning of traditional assumptions built into welfare state programmes on who should receive social benefits (Scharpf 2000a). In addition, different household structures combined with new forms of work (see below) have generated new social needs and demands that are denoted as “new social risks”. Such risks include reconciling work and family life, lone parenthood, long-term unemployment, belonging to the so-called working poor, or insufficient social security coverage. New risks tend to be concentrated among women, the young, and low skilled workers (Scharpf 2000a).

As far as the organization of economies and the situation of labour markets and employment are concerned, many changes have occurred in that sphere, too. These include a slowdown of productivity and economic growth compared to the post-war era (Hemerijck, Manow et al. 2000); a transition to post-fordist (or post-industrial) labour markets, implying deindustrialization, a growth of the service sector, new technologies; and flexibilization of employment that affected employment patterns, leading to less life-long careers and more variety in employment types, including temporary and irregular work (Manow and Seils 2000). The consequences for the welfare state and its programmes may be direct, as their sustainability is affected by an overall reduction of stable contribution revenues (endangering the financing base of programmes), and the fact that less stable employment and lower growth rates tend to produce especially higher structural levels of unemployment (especially with rigid labour markets), putting a greater strain on corresponding benefit schemes (Pierson 1998: 544). Also, the effect may be indirect, as the governments of advanced welfare states face a ‘trilemma of the service economy’. In line with this argument, governments need to increasingly balance conflicting goals of employment growth, wage equality and budgetary requirements (Manow 2001 in Pierson 1998:544). I will readdress the problem below when the response of Continental welfare states is explained. In addition, a related argument is that the past expansion of welfare states led to mature and costly welfare states and sizeable fiscal commitments for governments that hamper policy flexibility, constantly create budgetary pressures and thus set extra constraints on governmental use of revenues. Of these commitments, health care and pension schemes make up the largest proportion. Sizeable commitments are also claimed to drive up unemployment because of upward pressure on the taxation of labour through increasing social policy contributions (Bleses and Seeleib-Kaiser 2004). During the mid-1970’s, these contributions as a share of gross wage still totalled about 30 percent, but rose to over 35 percent in the mid-1980’s and reached a critical threshold of 40 percent in the mid-1990’s (Döhler 1995:673).¹¹⁹ In 2003, contributions had reached about 42 percent of gross

Concerning the influence of globalization on welfare states, there exists a sizeable literature disagreeing about the precise nature of the relationship, i.e. whether there is a negative or positive impact, and the mechanisms involved (see for overviews of the literature Andersen 2003; Genschel 2004). In a recent contribution to the debate, an edited volume by Glatzer and Rueschemeyer stresses the mediating effect of domestic institutions and political struggles on the effect of globalization on welfare states (Glatzer and Rueschemeyer 2005). Similarly, with European integration (or ‘Europeanization’) it is difficult to detect effects on national social policy because of conceptualization issues; in addition, its effects on national social policies are hard to trace empirically. In addition, there is disagreement as well as differing empirical evidence the strength of such effects (see for examples on both issues Leibfried and Pierson 1995; Scharpf 2002; Ferrera 2005; Leibfried 2005; Steffen 2005; Stiller 2006).

¹¹⁹ The strong rise of contributions in the 1990s was caused by a number of extraordinary factors: the introduction of long-term care insurance; additional burdens for social insurances because of reunification and the increase of other sorts of

Chapter 4

wages (including both contributions from employers and employees) with contributions for pensions (19.5 percent) and health care (on average 14.3 percent) making up the bulk of this amount.

The sensitivity of experts (especially economists) and policy-makers to the (supposedly adverse) effects of non-wage labour costs and its employment effects has considerably increased since the mid-1990's. This has resulted more recently in concrete pledges of policy-makers to at least contain or lower the rise of contribution rates: to give two examples, the 2003 reform programme *Agenda 2010* of Chancellor Schröder was intended to decrease non-wage labour costs from 42 to at least 40 percent.¹²⁰ Also, the current CDU/CSU-SPD government took up the issue in its coalition agreement of fall 2005, striving to keep social contribution rates durably below 40 percent.¹²¹ Finally, a combination of demographic trends that lead to population ageing is a final and important challenge for welfare states. The combination of longer life expectancy and decreasing birth rates has led to a growing share of the population aged 65 and older.¹²²

The corresponding figures for Germany envisage increases in the retired population (65 years and older) from 15 percent in 1990 to 26.1 percent in 2030 and 28.4 percent in 2050 (UN Population Division 1999 in: Rosewitz and Webber 1990:44). The predictions of the German Statistical Office are even more drastic: in its 2003 population outlook it concluded that the proportion of those aged over 60 is to increase from a current 23 percent to 37 percent during the next fifty years; at the same time, the proportion of those under 20 years is to decrease from 21.3 percent to 16 percent. Through these changes, the German population, given a certain level of net immigration, will shrink from 82 million to 75 million during the same time period. As life expectancy still increases, the higher proportion of retired people will drive up the average age of the population; at the same time, the share of the working population will decrease by 15 to 30 percent until the year 2040 (Statistisches Bundesamt 2003 in: Bleses and Seeleib-Kaiser 2004:25). These developments have immediate and far-reaching implications for social policy programmes: on average older populations put more strain on (statutory) pension and health care schemes, while the amount of contributions tends to decline (because of a decrease in those paying contributions); this necessitates a search for complementary sources of funding if current benefits and service are to be maintained. Fiscal strain on these two schemes in particular is set to increase, the average increase in pension spending between 2000 and 2030 is set at 3.9 percent of GDP across the OECD countries, for health care provisions, it is set at 1.7 percent, totalling an average increase of expenditures for these two programmes of 5.6 percent of GDP (OECD 1996 in Pierson 1998: 550-551). As far as Germany is concerned, the proportion of GDP spent on pensions and health care has shown a continuous upward trend since reunification (1992: pensions 10.5; health care 10.4 percent; 2000: pensions 10.9; health care 10.7 percent; 2003: pensions 12.4; health care 10.9

('versicherungsfremde') expenditures, such as pension payments to migrants from the former ethnic German areas in Eastern Europe and the former Soviet Union (Ibid: 674).

¹²⁰ Speech by Chancellor Schröder to Parliament, Mut zum Frieden und Mut zur Veränderung, 14.03.2003, Bundestag parliamentary protocol 15/32, p. 2479-2493.

¹²¹ Coalition agreement of CDU/CSU-SPD 11.11.05, 'Gemeinsam für Deutschland – mit Mut und Menschlichkeit', p.21, source: http://www.bundesrat.de/nn_38758/DE/foederalismus/bundesstaatskommission/Mitglieder/Koalitionsvertrag.templateId=raw.property=publicationFile.pdf/Koalitionsvertrag.pdf

¹²² While the percentage of the population in the OECD countries aged over 65 was still 9.4 percent in 1960, it was projected to rise to nearly 14 percent by the year 2000 and is anticipated to reach 23 percent by the year 2035, with the major part of this transition to occur from 2010 onwards, when the large cohort of 'baby boomers' are retiring (OECD 1995, 1998 in Pierson 1998: 550).

Surveying the German Welfare State

percent).¹²³ In a ten-year period, the ratio for pension expenditure/GDP has thus risen by 1.9 percent and for health care by 0.5 percent, combining to 2.4 percent. With the onset of demographic effects after 2010, this trend is set to continue.

4.2.3 Reactions of Continental Welfare States to Pressures: ‘Welfare Without Work’

With regard to the reaction of Continental welfare states to these pressures, their problems with responding to the changing economic situation (and to economic crises) have received the most attention in the literature. The gist of the arguments is that such crises, which usually bring about unemployment and higher burdens on public budgets, tend to threaten its basic workings. In the following, I will refer to the difficulties of adjustment that relate to the characteristics of Continental welfare states in general. At the same time, these problems are particularly relevant for Germany, given that the country has had to cope with a particular challenge, in many respects comparable to an external economic shock, namely reunification (Bleses and Seeleib-Kaiser 2004). The fiscal and economic implications of integrating Eastern Germany into the Federal Republic were heavy burdens on public budgets and social security systems, which exacerbated or intensified other sorts of pressure and were not experienced by other countries.

In reaction to the challenges described above (and in particular economic pressures), the Continental model seems to be unable to generate employment growth. Instead, labour markets are characterized by high and chronic unemployment levels, especially among the young, low female participation in the work force, and sluggish service sector growth. All of these factors combine and make labour markets into typical “insider-outsider” markets (Bleses and Seeleib-Kaiser 2004: 78-79). Esping-Andersen argues that the model:

(...) has an inbuilt tendency to eat the very hand that feeds it. Unable to promote employment expansion, it reverts to labour supply reduction policies which, for males, mean unemployment and pension costs; for women the necessary continuation of male breadwinner dependencies. This translates into extremely high labour costs and labour market rigidities because the ‘insiders’ are compelled to defend their employment security’ (Rosenbrock and Gerlinger 2004: 80).

This inbuilt tendency towards self-destruction, to put it somewhat bluntly, has also been identified by other analysts. For instance, in discussing the Continental model, Scharpf notes their ‘low or very low rates of total employment’ as well as ‘low or very low rates of female participation in the labour market’ and stresses that ‘the comparatively high dependence of Continental welfare states on social insurance contributions also creates specific vulnerabilities’ (Bandelow and Schubert 1998: 219-221). This vulnerability works two ways: employment losses weaken the financing base of social security programmes while putting higher burdens on them, especially in the case of unemployment insurance. On the other hand, insurance-based benefits tend to be more resistant to retrenchments or replacement by means-tested benefits than tax-based benefits, which explains why higher burdens usually translate into higher contributions for benefits. Thus, ‘Continental welfare states are vulnerable to a vicious cycle in which rising unemployment will lead to increases in non-wage labour costs which will further reduce employment opportunities in private sector services’ (Webber 1989: 222).

The “vicious cycle” illustrated by Scharpf has also been described, from a more distinctly political economy perspective including firm behaviour in reaction to economic shocks, as a

¹²³ Sozialbericht 2005, Berlin: Bundesministerium f. Gesundheit und Soziale Sicherung, p. 197

Chapter 4

‘pathological spiral of welfare without work’ (Rosenbrock and Gerlinger 2004). This spiral implies that in reaction to competitive pressures; firms try to increase labour productivity, which not only means investments in training, but also dismissing workers, and mostly those who are less productive and most costly. Given the Continental welfare state’s dependence on male bread winners, it results in rising social security contributions and taxes. In the meantime, non-wage labour costs have increased, which invites firms to review their productivity again and leads to even more lay-offs. This ‘particular interplay between production and social protection’ leads to overall low employment and high structural employment, low female participation rates, declining participation of older workers, weak growth of part-time employment and employment in the service sector (ibid: 109).

The patterns of “insider-outsider” labour markets, “vicious cycles” and “welfare without work” indicate a general difficulty or perhaps even an inability of Continental welfare states to cope with the challenges of a socio-economic nature, leading to loss of employment. The following question is how Germany, as a prototype of this welfare state type, has tended to react to these challenges. Two analyses of German economic adaptation have taken a wider political economy perspective as their point of departure. Firstly, and offering an alternative explanation for Germany’s poor employment performance, Manow and Seils find a process of “dual externalization” of costs by the state and firms onto the welfare state in adjusting to external shocks, most recently German reunification, but also in earlier crises (Brandhorst 2003). In a broader study, analysing the historical development of the German political economy and its system of social protection at length, Manow identifies two patterns illustrating the use and misuse of the welfare state in coping with external shocks, showing that the welfare state served as a buffer and shock absorber for both the labour market and public finances (Bleses and Seeleib-Kaiser 2004).¹²⁴ These studies suggest that social policy programmes have been instrumentalized by the state and by firms, indicating that these actors preferred additional burdens for the welfare state to substantial reforms, despite the risk of endangering its financial viability in the long run. However, demonstrating that social policy programmes are repeatedly used for buffering economic shocks does not yet provide a clear explanation for the resilience of these programmes. I will cover these sources of resilience in its social policy model in Section 4.4. Before that, however, I will consider the development of German social policy over time.

4.3 Reacting to Pressures? Policy Developments since the Mid-1970’s

This section deals with the answers policy-makers formulated in response to the pressures illustrated in Section 4.2. Did policy-makers attempt comprehensive reforms in their reaction to slow growth and unemployment, demographic developments and other pressures? Did they adjust policies or did they prefer to react by adopting incremental reforms, as the supporters of the *Reformstau* perspective would argue? The answer is given in the form of an overview of German social policy development, focussing on the changes to the three main programmes, old-age pensions, unemployment insurance and health care (which are also at the core of the structural reform analyses in Chapters 5 through 7). Its purpose is to offer a general impression of whether

¹²⁴ First, governments used social insurance schemes to cope with the labour market consequences of the crisis. Second, social insurance schemes are used (with a certain time lag) to cope with the financial implications of the crisis which occurs through cost-shifting at the expense of the contribution-financed social programs.

Surveying the German Welfare State

reforms were more incremental or more comprehensive (and possibly structural) in character rather than tracing whether different types of pressure had resulted in matching policy amendments (the latter would be beyond the scope of this study and would warrant a distinct research project). Also, it presents information that cannot be included in the case studies, which zoom in on particular reform processes, in order to acquaint the reader with the general picture of German social policy development over time. In terms of its time frame, the overview covers the main phases of social policy development since the end of the “Golden Era” and is structured by the periods of subsequent coalition governments. For each period, I will describe the general characteristics of each government’s approach to social policy before summarizing the main policy changes in each of the three programmes, including major reform legislation. The main purpose of these summaries is to indicate overall policy trends; they are not intended to cover each reform in detail.

4.3.1 The Social-Democrat/Liberal Coalition (1969-1982): Expansion and the Beginning of Consolidation¹²⁵

From 1969 onwards, the new Social-Democrat/Liberal (SPD-FDP) coalition set the German welfare state on an expansionary course, which was part of a common reform plan backed by both parties.¹²⁶ A prime example of this expansionary course, which took place across all programmes, expanding the circle of programme beneficiaries and raising the levels of transfers and services, was the 1972 pension reform (see for the main provisions Schmidt 2005: 94). This course of widening and deepening the welfare state had to take a blow with the recession of 1974, when, for the first time, a financial crisis in social policy budgets became a real possibility. The first reaction of policy-makers was hesitant, and first cost containment measures only followed after the change in leadership from Chancellor Willy Brandt to Helmut Schmidt in 1974. The 1975 budget initiated a different kind of social policy, and, first of all, introduced cuts in active and passive labour market policy, including unemployment benefits. After the federal elections in 1976, cost containment gained pace and during 1977 and 1981 it brought cuts in all major programmes: a time of consolidating social budgets in line with the levels of 1970 had begun.¹²⁷

In September 1982, the coalition fell apart, not least because the positions of SPD and FDP on economic and social policy had become irreconcilable. This change of government to a new conservative-liberal coalition of CDU/CSU and FDP ended an era of high hopes with regard to social policy and, towards the end, deep frustration amongst their party members and electorate.

¹²⁵ The general part of this and following two sections are based on Schmidt 2005, Chapter 1.4.

¹²⁶ Quantitative measures of welfare state activity confirmed this new strategy: the percentage of the population living primarily from social security income rose from 14.4 per cent in 1969 to 18.2 per cent in 1982 (reflecting more pensioners and more people receiving unemployment insurance) and the ratio social expenditure/GDP climbed from 24.6 percent in 1969 to a high of 31.4 percent in 1975 and only slightly fell to 30.7 percent in 1982. This expansion was primarily financed from higher contributions, which also rose from 27.8 percent at the beginning of the period to an impressive 34 percent at its end (Schmidt 2005: 93).

¹²⁷ This included a number of measures: the automatic adjustment of pensions to wage increases was delayed; co-payments were introduced in the health insurance scheme, which also saw the institution of a body consisting of health care stakeholders which was to deliberate about further cost savings; eligibility rules of unemployment insurance were tightened and the levels of transfers were lowered. Other areas of social benefits, such as social assistance, child allowance and others were also affected. In order to stabilize social budgets, the SPD-FDP government raised contribution rates across all social insurance programmes. Since these measures were considered to be insufficient, the federal government also resorted to balance deficits by transfers between social budgets and between the federal budget and social budgets.

Chapter 4

Evidently, “social capitalism” had reached its limits. The legacy of the SPD-FDP government was visible with a high unemployment rate of 7.5 percent, more than 2 million social assistance recipients and a combined social contribution rate of 34 percent of gross wages. On the positive side, the social expenditure/GDP ratio had been increased, at least until 1975, and the welfare state as a whole had worked well as a buffer in the years of economic turmoil (Schmidt 2005: 98).

How did major programmes fare during this period after the end of expansion? Labour market policy was clearly dominated by cost-containment concerns which, as far as unemployment transfers were concerned, led to the first benefit cuts (from 1975 onwards), and to a pro-cyclical approach to active labour market policy: this means that in times of high unemployment, measures were cut, only to be expanded again when the economy recovered (Bleses and Seeleib-Kaiser 2004: 51). Furthermore, programmes that promoted individual training (a part of active labour market policy), which had been initiated by the same coalition, were cancelled, and the level of benefits across social programmes was decreased while tightening of eligibility rules: this applied to unemployment insurance as well as to pensions (Schmidt 2005: 97).

With regard to old-age pensions, several adjustments were made in 1977 and 1978 including the postponement of annual benefit adjustments, caps on future benefit increases, and a technical measure minimizing the wage-based adjustment of benefit levels. On the revenue side, the contribution rate was increased by a half percentage point and a new contribution for the unemployed (to be paid by the Federal Employment Agency) was introduced. On the whole, the Social-Democrat/Liberal coalition enacted incremental benefit curtailments, which were largely designed to control expenditures (Bleses and Seeleib-Kaiser 2004: 68-69).

Concerning the area of health care, the mid-1970s marked the beginning of a perennial effort of cost-containment. Therefore, the post-war aims of expansion and matching patient demand were replaced by a focus on revenue-based expenditure policy. As an addition to the first 1977 cost-containment law, the so-called Concerted Action in Health Care (*Konzertierte Aktion im Gesundheitswesen*) was established as a corporatist body of interest concertation designed to support the aims of this legislation (Brandhorst 2003; Gerlinger 2003: 387-388). This period also saw the first introduction of patients’ co-payments for medical services.

4.3.2 The “Era Kohl” (1982-1998): Consolidation, Expansion and “Restructuring”

The new CDU/CSU-FDP coalition led by chancellor Kohl started its period in office with diagnosing crisis, both in the economy, and in the systems of social security. As a consequence, two steps were seen as necessary: putting on the breaks immediately with regard to social expenditure and, in the long term, restructuring social policy with a stronger focus on solidity, security, and stability as well as on individual abilities and initiative (2005: 99). Schmidt focusses his discussion of the Kohl period on to what extent the coalition achieved its goals in consolidating social budgets, distinguishing two periods: firstly, from 1982 until 1990 the government could book successes, while from 1990 onwards, this policy encountered reactionary tendencies (2005: 100-103).

Surveying the German Welfare State

The first period was characterized by a mix of cost-containment and improvement of revenues, backed by Minister of Labour and Social Affairs Norbert Blüm.¹²⁸ To start with, the new government carried on with a restrictive social policy, while stepping up the pace of consolidation.¹²⁹ In response, the opposition and trade unions were furious about what they saw as large-scale retrenchments (*Sozialabbau*), while the Government stressed that consolidation had been carried out carefully and in a socially balanced manner. With the benefit of hindsight, the 1980's were termed a period of "smooth consolidation" compared to social policy adjustments in other European countries (Schmidt 2005:11). However, there was a countermovement to this trend, which, from 1985 onwards brought about improvements in social policy, such as in unemployment insurance (longer entitlements for older unemployed) and an expansion of family policy. Therefore, the first period saw no dismantling of the welfare state but high doses of cost-containment while the welfare state was left essentially intact.

The second period, in contrast, saw further attempts to consolidate social budgets but these were overshadowed by forces that had a contrary and thus expansionary effect. The reasons for this lay in the decision to fund reunification generously (while there was an underestimation of its costs), a rapidly rising unemployment rate and the set-up of a new social programme, long-term care insurance, in 1994.¹³⁰ Apart from consolidating social budgets, the Kohl Government also intended to carry out qualitative changes in the welfare state or restructuring (*Umbau*). However, such restructuring was to conserve its social insurance character and leave the right of the social partners to conclude collective agreements (*Tarifautonomie*) untouched.¹³¹

How were the major programmes affected by the phases of consolidation and the intentions of restructuring? It is again convenient to distinguish two periods, one before and one following reunification. Starting with labour market policy, the 1980s were synonymous with 'selective cuts and targeted improvements' (Clasen 2005: 64). In 1983 and 1984, this meant a repetition of the previous pattern of 'small and dispersed cuts, which mainly disadvantaged peripheral workers, while refraining from benefit retrenchment which might affect core workers'. Between 1984 and 1987, this pattern of 'selective retrenchment' turned into one of 'selective expansion' (e.g. easier access to unemployment benefit, extending entitlement periods for some groups from twelve to thirty-two months). Subsequently, there was a reversal to selective retrenchment when active

¹²⁸ The ratio social expenditure/GDP was reduced accordingly from almost 31 per cent to 27.6 per cent in 1990. Programmes which contributed most to this trend, were old-age and widowers' pensions, health care policy and unemployment insurance.

¹²⁹ This translated into several cost-cutting reforms in the years 1983 and 1984, which, among others, targeted social assistance (decrease of indexation), unemployment insurance and assistance benefits (level of benefits/tightened eligibility rules) and pensions (faster introduction of health insurance contribution, deferral of automatic adjustments and limitation of disability pensions).

¹³⁰ These developments contributed to a steep rise in total payroll contributions (from 35.9 percent in 1989 to 42.2 percent in 1998) which for the most part were caused by the decision to increase social contributions across all programmes. The social expenditure/GDP ratio again rose to 31.9 percent in 1996 and was higher than at the beginning of the Kohl era.

¹³¹ The goals set included the reduction of unemployment, adapting the welfare state to socio-economic and demographic change, introduce more flexibility and personal responsibility into the system and redirect social provision to those who needed it most (2005: 104). From a macro-perspective, looking at the German welfare state in its entirety, Schmidt identifies the following successful outcomes of the restructuring plans (2005:105-106): the rapid transfer of the West German systems of social security to the new *Länder* (which on the other hand also meant immense costs); the decision to establish a long-term care programme in 1994; the strengthening and extension of family policy despite the difficult budgetary situation from the mid 1980s; the dampening of expenditure-raising effects of unemployment and ageing in pensions (reforms in 1992, 1999 and health care: 1993, 1997)

Chapter 4

labour market measures were cut and access to benefits was restricted for people with less continuous employment histories (ibid: 65). Similarly, Bleses and Seeleib-Kaiser note a selective trend towards recommodification: younger and middle-aged workers were increasingly forced back into the labour market because of the curtailments in the unemployment insurance and assistance schemes (exceptions were made for unemployed workers with children). Older workers, however, were able to claim benefits for a substantially longer amount of time, which allowed firms to externalize dismissal costs and this had a downward effect on the labour supply. At the same time, active labour market policy covered more individuals without causing higher expenditures, as less funds were allocated to these programmes (Hartmann 2003: 56).

In the period following reunification, firstly, selective cuts continued (cuts in labour market programmes; selective reductions in ALG [unemployment insurance benefit] and ALH [unemployment assistance] focusing on those without children; scaling back of ALH for claimants without prior receipt of ALG). Then, signalling a change in development, from 1995 onwards, two things happened: on the one hand, retrenchment gained speed (now even core workers had to accept small-scale benefit cuts), and activation policies became more pronounced in the granting of formerly “passive” transfer payments. As for the latter, a focus on employability and work requirements was noticeable for ALH and social assistance claimants, but also for those who were claiming long-term ALG benefits (Clasen 2005: 69-70). Additionally, Bleses and Seeleib-Kaiser stress that active labour market measures were used extensively to combat unemployment and incentives for early retirement from the 1980’s were replaced by other measures. With respect to the curtailment of transfer payments, they note a continuing trend toward recommodification of workers, again exempting those unemployed with children (Bandelow forthcoming, 2007 : 61).

With regard to developments in old-age pension arrangements in the same two periods before and after 1990, what can we observe? Arguably, the change in Government did not affect the direction or pattern of pension policy, leading to a pre-1990 period of consensual adaptation and adjustment. More specifically, this caused ‘a wide range of cutbacks affecting current and future pensioners (...) aimed at curtailing expenditure for both pension insurance funds and the federal government’. The measures employed to achieve this goal included several increases in contribution rates, softened by lowering pensioners’ contribution rates to unemployment insurance (Clasen 2005: 105-106). Just before reunification, in 1989, an important pension reform was concluded (to take effect in 1992), which included major new aims such as indexing pensions in line with net rather than with gross earnings and fixing the level of federal subsidies (Schmähl 1993, 1999 cited in Clasen 2005: 107).

The post-unification period was characterized by the breakdown of the traditional pension consensus between the major parties: this meant more cross-party conflicts over pension policy and an increase in the politicization of the pension issue. This new conflictive style culminated in the 1997 pension reform as a ‘new and more far-reaching round of cutbacks and revenue enhancing changes’ (Clasen 2005: 111-112): this reform combined changes affecting the level of pensions, limiting early retirement options for disabled people, and the introduction of the so-called demographic factor (designed to link the indexation of pensions with the life expectancy of generations of pensioners). From the perspective of the principles of pension insurance, the “Era Kohl” saw a number of changes: in several steps, all of which constituted incremental reforms, the government strengthened the link between contributions and pension benefits, which boils down to weakening what was conceived to be a “socially adequate” retirement income. Thus, pensions moved away from the wage replacement principle, especially for those who were unable, for whatever reason, to complete the required amount of contributions to receive a full pension. On the other hand, pension arrangements increasingly accommodated the needs of families by

Surveying the German Welfare State

introducing child-rearing credits, which is seen as a 'systematic departure from the strong male bread-winner model and wage-earner centred social policies' (Clasen 2005: 75).

Finally, in the area of health care, we can distinguish at least two periods during Kohl's chancellorship. The period up to 1992 continued to be dominated by a traditional cost-containment strategy, including several elements: revenue-centred expenditure policy (focusing on stable contribution rates); a cautious strengthening of sickness funds versus care providers (in terms of their competences); a cautious correction of supply-side structures and incentives for care providers (regarding, for instance, the remuneration of doctors and the budgeting of their services); and a trend towards the privatization of health care costs via co-payments (Saalfeld 2003:247-248). During the 1980's, the early involvement of interest groups in reform processes foreclosed the changes in incentives for care providers, which had been on the policy agenda since 1985 (Schulze and Jochem 2006: 117). The 1988 Health Care Reform Act (GRG) was intended to go further than mere cost-containment, but it was substantially watered down in the process (Immergut 1992). From 1992 until 1998, the government strategy changed, notably because the failure of the GRG had made visible the limits of traditional cost-containment. The 1992 Health Care Structural Reform Act (GSG) marked the beginning of a shift in health policy that would continue to be felt until the present. The focus on stable contribution rates was strengthened and backed by the introduction of sectoral budgets for expenditures and new steering instruments were either introduced or extended in order to change the incentives of stakeholders (free choice of sickness fund, introduction of budgets, more privatization of health care costs from 1996 onwards): this combination amounts to a 'paradigmatic change in health care policy' (Bonoli 2001: 249-250). While the GSG introduced the most far-reaching changes and which was adopted still in consensus between the two major German parties, from 1995 this health care consensus broke down and the later reforms of the period (in 1996 and 1997) were adopted against the will of the SPD opposition. Towards the end of the Kohl period, the focal point of reforms switched from health care providers to the insured and, to some extent, to sickness funds (Bonoli 2001: 213).

4.3.3 The Red-Green Coalition (1998-2005): Cost-Containment and Structural Change

Evaluations and interpretations of the Red-Green coalition often centre on the question whether it stood for continuity or discontinuity of policy and whether its course in social policy-making was particularly social-democratic in character. While the coalition itself (both towards the end of its first term in 2002 and its second term in 2005) issued positive self-evaluations in terms of having reached its social policy goals, outside evaluations were less positive about their policy legacy. On the one hand, critics from the left (including the left wing of the SPD and trade unions) diagnosed their approach as a 'neo-liberal tax and welfare state reform project' in order to secure Germany's status as an investment and industrial location (*Standort Deutschland*). On the other hand, more business-related circles detected continuity of an ambitious social policy including high social contributions, a high social expenditure/GDP ratio and high-standard social policy and labour law regulations: this view identified an urgent and unfulfilled need for reforms under the Red-Green coalition (*Reformstau*), comparable with the immobility of the latter years of the Kohl Government.

Since probably neither of these views correctly characterizes Red-Green social policy making, it is more fruitful to point out those instances of reforms which were in line with what could be expected from a SPD-led Government and those which constituted a break (Schmidt 2005: 113). The first reforms in 1998 were directly linked to what the SPD had promised during its election campaign, and repealed some late reforms of the Kohl government: this applied to pensions (suspension and later abolishment of the demographic factor that was to lower pension

Chapter 4

levels gradually, introduced by the 1998 reform), disability pensions; the deregulation of dismissals; cuts in sickness benefit; and the introduction of privatizing measures and instruments strengthening personal responsibility in health care insurance. In contrast with these reforms, the Schröder Government was also capable of breaking with established policy legacies and thus produced discontinuities with the policy of earlier governments: examples of this were the Riester pension reform with its move towards a 'revenue-oriented expenditure policy in old-age pensions' (during the first term) and the labour market reform Hartz IV (ibid: 114-116).

What happened to the major programmes in this period? Regarding labor market policy, the Schröder Government continued and extended active labour market schemes as well as the differential treatment of unemployed by benefit type in accordance with the two objectives of "status adequate" reintegration and maintaining a sizable second labour market (i.e. subsidized public employment). In 2001, new legislation introduced stricter rules for job-search activities, profiling and reintegration contracts for unemployed persons (Clasen 2005: 72-73). Following the 2002 Hartz proposals and the announcement of Schröder's reform programme *Agenda 2010*, the year 2003 saw an 'acceleration of the speed of reform' and the 'breaking of new ground by introducing new benefit structures' (ibid: 75), when the reforms called Hartz I, II and III (including for instance, organizational reforms of job centres and the federal employment agency, introduction of new forms of [self]-employment) were adopted.

Hartz IV was a second path-breaking reform and originated from the proposals of the Hartz-Commission on labour market reform. It merged social assistance with unemployment assistance, replacing the latter with a new means-tested benefit.¹³² Regarding the guaranteed standard of living, Bleses and Seeleib-Kaiser note that active and passive labour market policies enacted during this period reduced the commitment to this principle by further weakening the wage-earner centred approach. As far as passive labour market policy is concerned, rather than reversing the cuts of the Kohl Government, the Red-Green coalition continued them. Then again, the unemployment insurance scheme became more family-oriented by defining family time as equivalent to contributions. Regarding active labour market policy, it is striking that the aim of getting the unemployed back into standard employment had *de facto* been given up, as measures at odds with the guaranteed living standard principle were enacted (Immergut 1992: 66).¹³³

Similarly, old-age pensions experienced at least one path-departing reform in contrast to previous periods. As a whole, the post-1998 period first saw a combination of reversed policy and incremental changes¹³⁴ and then a structural reform, the Riester pension reform, which was discussed as early as 1999 and got adopted in 2001. That reform marked the transition towards a pension policy that is oriented towards securing its financing base and stabilizing contribution rates, rather than towards securing a certain level of benefits. As a result, future decreases in

¹³²The Hartz IV-reform strengthened the incentives for unemployed to accept job offers and sanctioning the unwillingness to comply, while considerably widening the definition of which jobs were 'acceptable'. The principle of the 'activating' welfare state was applied to social assistance and unemployment insurance through Hartz IV (Schmidt 2005: 119-120).

¹³³ These measures included the increasing promotion of new forms of subsidised self-employment and temporary work. In addition, employers were freed from paying unemployment insurance contributions for older workers and public support was granted for jobs with wages below the former income of workers.

¹³⁴ The Red-Green coalition started by suspending parts of the 1997 pension reform under Kohl (especially its demographic factor which was to lower pension levels in the long run) and cuts in disability benefits. It also added some revenue-enhancing reforms such as including low-wage earners and those in atypical employment into the circle of contribution payers and introduced a tax on energy consumption that was to complement pension fund revenue. In turn, contribution rates could be lowered by 1.2 percent to 19.1 percent in 2001 (Clasen 2005: 112-113).

Surveying the German Welfare State

benefit levels could no longer be ruled out and were met with a new privately funded but state-subsidized pillar, the Riester pension plans. This novelty was path-breaking in so far as it departed from the traditional social insurance state adding an element of capital-funding in old-age provision, which tends to be associated with Liberal welfare states (Schmidt 2005: 116-118). In reaction to renewed pension budget deficits in 2003, another round of incremental cutbacks included the suspension of pension indexation for 2004 and cuts that would affect pension entitlements of those in higher education and starters as well as those wishing to retire early. Another reform containing measures with long-term effects was legislated in 2004 with the so-called “sustainability factor” (which incorporates the changing ratio between contributors and recipients into the pension formula), designed to influence future pension adjustments (ibid: 116-117). The reforms of the Red-Green coalition have been characterized as a ‘partial privatisation of the old-age and disability insurance system, minimising its decommodification potential, whilst at the same time expanding family-oriented benefits’. While the government withdrew from the principle of guaranteeing the achieved living standard in the public system, it offered fairly generous incentives for people to participate in the new private pension scheme and it intended to improve the situation of very low-income senior citizens by enacting a special social assistance benefit for them (Tsebelis 1995: 77).

In health care policy, the Red-Green coalition was committed to increase efficiency by modernising care provision structures and contractual relations between stakeholders: this should ensure the stability of contribution rates and retain a comprehensive benefit catalogue in the statutory health insurance (SHI). Three distinct phases can be distinguished (Tsebelis 1999: 7). Initially (1998-2000), the government repealed a number of privatizing measures of the Kohl Government and adopted the 2000 SHI Reform Act: it modernised contractual relations and care provision in order to control costs and improve quality in the SHI. In a second phase, from 2001 to 2002, the coalition sought to address some visible malfunctions in the system: the existing risk-adjustment scheme and regulation concerning medication provision. In the future, the risk-adjustment scheme would take account of more characteristics of the insured population, including morbidity (from 2007), thus reducing risk selection of sickness funds and strengthening the solidaristic character of the SHI (Swank 2001 : 218). With regard to medication, a number of reform acts were enacted after budgets for pharmaceuticals and rules concerning regress of doctors had been lifted, in order to control price hikes by other means (see for details Bonoli 2000: 266-268). After 2003, the 2004 Health Care Modernisation Act (GMG) and some subsequent reforms strengthened the pace of privatizing costs, but also introduced some innovations.¹³⁵

4.3.4 General Patterns of Change in Major Programmes

To conclude this section, I will identify some general patterns of change from the early 1970’s to the present. Labour market policy and especially unemployment protection underwent a continuous series of cuts that started off moderately in the 1970’s, gained speed during the 1980’s,

¹³⁵ The GMG, on the one hand, reduced the benefit catalogue, increased co-payments including the much-discussed quarterly flat-rate charge for seeing a doctor (*Praxisgebühr*) and increased the share of the contribution rate paid by employees by 0.5 per cent. On the other, it reinforced family doctor schemes, strengthened patients’ rights by including their associations in the major self-governance venue, the Federal Commission (*Gemeinsamer Bundesausschuss*), and introduced an independent Institute for Quality and Efficiency. During late 2004, one controversial measure of the GMG, which would have excluded dental replacements from the SHI, was repealed: in return for re-inclusion in the SHI catalogue, the insured had to accept an increase in contributions by 0.4 percent (Bandelow forthcoming, 2007: 20-21).

Chapter 4

with instances of selective expansion towards the end of the decade. The 1990's first saw an intensification of active labour market policy, followed by further curtailments and tightening of eligibility rules. After 1998, the trend towards cost-containment and restricting access to benefits continued, but, most importantly, the general approach to labour market policy became more focused on activating job-seekers. With the Hartz-Commission's work, the different elements of labour market policy were questioned and generated reform activity which culminated in a structural reform that merged unemployment assistance and social assistance and intended to change demands on job-seekers and job centres alike. All in all, after three decades of cost-cutting and gradual tightening of access, the policy field had experienced some reforms that went beyond these measures, introducing an element of activation (and thus recommodification) and changing benefit structures.

The development of old-age pensions followed a similar pattern. After a last spell of expansion in the early 1970's, pensions experienced continuous cuts in levels and annual adjustments with contributions rising until and including the 1990's. In the course of this development, the policy instruments used to contain the rise of pensions became ever more extensive, reflecting also the realization of beginning demographic stress on the statutory pension scheme. After 1998, the mix of cost-containment and increasing revenues briefly continued, but it was punctuated in 2001 by a structural reform that introduced a privately financed pillar of old-age provision and replaced the goal of preserving pension levels with stabilizing contribution levels. Since then, more efforts to stabilize contribution rates have been undertaken, which amounts to a continuing course of cost-containment.

Finally, health care policy is somewhat comparable with the other two policy areas. Cost containment was introduced as a goal in the late 1970's and has been a guiding theme in policy-making with the goal of stabilising contributions becoming ever more entrenched by the early 1990's. Structural reforms had been initiated in the early 1990's (sickness funds, self-governance) with continuing cost containment, the burdens of which are increasingly borne by patients instead of care providers. In contrast with pensions and unemployment insurance, which provide benefits, the provision, financing and management of health care services is much more complex, giving rise to conflicting goals between stakeholders. This characteristic makes agreement on structural reforms more difficult than in other social policy domains.

4.4 Sources of Resilience: Political Institutions and Programme Characteristics¹³⁶

4.4.1 The Political-Institutional Context

The German post-war constitution, the Basic Law of 1949, has contributed to democratic regime stability, democratic consensus and government and policy stability. However, it is also held responsible for high transaction costs of policy change, and problems with accountability and transparency (Lehmbruch 2000: 347). German policy-making in general and the capabilities of governments to effect policy changes in the area of the welfare state in particular, are influenced by the political-institutional make-up of the state. In other words, the political-institutional context is an important source of welfare state resilience. Its constitution ‘created a host of powerful institutional checks on the government’ which ‘led to complex, multilayered agency relationships’ and decisions that ‘are frequently compromises between the federal government and some of these various actors’. However, ‘if no compromise is possible, the status quo is preserved, thus increasing the risk of a reduction of the system’s problem-solving capacity’ (ibid: 371).

Various features of the German political system are relevant in this respect, and I will briefly discuss them in turn. The country’s multiple veto points include a bicameral parliament, a federal state structure, a strong judiciary and judicial review of policies by the Federal Constitutional Court, and corporatist procedures for interest mediation.¹³⁷ In essence, the existence of veto points may allow government decisions to be blocked by other political actors (Manow 2005; Trampusch 2005).¹³⁸ In turn, the existence of (institutionally defined) veto points allows formal veto players to wield some influence on policy outcomes (Döhler and Manow 1997; Pierson 2001).¹³⁹ However, whether this will happen ultimately depends on certain conditions, for instance, whether formal veto players actually make use of blocking opportunities offered by veto points. Therefore, it is premature to conclude that veto players will always hinder decisions - as the literature often does -

¹³⁶ Clasen argues that next to formal political and welfare state institutions, linkages between social policy programmes and features of national political economies should be considered as a third category of institutions that influence welfare state reform patterns (Clasen 2005a: 35). For instance, ‘production regimes’ including industrial relations, labour market regulation and financial governance structures have linkages with social policy arrangements (Huber and Stephens 2001a). Germany has been classified as a coordinated market economy (Hall and Soskice 2001), which entails strong employee representation at company level, extensive coordination among firms based on business associations and industry-wide collective bargaining between social partners without state interference, the so-called *Tarifautonomie*. Clasen finds a specific link in the ‘the notion of a ‘social wage’ (the entitlement to a wage replacement benefit rendered by employment-based contributions to social insurance, complemented by a high level of employment protection), implying ‘that for German workers, wages, insurance-based “deferred wages” and employment protection are interlinked domains’. Combined with the fact that large German employers and trade unions concur in their interest to invest in workers’ skills, this linkage between the political economy and the welfare state may have led to less retrenchment in Germany compared to countries with different production regimes such as the UK (ibid: 36-39).

¹³⁷ See Schulze and Jochem for a discussion of these features in interaction with party competition in the context of pension policy (Schulze and Jochem 2006)

¹³⁸ The argument goes that the ability of government to achieve a desired policy outcome depends on the presence or absence of veto points to a large extent (Immergut 1992; Bonoli 2001). A further distinction can be made between formal and informal veto points; the former exist because of constitutional provisions, the latter allow access of interest groups to the formal decision-making processes.

¹³⁹ Tsebelis defines ‘veto players’ as ‘individual or collective actors who agreement is necessary for changing the status quo’. He further distinguishes institutional veto players (in presidential systems) and partisan veto players (in parliamentary systems). Moreover, Tsebelis argues that the policy change becomes less likely the more veto players exist, the larger the difference between their policy positions and the less cohesive these positions are (Tsebelis 1995).

Chapter 4

but also to take those conditions into account. Moreover, interest groups may try to form alliances with formal veto players or influence their policy preferences during a political reform process: if the former are successful, they may be considered “informal” veto players (Nullmeier and Rüb 1993; Clasen 2005), increasing the likelihood of influencing policy outcomes, either in the sense of blocking or expediting them.

In addition, the co-existence of two systems of regulation with different and potentially conflicting logics of action has increasingly produced blockades in policy-making. Scharpf has coined the term “joint-decision trap”, describing the combination of multiple veto points and a bicameral parliament that may feature different party majorities in the two chambers of *Bundestag* and *Bundesrat* (Schludi 2002); this condition has also been referred to as “incongruent bicameralism” (Siegel 2002). Seen from another angle, the problem stems from potentially conflicting systems of regulation in a federal state; i.e. the two arenas of political party competition and negotiation between different state levels (Myles and Pierson 2001).¹⁴⁰ These conflicting logics manifest themselves in particular when there are indeed different majorities in the *Bundestag* and *Bundesrat* (as was the case most of the time in the 1990’s and thereafter) and when the nature of policy proposals requires mandatory consenting legislation (necessitating *Bundesrat* approval).¹⁴¹ The federalism veto point arguably leads to imperatives for consensual reform (which often means that policy preferences of interest groups and/or particular party factions are accommodated) and to an implicit “grand coalition” in German reform politics between the government and the opposition (Clasen 2005; Reissert 2005). However, at the same time, its importance should not be overstated, as the blocking potential of federal structures is arguably conditional on the difference in preferences between political actors (Clasen 1994).¹⁴²

Furthermore, German policy-making also takes place within the context of a strong role for the law and the judiciary. This feature makes for a powerful restriction on the competences of parliament, especially for the role played by the Federal Constitutional Court, leading to a situation in which governance can be characterized as ‘governing with judges’ or even ‘governing by judges’ (Schmidt 2003: 128). As far as corporatist structures are concerned, Germany has traditionally featured strong relations between the state and between societal interest groups. In the post-war era, labour relations became based on social partnership, on collective bargaining between employers and trade unions without state interference, as well as on the corporation of these social partners in both implementation and administration of welfare state policies (Schreyögg and Farhauer 2004). At the same time, formal (or institutionalized) and informal

¹⁴⁰ In a situation of differing majorities, the opposition acquires a quasi-governing role in the *Bundesrat* and tends to block legislation for electoral-strategic reasons, not least because the largest parties tend to compete on social policy issues. Because of the frequency of elections (on the *Länder* and federal level), electoral competition tends to be more or less present all of the time, which works against reforms or at least creates a permanent electoral risk for a reform-eager government. As a result, opposition parties tend to do well in *Länder* elections, strengthening their (majority) position even further.

¹⁴¹ The latter is frequently the case with social policy legislation, as long as it touches administrative issues or financing issues that concern the interests of the *Länder*.

¹⁴² According to Manow, ‘the veto point argument crucially depends on the assumption of significant differences in policy preferences between the different veto players/parties’. Furthermore, such difference cannot simply be assumed in the German context, as the preferences of Christian Democrats and Social Democrats on the welfare state used to be rather similar well into the 1990s. Even in the current context of the German debate about welfare state restructuring, he argues that ‘what hinders reform efforts is not so much the blocking effect of federal structures, but rather the dynamics of inter-party competition’ (2005: 224-225).

Surveying the German Welfare State

channels of interest groups also try to influence policy-making, forming policy communities that are typically located at the level of policy sectors (Giaimo 2002; Schreyögg and Farhauer 2004).

Given the country's array of institutional constraints on government activity, this fosters a sense of immobility, as Schmidt (2003: 202) has put it: 'policy change in domestic politics in Germany usually requires a longer planning period, is often incremental in nature, and borders occasionally on a degree of institutional inertia, which critics describe as "policy immobilization" or *Reformstau*'. This is said to apply social policy-making in particular, since another set of institutional obstacles reinforces the constraints posed by the political-institutional context.

4.4.2 Welfare State Institutions and Policy Legacies

Rather than political institutions, the school of historical institutionalism sees policy legacies as the main source of resilience in the face of adjustment pressures on mature welfare states. In other words, welfare state institutions themselves are considered as forming powerful obstacles to either retrenchment or restructuring because they are often subject to path-dependent processes, making changes to alternative institutional arrangements costly. The reference to PAYGO-type pension systems serves frequently as a prime example (see for instance Rosenbrock and Gerlinger 2004: 411-416). In the following discussion of sources of resilience in social policy programmes, I will first of all turn to schemes of old-age provision.

4.4.2.1 Old-Age Pensions

The German system of pension provision has relied for most of its history (until 2001) on a single statutory pension pillar (with some separate schemes for special occupations like public sector workers, professionals and farmers). Those who are employed, pay wage-related contributions up to a ceiling, with the burden shared equally between employers and employees. Since 1957, the guiding idea of the system has been that pension benefits should reflect relative living standards achieved in working life (tight coupling of entitlements and wage-based contributions), while solidaristic elements include tax-credits for non-contributory periods (e.g. unemployment; education). Pension levels are generally indexed, traditionally in line with gross earnings changes, but since 1992 based on net earnings. In the 1980s, pensioners could still count on a pension level of 70 per cent of average net earnings (assuming 45 contributory years) but, not at least because of labour market changes, actual payments vary widely. A general minimum pension was only introduced recently (2001), as were publicly subsidized private pensions (Schreyögg and Farhauer 2004: 95-97).¹⁴³

Originally, pensions rested on a number of interlinked principles, including a guarantee of the former living standard, the social insurance principle, automatic adjustment of pensions to the development of gross wages, self-governance of pension funds as bodies of public law, a federal subsidy and financing by contributions, based on a pay-as-you-go (PAYGO) arrangement (Döhler and Manow 1995: 94-95).¹⁴⁴ The last of these principles is very relevant for the argument about the sources of resilience because it implies that contributions paid on the basis of wages provide the financial base of the system. Despite an additional infusion from public budgets, i.e. the

¹⁴³ For reasons of brevity, this section only sketches the contours of German pension arrangements. See for more details in English e.g. Clasen 2005a (Chapter 5) and Schludi (2002).

¹⁴⁴ Nullmeier and Rüb (1993) discuss how these and other principles of German pension arrangements came under pressure between the mid-1970s and the 1989 pension reform.

Chapter 4

federal budget, pension benefits are essentially financed from these contributions. This means that pension benefits paid at any one moment are essentially financed by the current working population. If a government planned to switch to another pension system, for instance, capital-funded pensions, this would create a major difficulty: while setting up a new system from scratch, there would still be the obligation to meet the pension payments for those who have contributed to the PAYGO system for most of their working careers. Therefore, those in employment at the time of system change would, theoretically, have to pay contributions for current and soon-to-be pensioners and make contributions of some sort to the new system in order to start saving for their own future pension. Essentially, this age cohort or generation would have to shoulder a prohibitively high burden, which puts governments into a difficult situation. The biggest problem would be that employees could simply not afford to pay for two systems at the same time. In addition, employers would have to shoulder even higher non-wage labour costs and are unlikely to consent to this. Both reasons would make it a futile task for governments to communicate the message of a double burden to the electorate; that is why an abrupt change from one system to the other is practically impossible to achieve. Even a more gradual change, so to speak, phasing out the PAYGO component in a pension system and replacing it by other elements, such as capital-funded private or company pensions, tends to be politically delicate, as Chapter 5 on the Riester pension reform will illustrate. Technically speaking, in this type of social policy programme, path dependency relates to high switching costs from a PAYGO scheme to another manner of funding.

A second important institutional characteristic seen to foster resilience is the social insurance character of pension arrangements, where contributory entitlements constitute quasi-property rights (Webber 1989: 63). Siegel constructed an institutional index of reform elasticity to assess the degrees of freedom for policy-makers in pursuing retrenchment policies. This index reveals that pension systems with means-tested benefits have considerably less barriers, both legal and political, to government interventions. On the other hand, earnings-related social insurance-based pension systems, such as the Bismarckian and thus the German one, enjoy a high degree of protection (Döhler and Manow 1995). Similarly, the resilience of Bismarckian pension arrangements also depends on the degree of system maturation. In this line of argument, the more mature a pension system is, the higher the share of persons with substantial benefit entitlements who are likely to oppose benefit cuts (Alber 2001). Accordingly, since German pension arrangements are certainly mature, legal and political obstacles to reform can also be expected from this source.

In addition to these strictly institutional sources of social policy resilience, pension arrangements are “sticky” because influential non-state actors defend them. This line of reasoning relates to the characteristic of corporatistic relations that is present throughout the German welfare state (see Section 1.1). According to this argument, it is to be expected that established societal actors in the area of pensions, particularly trade unions, but also self-governing bodies with employer and trade union involvement such as the VDR (*Verband Deutscher Rentenversicherer*), resist far-reaching restructuring efforts if they go against the interests of pensioners.¹⁴⁵

¹⁴⁵ Nullmeier and Rüb stress that self-governance in the pension sector is a central and inviolable policy principle and embodies an institutional instrument of cooperation between employers’ associations and trade unions, who act to represent pensioners (1993: 114).

4.4.2.2 Unemployment Insurance

Unemployment insurance provides protection against the loss of income, and, in agreement with the principles of the Bismarckian welfare state, also aims to secure the standard of living in the case of unemployment. As such, it can be seen as the passive element of labour market policy, while its active component includes diverse measures to re-train and eventually reintegrate the unemployed. Until 2004, German unemployment protection consisted of two tiers: a first tier based on the insurance principle and financed by compulsory contribution (split equally between employers and employees) up to a certain wage ceiling (unemployment insurance benefit, ALG); and a second tier with a benefit related to former earnings, based on means-testing and financed by general taxation (unemployment assistance, ALH) for those not eligible (anymore) to ALG.¹⁴⁶ Both benefits were administered by the Federal Employment Agency (former *Bundesanstalt für Arbeit*, since 2004 renamed *Bundesagentur für Arbeit*), which is a tripartite organization (governed by employer, trade union and state representatives) subject to federal legislation. Apart from its responsibility for transfers, it also oversees and finances active labour market measures and programmes. Both active and passive measures are financed from the agency's budget and the federal government is obliged to help in the case of deficits. This set-up of funding implies three things: until recently, benefit receipt would determine the access of individuals to labour-market measures; a pattern of crowding-out of active labour market programmes would be encouraged when unemployment was high, increasing benefit expenditures; and the federal government would be biased towards cost-saving by its obligation to balance the agency's deficits (Hering 2001: 54-56; Hinrichs 2003; Timmonen 2005).

Compared to the field of pensions, where most institutional characteristics tend to impede policy change, it is more difficult to detect sources of path-dependency in the institutions regulating unemployment benefits. Rather, the issue of reform capacity (with the other side of the coin being resilience) in unemployment systems has been approached via the degree of institutionalization of such systems. For instance, Siegel (2002) constructed an institutionalization index, which attempts to measure the degrees of freedom for a state to embark on reform in these unemployment arrangements. A high degree of discretionary power (and a high score) is associated with means-tested unemployment systems (e.g. New Zealand and Australia), while a high degree of state restrictions (and a low score) are found in social insurance-based systems, which tend to exhibit traditions of self-governance and delegation to corporatist actors. Germany's arrangements resemble more closely those of Scandinavian countries than those of Anglo-Saxon ones.

Other authors have adopted a somewhat different perspective, looking at the actor orientations of those participating in labour market policy – which includes unemployment arrangements - more generally. Regarding this approach, the preferences of main interest groups and their ability to influence policy-making can be considered as sources of resilience. Such analyses find that path-dependency can be linked to the existence of corporatist actors in the governance of social policy, which is denoted by self-governance and the social partners (Doehler and Manow 1995, p.140 cited in: Hinrichs 2003: 249). The existence of self-governance structures often pre-empts state action in the sphere of interest groups. In addition, the social partners, employers associations and trade unions, whose right to conclude collective agreements is

¹⁴⁶ A third unofficial tier of the system was formed by social assistance as a potential source of income for unemployed (see Chapter 6).

Chapter 4

guaranteed by the constitution, tend to guard this right carefully and thus play a central role in this policy area. Path-dependency manifests itself as follows: reform plans presented for labour market policy tend to be regarded as suspicious by the social partners, as they guard their autonomy and sources and mechanisms of influence in political decision-making processes. Institutionalized practices make it more difficult to break from the existing path, as social partners exert influence on the labour market's performance via their collective agreement and income policies. In addition, they influence political processes indirectly through lobbying activities, which can lead to mutual blocking of reform initiatives (Hinrichs and Kangas 2003: 251).¹⁴⁷

4.4.2.3 Statutory Health Care Insurance

The German health care system is dominated by the statutory health care insurance (SHI), which covers about 90 percent of the population, while the remainder is insured by private insurance companies. The SHI is financed by payroll contributions, which are paid in equal parts by employers and employees up to a certain wage ceiling; those who earn more take out private insurance. Contributions are administered by a wide choice of sickness funds, which in the past have insured the population according to individuals' professional affiliation, but, since the mid-1990's, are practically obliged to insure anyone. Sickness funds conclude collective agreements with associations of care providers, the *Kassenärztliche Vereinigungen*, whose members, individual physicians, offer health care services in kind to the insured and receive payment from the funds in return. The provision of health care services mostly takes place in the ambulant (general practitioners and specialists) and the hospital sector (see for a more general introduction Lamping and Rüb 2004; Schulze and Jochem 2006).

In the area of health care, the PAYGO financing base of the SHI has been identified as an important source of resilience (Schmähl 2003: 249).¹⁴⁸ The introduction of the Bismarckian health insurance in 1883 already marked the beginning of the PAYGO path in the SHI. Since the 1970's, it has become clear that productivity and employment rates were unlikely to increase indefinitely, and the "generational contract" underlying the system would be especially sensitive to the upcoming demographic changes. However, alternatives have so far been mostly ignored by stakeholders and policy-makers in the field, leading Schreyögg and Farhauer to diagnose a lock-in effect, i.e. the end-state of a path dependent development, as far as the financing side of the SHI is concerned.

While this argument concerns technical issues about the switch between financing modes, it only tells part of the story about resilience in the German health care sector. Additionally, it is important to realize that this institutionally induced lock-in is recognized as such and is left intact

¹⁴⁷ The crucial point is that the social partners tend to disagree about the direction of reform. Trade unions tend to protect dismissal protection, increase wages or decrease working hours, while employers tend to prefer the opposite: longer working hours, decreasing wages and loosening of dismissal regulations. Being aware of the crisis on the labour market they both try to enter a new path, but direct their energies in diametrically opposite ways. As a consequence, their efforts block each other, making it impossible to change the lock-in and reinforcing the status quo. According to Schreyögg and Farhauer, 'a common strategy of the social partners and thus a pooling of reform potential cannot be seen in Germany; rather, they concentrate on traditional concepts of the enemy' (2004: 251).

¹⁴⁸ Similarly as with statutory pension insurance, the basic choice when creating a health care system from scratch would be between a capital-funded and a PAYGO variant. PAYGO financing assumes that one generation finances the benefits (or, in this case, health care services) of an older generation. The main implication is that the body administering the funds does not build up a capital buffer, as the incoming funds are being used up by the beneficiaries at any time. This contrasts with a capital-funded system, where any individual of a particular generation builds up his own capital base in order to finance current and future benefits or services.

Surveying the German Welfare State

by relevant actors in the sector. One feature of the German SHI in comparative perspective (still in place in the mid-1990's) is its 'high extent of structural continuity, which even endured repeated and comprehensive change of functional requirements on the health care system relatively untouched' (Schludi 2002: 141).¹⁴⁹ In this view, structural continuity stems from three sources, the federal "joint decision trap", the dominance of coalition governments (i.e. politico-institutional and party-political factors), and a strong presence of interest groups (*Verbandslastigkeit*), as well as a bias of policy-makers towards their wishes. While the former two factors more generally help to shed light on limits of reform capacity in the German political system, for an examination of resilience it is instructive to consider their interaction with the interest group factor. The prominent role of interest groups not only refers to conventional pressure group politics, but also to the (highly legitimated) transfer of regulatory competences to the self-governing associations of doctors and sickness funds (see also Chapter 7). In addition, we see a high degree of linkage between heterogeneous societal interest groups (including clientelistic relationships between health care associations and the party system). Moreover, there are also links with the social partners, employers and trade unions, who hold posts in sickness funds' boards of directors (ibid: 142-43).

The interacting dimension with political institutions and the party system comes in as follows: coalition governments, the federal system and the degree of codification in German policy-making offer many possibilities for vetoing reform proposals, which in the past often resulted in the watering down of such proposals in the phase of policy formulation (Riester 2004). The special position of the small liberal FDP, as defender of particularistic interests and the obstacles posed by federalism to the change of financing regulations in the hospital sector, illustrate in two ways how such linkages conserve existing structures (Schulze and Jochem forthcoming, 2007: 144). Firstly, the FDP has been using its role as junior coalition partner to represent the interests of self-employed care providers, such as doctors (see also Chapter 7). Secondly, as hospital financing depends on a dual modus between the sickness funds and the *Länder* (the former finance operating costs and the latter cover the cost of investments), costs and benefits are distributed unevenly between them. This constellation, due to a *Länder* blockage in the *Bundesrat* (ibid: 144), has long obstructed a reform of hospital financing in favour of the federal state and the sickness funds.

To sum up, sources of reform resistance in the statutory health insurance can be found both in institutional characteristics defining its financing mode as well as in the interlinkages between sector-specific actors with other societal stakeholders and the political and party systems.

4.4.2.4 Other Programmes

Long-Term Care Insurance

The programme of long-term care insurance is the latest addition to the German welfare state, as it was only introduced in 1994. Essentially, it constituted an extension of the social insurance principle to a field previously covered by either social assistance benefits or family care. It is

¹⁴⁹ Döhler and Manow approach this puzzle in a three-fold analytic framework, to explain why the German SHI is both remarkably stable and adjusts to changes in functional requirements at the same time. Their framework includes sectoral structures or institutions, actors and ideas: in their conception, 'structural continuity cannot only be understood as a result of a institutional configuration, which is only permeable for strategies of incremental development, but also relies on the guiding function of a health policy organisational model (*Ordnungsmodell*), which effectively limits the range of admissible options for reform' (1995: 142). For my argument on stickiness, I only draw upon what they identify as 'sectoral structures'.

Chapter 4

financed by compulsory payroll contributions of the working population, pensioners, and those privately insured. Concerning benefits, the scheme recognises three different categories of need along with fixed-ceiling benefits, which are designed to cover the costs of care partially. Those eligible for the benefit can choose between higher in-kind benefits to cover professional long-term care or cash benefits for care-takers who provide service in the claimant's household (Schludi 2005: 27). In comparison with similar schemes in other European welfare states, the following points can be noted: the scheme only covers part of the real costs of care services, which is reinforced by expenditure ceilings; concerning its financing base, employers bear less responsibility compared to other insurance schemes; and benefits are flat-rate rather than income-related. What can be said about resilience in this area of German social policy? It is debatable whether this scheme, after a time span of just over ten years, can be considered a mature programme that has developed lock-ins. On the other hand, although the scheme's weaknesses have already surfaced,¹⁵⁰ so far no comprehensive proposal for reform has emerged. However, the long-term care insurance scheme itself is path-dependent in relation to the other welfare state programmes (if one looks at it from a slightly different angle), as can be seen from its main features: it encourages informal care, it preserves the principle of familialism and, since it offers flat-rate and limited benefits, it continues the dependency those claiming long-term care benefits on social assistance (Schludi 2002:34).

Social Assistance

The social assistance programme was initially designed to provide means-tested benefits in order to guarantee a minimum income to anyone in need. That is, all persons were deemed to be eligible irrespective of their status on the labour market. In contrast to the other programmes discussed earlier, social assistance is not based on payroll contributions, but on general taxation. It is regulated by federal law, but administered and financed out of local government budgets. The benefit consists of a flat-rate amount for each person in a household as well as an amount to cover the cost of housing and it is paid indefinitely, as long as individual need persists. With the Hartz IV reform (see Chapter 6), the approach to social assistance for recipients has changed markedly: since 2005, a clear distinction has been drawn between those recipients available to the labour market and those who are not: while the former are now eligible to the new long-term unemployment benefit (ALG II) and subject to more pressure to find a new job, only those unable to work due to physical or other reasons continue to be eligible for social assistance. In terms of its institutional design, there are hardly any grounds in arguing that it is resistant to far-reaching changes, rather, its character as "benefit of last resort", its flat-rate character, and tax-base financing make it sensitive to changes.

4.5 Conclusion

This chapter has summarized the institutional context of the German welfare state, reiterating the argument that both its welfare and politico-institutional characteristics make for a high degree of resilience and, therefore, reform resistance. Section 4.2 has examined macro-level characteristics

¹⁵⁰ The scheme has been plagued by deficits and a debate about reform developed during the last years of the second Red-Green coalition (2004-2005), revolving about how to make its financing base more robust.

Surveying the German Welfare State

of the Continental welfare state, that is, the principles of wage-centred social insurance, guarantee of living standards, familialism, and the more structural element of corporatist relations, indicating that they tend to inhibit change. By taking a closer look at the German wage-earner approach, I have stressed that its dual focus on income based contributions and male bread-winners makes it vulnerable, as contemporary socio-economic and demographic pressures tend to undermine its financing base. I have also presented the various endogenous sources of pressure on welfare states (value-based, socio-economic, and demographic), finding that they are likely to impact most on pension and health care schemes (through ageing effects and decreases in the amount of employment), but also on unemployment schemes (through socio-economic changes and sluggish growth). Following on from this, I discussed the limited capacity of Continental welfare states to react to economic shocks, which produces adjustment patterns with adverse effects on labour markets and employment. With respect to Germany, in particular, the state has been employing social policy as a shock absorber and thus as a means to solve economic and financial problems rather than focussing on reforming it.

Section 4.3 has enquired whether successive German governments have found effective answers to adjustment pressures resulting in the adaptation of welfare state arrangements. The presentation of German social policy developments from the mid-1970's until 2005 focussed on general features of policy-making and on the degree of change in three major policy programmes: as for the latter, significant change has been rather rare in German social policy during most of this period. As for old-age pensions and unemployment protection, in both areas, general patterns of cost-containment and a tightening of eligibility rules were punctuated by only few structural reforms (reforms that go further than incremental adjustments) since the year 2000. With pensions, the latter resulted in a privately financed and state-subsidized additional layer: policy-makers had reacted to continuing financial and demographic pressures besetting the statutory scheme. With unemployment protection, the Hartz IV reform introduced new benefit structures and a much greater focus on activating policies, reacting to persistently high rates of unemployment. In the health care sector, I found a similar pattern of cost-containment, intermingled with elements of more comprehensive reforms (introducing an element of competition between sickness funds, widening the responsibility of patients and of self-governance) during the 1990's. There, policy-makers have continuously sought ways of controlling perennial cost pressure and keeping the scheme's finances under control, usually with short-term success only.

Subsequently, Section 4.4 has considered the various types of structures which are commonly held responsible for such (relative) policy immobility. These include the political-institutional context of the fragmented German political system, where a bicameral parliament, a federal state structure, a strong judiciary and well-developed channels for interest intermediation and influence on policy outcomes interact to make policy-making a rather complex undertaking with plenty of opportunities for the derailing of reform processes. Moreover, sources of resilience have also been identified in welfare state institutions. The statutory pension scheme was found to be "sticky" because of its financing mode, its social insurance character that creates rights to benefits, a high degree of system maturation, and the presence of influential (self-governing) corporatist actors who strive to defend pensioners' interests. Unemployment protection is characterised by a high degree of institutionalization, which fosters path-dependent effects. In other words, the social insurance character of provision and especially the strong role of corporatist actors, in particular the social partners (and their contrary preferences) work in favour of the status quo. Health care policy counts on two main sources of resilience: firstly, as with pensions, the scheme's contribution-based financing mode locks in the current system, and secondly, the strength of (self-governing) interest groups and their interaction with political institutions leads to strong obstacles to change.

Chapter 4

This review of both the pressures for and the institutional obstacles to policy reform has confirmed the essence of arguments given in historical institutionalism and regime theory relating to policy stability. These arguments provide ample grounds for claims that Germany, as the prototype of Continental welfare states, is rarely capable of significant change. Moreover, this outline of German social policy development provides us with two contrasting observations. Firstly, most changes in major programmes since the 1970s have been incremental (representing a level of policy change, which the aforementioned theories would allow for, while still assuming overall policy stability), and often related to cost containment rather than restructuring policy arrangements. Secondly, mounting pressures of the sort bearing upon all contemporary welfare states, and the extraordinary burden of reunification have only recently translated (or, in my view, *have been translated* by political leaders) into significant reforms. Despite numerous institutional obstacles to reform in the German polity and in its social policy arrangements, the question to be asked is under what conditions these obstacles cease to block such reforms. In addition, another question is whether the robustness of resilience arguments has been overstated by the literature.

All in all, the evidence suggests that German social policy-makers have mostly been trying to cut back the costs of social benefits and services (by restricting access and cutting benefit levels). However, in some instances, they have adopted reforms that went beyond cost containment and constituted genuine, structural policy shifts. These more comprehensive reforms, as attempts to accommodate pressures on advanced welfare states (which began to be felt particularly after German unification), were relatively rare and were only launched (and adopted) after the turn of the century. The question at hand is as follows: Did ideational leadership, in the ways described in Chapter 2, overcome the many sources of resilience and allow for the adoption of those structural reforms? In investigating this question, Chapters 5, 6, and 7 will analyse in much more detail the performance of key policy-makers in a context of institutional resistance.

5. IL and the 2001 Pension Reform

5.1 Introduction

This chapter reports on the first empirical case study of this project. By examining the political process that led to the German pension reform of 2001, it outlines ways of identifying ideational leadership (IL), and examines if and how IL played a role in the adoption of this remarkable reform package. I will approach IL by trying to demonstrate its effects on the adoption of the reform, and by asking whether alternative explanations for achieving path-breaking reform could have played a role. The pension reform case was first designed as a pilot study in order to evaluate the plausibility of the IL hypothesis, and to prepare for data gathering and processing (as outlined in Chapter 3). Since its results only led to minor theoretical revisions of the IL framework, it also forms the first empirical test for the IL concept in a series of three cases.

The chapter is structured as follows. Section 5.2 provides some necessary background information about the reform and the rationale for the case selection. Section 5.3 familiarizes the reader with the political context of the subsequent analysis. The two following sections focus on the main empirical question, i.e. whether IL was present, and how it influenced the adoption of the reform. The analysis includes, on the one hand, an examination of argumentative patterns of the key politician in charge of the pension reform, Minister of Labour, Walter Riester (Section 5.4) and, on the other hand, an analysis of how the reform came to be adopted (Section 5.5). Throughout the analysis, quotes from textual and interview material will serve as evidence to illustrate the different aspects of IL and its role in the final outcome of the reform. The conclusion summarizes the findings, and establishes that Minister Riester displayed three characteristics of an ideational leader; that he additionally used concessions in order to get the reform adopted; and that some of his mistakes in the process point to additional aspects for inclusion in the IL framework.¹⁵¹

5.2 The Riester Reforms: Towards a Multi-Pillar Pension Scheme

I chose the German 2001 pension reform as the empirical context for the first case for several reasons. As far as the legacy of the Schröder Government is concerned, it was among its most important reform projects and eventually materialized because of a redefinition of ideas and interests in the SPD (Trampusch 2005). The adoption of that reform has attracted notable attention in the literature on welfare state politics and change, for its supposedly “path-breaking” character

¹⁵¹ The implications of the findings for the conceptualization of IL can be found in Chapter 3 (see Section 3.4.5)

Chapter 5

(Dünn and Fasshauer 2001; Schludi 2002; Jacobi and Mohr 2004; Riester 2004; Reissert 2005; Schulze and Jochem forthcoming, 2007). However, the most important reason for analyzing this particular reform is that its outcome showed some genuine structural shifts in the three dimensions of social policy in line with the criteria used in my study. Despite the numerous changes made to the initial proposals, the Riester pension reform changed structural features of German pension arrangements. I will briefly describe the most salient features of the reform before identifying its structural reform characteristics.

The ultimate goal of the new legislation was to end the predominance of the biggest pillar of German pension arrangements, a state-administered PAYGO scheme. The same reform package also envisioned other changes to the status quo of old-age benefits that will be of lesser concern here and will be mentioned only as far as they mattered for the adoption of the overall reform (e.g. introduction of minimum pension and reform of survivors' pensions). As far as the main innovation of the reform is concerned, Minister Riester's original reform concept envisioned the introduction of a capital-funded supplementary private pension pillar alongside the statutory one and the offer of tax-deductible contributions for those participating in the scheme. The obligatory character of the private scheme was dropped at an early stage in the reform process due to protests against what was seen as an inappropriate act of state coercion. This new capital-funded scheme was designed to compensate future pensioners for reduced replacement rates in the statutory scheme. Getting the German working population to invest in private pension plans was seen as necessary for alleviating at least some of the financial and demographic pressure bearing heavily on the state-administered scheme, in order to make it more viable for the future, at least in the medium-term.

5.2.1 Main Reform Provisions

The 2001 pension reform in Germany was adopted after a process that lasted nearly two years, and during which the provisions contained in the reform proposal frequently changed. The same process caused extensive discussions between the Government and the opposition on the one hand, and between the coalition parties and interest groups (especially trade unions) on the other. The actual parliamentary process took half a year to be completed for the most controversial bill (from in total three draft bills) that constituted the core of the reforms and required approval of the *Bundesrat*. In the following section, I will concentrate on the two main pieces of legislation emerging from this period, the Old-Age Provision Act (*Altersvermögensgesetz, AVmG*) and the Old-Age Provision Extension Act (*Altersvermögensergänzungsgesetz, AVmEG*).¹⁵² The first act, which contained the provisions establishing a new private pension tier as a supplement to the existing statutory scheme, was passed in May 2001 after lengthy discussions in the Mediation Committee and the following approval by the *Bundesrat*. The second act, which included the legal provisions for changing the pension formula and cutbacks of pension levels in the public pension scheme, had already been passed in January 2001 by the *Bundestag*; it did not require *Bundesrat* approval.

¹⁵² A third bill that was part of the Riester reform package, the less controversial reform of reduced capacity and disability pensions, had already been passed as a separate law in December 2000 (*Bundesgesetzblatt*, 23 December 2000) and will not be dealt with here: the case study will concentrate on the first two laws as they are those relevant for the structural changes to pension policy arrangements.

IL and the 2001 Pension Reform

What were the core provisions of the reform? The most important innovation was certainly the creation of a new private pension pillar, designed as a voluntary and tax-subsidized scheme. In addition, in this newly created and privately administered scheme, occupational pensions came to play a greater role than in the past. This was achieved by granting employees the right to convert part of their salary into pension contributions for occupational pension plans (*Entgeltumwandlung*). The introduction of a private pension scheme was combined with cutbacks of replacement rate cutbacks in the statutory scheme, which were substantial, but not radical. In order to achieve this, a so-called “indexation factor” was introduced into the pension calculation formula. That factor would ensure a gradual reduction of replacement rates from 70 percent before 2001 to 67 percent of net wages by 2020 and to a minimum of 64 percent in 2030.

The final design of both core provisions, the creation of the private pension tier, and the adjustments made to the statutory scheme reflected a series of concessions by the government, since the initial reform proposals had gone further. While the reform process offers a good example of how some elements of an ambitious reform proposal may be dropped during a process of political debate and parliamentary decision-making, it also shows that in the same process, other innovative provisions may be added. Four major corrections were made to the core provisions in the course of the reform process, both before and during the parliamentary phase: these concerned the obligatory element of the private scheme, the size of the contributions, the extent of public subsidization and the role played by occupational pensions in the new pension system. How each one of these changes emerged will be dealt with in Section 5.3.

5.2.2 Structural Characteristics of the Riester Reform

In what sense was the Riester reform a structural reform? In general, the structural dimensions of a pension insurance scheme can be divided into a financing, a benefit and a regulatory or management structure. The intention of breaking open the traditional one-pillar pension system qualified the Riester reform as a structural reform, as it clearly brought alterations to the system’s finance and benefit structure, but also to its regulatory structure. Firstly, regarding the financing structure, the new legislation widened the financing base to include several sources of funding. Those participating in the statutory scheme would, if they chose to do so, also contribute to a new private scheme (albeit with state support), in addition to their existing wage-based statutory contribution (shared equally by employees and employers). This meant that the total contribution the insured made towards old-age provision increased and that their personal responsibility for ensuring the financing of old-age pensions was to be greater than under the one-pillar system.

Secondly, the new legislation also introduced changes to the benefit structure of pension provision. In the new format, it included benefits from a two or even three-pillar pension structure, instead of a single statutory one. Future pensioners were from now on to rely on pensions consisting not only of a statutory scheme benefit, but also of payments from privately administered Riester schemes and, if applicable, of an occupational pension scheme.

Thirdly, the reform provided for a diversification of the regulatory structure in pension arrangements, which had hitherto been administered by bodies subject to public law. Private schemes were to be administered by banks and insurance companies, although their pension products were subject to state regulation. In addition, through the strengthening of occupational pensions, which are set up and administered according to collective agreements between employers and trade unions, another change in regulation was introduced.

Due to these shifts taking place across the three structural dimension of pension policy, the Riester reform qualifies as a case for my study, with its focus on explaining instances of structural reforms. The next section examines the details of the reform process.

5.3 The Reform Process: Chronology, Actors, and Policy Positions

Before proceeding with the analysis, I will outline the main events of the reform process, showing how the initial proposals were translated into a reform outcome, the final legislative acts.¹⁵³ As Table 5.1 below illustrates, considerable time passed between the announcements of Riester's first core points of the reform in 1999, and the passing of the last bill based on them, in May 2001. The length of the process allowed plenty of opportunities, for those disagreeing with the provisions, to demand changes.

Date	Event
17 June 1999	Presentation of cabinet decision on reform concept by Ministry of Labour and Social Affairs
21 June 1999	Obligatory character of private pensions is withdrawn
30 May 2000	Presentation of draft by the coalitional working group (<i>Eckpunktepapier</i>)
June 2000	Government announces return to net wage indexation for 2001 and presents pension reform plans
October 2000	Break-down of extra-parliamentary compromise talks SPD-CDU, FDP continues to work with the coalition
14 November 2000	1 st reading of legislative drafts
11-13 December 2000	Changes to drafts after parliamentary hearings, concession on occupational pensions
26 January 2001	2 nd reading of legislative drafts and approval of changes, <i>Bundestag</i> adopts bill
February 2001	<i>Bundesrat</i> invokes Mediation Committee
May 2001	Further changes to the bill, <i>Bundesrat</i> approves bill on 11.05.01

Table 5.1: Important events in the reform process 1999-2001

The gradual transformation of the initial proposals was not least due to the controversy about several provisions of Riester's first reform draft. The story of their amendment illustrates very well how far-reaching reform initiatives may be modified through processes of public debate and parliamentary decision-making. The positions of the main actors are summarized in Table 5.2

¹⁵³ This summary draws on the discussion in Schludi (2002), p.159-174.

IL and the 2001 Pension Reform

below.

Actors	Position on pension reform
Minister Riester, Ministry of Labour	advocated major changes in pension arrangements: lowering pension levels, introducing an obligatory second private tier
Governing coalition: SPD and Green parliamentary groups	SPD-left wing opposed privately financed pensions, SPD “modernizers” backed Riester; Green party backed the plans on most features
CDU/CSU parliamentary group	favoured a comprehensive reform including cuts in statutory pensions; critical of size of the private pension tier and regulations concerning investments within the scheme, substantive interests tied up with tactical (electoral) motives
FDP parliamentary group	favoured privatisation of pensions; supported cuts in pension levels if that would lead to lower contribution levels/taxation; resisted basic pensions
Trade unions: umbrella organisation DGB and constituent members	favoured preservation of the statutory scheme and guarantee of minimum pension levels; very critical of private schemes, favoured greater role for occupational pensions in overall pension provision and regulation through collective agreements; individual unions split on approach: from more conservative (e.g. IG Metall) to more reform-minded (e.g. IG BCE)
VDR (German Association of Public Pension Insurers)	supported preservation of existing pension scheme; rejected compensation factor to lower pension levels

Table 5.2: Main actors and policy positions concerning the 2001 pension reform

Before the 1998 federal elections, during their last term in office, the CDU/CSU-FDP Government had passed the 1999 Pension Reform Act, which included a substantial reduction of pension levels (from 70 percent to 64 percent of net wages), to be realized via the so-called “demographic factor”. However, due to pre-election pledges in a campaign that had stressed the issue of pension reform, the new Schröder Government reversed this measure with an eye to sustaining current pension levels. Thereafter, it was faced with the dilemma how to tackle the strained public pension budget without making significant cuts which, as Schludi put it, ‘would violate voter as well as union expectations for the less painful reform that the SPD had announced in its election campaign’ (2005: 146). As an intermediate step, in the summer of 1999 the Government resorted to other measures that would temporarily relieve the pension budget, announcing the end of net wage indexation of pensions. At the same time, Minister Riester presented his ideas on a major pension reform to the public for the first time. At this point, his initial plan included a supplementary and mandatory pension pillar financed by workers and employees with a contribution of 2.5 percent of gross earnings; a new tax-financed and means-tested minimum pension to complement the existing statutory insurance; independent pension claims for married women; and a reform of disability pensions. This early catalogue of reform ideas was complemented in May 2000 with a plan to control rising pension expenditures in the statutory scheme. The curbing of expenditures was to be achieved by a change in the pension formula, which introduced a so-called “adjustment factor” (*Ausgleichsfaktor*). The implementation of this

Chapter 5

factor ensured that younger age-cohorts received a much lower pension level within 50 years of its enactment, amounting to 54 percent of average wages in 2050 as compared to 70 percent at the time of the reform.

Most of these plans did not make the final version of the draft bill, as they were subject to massive criticism on several fronts. To begin with, the mandatory character of the private pillar was dropped shortly after its announcement in response to considerable criticism. Minister Riester had designed the private pension tier as mandatory, so as to achieve a specific goal: obliging Germans to invest in private pensions plans was meant to take some of the financial and demographic pressures off the statutory pension scheme in order to make it viable for the future. Financial pressure (and related economic pressure) stemmed from the fact that the revenue bases of public pension schemes had been shrinking since the economic crisis of the mid-1970's, and additionally, pensions had been used frequently by governments to offer an early exit for older employees and the unemployed. The latter became especially relevant after reunification, when the Kohl Government used this instrument to ease the burden after reunification, following the collapse of the economy in the Eastern *Länder*. Furthermore, the number of regular jobs had been decreasing, with a concomitant rise of atypical employment exempted from social insurance contributions. These developments furthered the gap between revenues and expenditures in statutory pension insurances (Reissert 2003: 10-11). As for demographic pressures, the dual threat of increasing life expectancy and declining fertility rates increased the share of elderly persons relative to the working population. For social insurance, and pension schemes in particular, this meant, with a projected age dependency ratio increase in the EU from 24 percent to 49 percent in 2045 (ibid: 11), that transfers to the elderly would have to double in the coming decades, putting enormous pressure on governments, who were looking for ways to lessen this burden. Notwithstanding these pressures, Minister Riester felt impelled to withdraw the mandatory element of the plan, given the stance of the Christian Democrats, the trade unions, and the SPD's junior coalition partner, the Greens. In addition, the plans provoked angry reactions from the media, interest groups and the general public in June 1999, at a very early stage in the reform process. Shortly after the largest German tabloid *BILD* had run the headline 'wave of anger rolls towards Bonn', the Ministry changed this core element of the reform, replacing it by a voluntary participation (Heinelt 1994).

Yet, even this voluntary scheme still faced considerable opposition both by leftist hardliners in the Minister's party, the Social Democrats, and by some trade unions, who opposed it on ideological and distributional grounds. On the one hand, they distrusted investments in capital markets as a basis for pension provision, and feared too high financial obligations for low-wage earners. On the other hand, they opposed the privatization of pension provision, because they saw it as a violation of the parity principle, which stipulated that employers and employees should each pay half of the total contribution sum.

Another bone of contention was the reduction of pension levels through the introduction of an adjustment factor in the pension formula. According to Riester's draft bill, this factor would be initially applied in 2011 and increased to a maximum of 6 percent in 2030. The effect was a gradual decrease of replacement rates to 64 percent while keeping contribution rates under the level of 22 percent until 2030.¹⁵⁴ Protests against this measure were heard by the left wing of the

¹⁵⁴This factor was to be applied first in 2011 with a reduction effect of 0.3 percent. Afterwards, it was to rise with 0.3 percent annually until 2030 and would remain at a maximum of 6 percent thereafter. See *Bundestags-Drucksache* 14/4595.

IL and the 2001 Pension Reform

SPD, trade unions, the pension fund peak association VDR, and even by parts of the CDU. They feared that the statutory system would degenerate into a system that, over time, would offer not much more than a social assistance-level pension.

Finally, the plans for a means-tested minimum pension, although not a central element of the structural reform, but contained in the same reform acts, also met with political resistance, this time by both CDU and FDP, the VDR and employers' associations. Their main argument was that this novel measure, which would in fact replace the entitlement of the elderly to social assistance, resulted in the clear-cut distinction between contribution-based social insurance (such as statutory pensions) and means-tested social assistance being lost. As a result, employers in particular feared further increases in pension expenditure (and thus non-wage labour costs as a whole). In turn, critics maintained that this would give an additional boost to employment in the black economy, further undermining the contribution base of the statutory pension scheme.

Minister Riester felt unable to ignore these points of criticism and made a number of concessions. These concessions were aimed at appeasing the critics in his own party, the Green party, the CDU, and the trade unions.¹⁵⁵ I will address each of them in turn. The CDU, whose support was critical in securing *Bundesrat* approval for the reforms, did very well, as they gained concessions in most areas. As outlined earlier, the mandatory element of the private pension scheme and the plan for a minimum pension protection disappeared, largely due to the insistence of the opposition. In addition, the Government restored the indexation of pensions to net wages (as opposed to gross wages) and adapted the provisions concerning survivors' pensions. It also met and even went beyond CDU demands for state subsidies and tax credits to those participating in the private pillar: this caused another major change to the initial proposals. During the course of the extra-parliamentary talks between the Government and the opposition, and several rounds of "bidding", the extent to which the state would help individuals finance the new private pension contributions was extended. While Riester originally envisaged modest support for citizens with low incomes only, he changed it to include tax credits applicable to middle and higher incomes and earmarked an amount of € 10 billion annually, to be extended to € 20 billion in 2008.

Furthermore, the size of the private pension tier turned out to be larger than originally planned in response to demands by the CDU/CSU, but also by the FDP and the Green coalition partner (Mohr 2004). While contributions were first set at 2.5 percent of gross wages and to be gradually phased in by 2007, the law included the provision of 4 percent of gross wages as its target for 2008. The greatest driving force behind this increase was the decision of the Government to agree on cutbacks in the pension replacement rates, mainly under pressure from the CDU. As mentioned above, the Red-Green coalition had reversed the last pension reform of their predecessors for electoral reasons, but the CDU/CSU had since been pleading for these measures to be re-instituted, which Riester did by introducing the "adjustment factor". Moreover, the gradual reduction of pension levels which it implied was to be compensated by corresponding increases in private provision, given the previous commitment of the Social Democrats to keep an overall pension level (composed of statutory and private pensions) of 70 percent. Eventually, the initially much criticised "adjustment factor" was modified by the parliamentary committee and

Entwurf eines Gesetzes zur Reform der gesetzlichen Rentenversicherung und zur Förderung eines kapitalgedeckten Altersvorsorgevermögens (AmVG), 14.11.2000.

¹⁵⁵ It should be noted that Riester started to offer concessions to the CDU in order to win their eventual parliamentary approval. Only when this strategy proved futile, he also approached the trade unions, hoping to influence also reform critics within the SPD (see also Section 5.5.1).

Chapter 5

replaced by a VDR-sponsored “indexation factor”, which was to reduce gross-wage increases of replacement rates by changes in contribution rates.¹⁵⁶ The net effect of all this was that replacement rates would not drop below 64 percent after 2030.

In contrast to the CDU, which had taken a rather confrontational stance towards the Government, the smaller liberal opposition party, the FDP, continued cross-party negotiations with the coalition (even after the CDU had abandoned them in October 2000) in an attempt to shape the reform plans more to their own liking. However, after a number of substantial concessions from the Government to the trade unions had materialized that were out of line with the FDP’s idea of lowering pension levels in exchange for lower contribution rates (see below), an agreement with the Government’s line of policy became almost impossible.

The Government also saw the need to appease its own reform critics, i.e. the left wing within the SPD parliamentary party, and related to them, the trade unions, who, during the reform process, tried to wield as much influence as possible on the coalition via its channels with SPD parliamentarians. Minister Riester, felt pressed to accommodate their key demands out of necessity to gain their support for the *Bundestag* vote (not least because it looked as if the CDU would deny its approval). Concessions made on this count included the scaling down of the effects of the adjustment factor, which was changed into an indexation factor, implying a smaller reduction in replacement rates in the long term. This new factor also had different effects: it affected both current and future pensioners in similar ways, while the adjustment factor would have introduced a *de facto* differentiation in replacement rates to the detriment of current pensioners, which was very controversial (Reissert 2003: 149). Furthermore, the role of collectively negotiated occupational pension schemes was strengthened vis-à-vis individual pension plans. This increased the influence of trade unions in the regulation of that particular part of the new pension system. As a result of trade union pressure for a contribution by employers to employees’ private pension savings, a compromise was reached, which stipulated that collectively negotiated occupational pensions should take precedence over individual pension plans. In the process leading up to the 2000/2001 reforms, the trade unions had been changing their attitude towards the role of collectively agreed retirement provision and the overall viability of the statutory system. Schludi argues that unions became aware that they could not oppose decreasing benefit levels in the public scheme indefinitely, and that their organizational self-interest would be served by participating in the regulation of occupational pensions with the collective framework agreement (Reissert 1998: 170-171). The change in attitude towards lower pension benefits had been a particularly long and conflictive process, in which, interestingly, the then metal workers’ union (*IG Metall*) chairman Riester also played his part: in 1997, Riester and the former trade union peak organisation DGB (*Deutscher Gewerkschaftsbund*) chairman Schulte on one side, and former DGB vice-chair Engelen-Kefer on the other, were quarrelling in public about whether cuts in pension benefit levels were inevitable or not (Gemeindefinanzreformkommission 2003: 19). Finally, an intervention from the highest ranks of the DGB prompted the Government to add a provision to the bill that amended the statutory pension scheme, ensuring that the standard pension level would not fall below 67 percent (*Niveausicherungsklausel*).¹⁵⁷ Eventually, the DGB was happy to have achieved

¹⁵⁶ *Bundestag-Drucksache* 14/5146. Entwurf eines Gesetzes zur Reform der gesetzlichen Rentenversicherung und zur Förderung eines kapitalgedeckten Altersvorsorgevermögens (AmVG). Beschlussempfehlung und Bericht des Ausschusses f. Arbeit und Sozialordnung, 24.01.2001

¹⁵⁷ The 67 percent, however, correspond in fact to the previously mentioned 64 percent according to the previous pension formula because of changes in the definition of the net wage (Fehr and Jess 2001 in Schludi 2002:166)

IL and the 2001 Pension Reform

those changes, as well as others, such as fairly generous state subsidization of supplementary pensions, and improvements in survivors' pensions.¹⁵⁸

During the latter stages of the parliamentary process, the CDU, despite the accommodation of their demands by Minister Riestler, continued to oppose the reform on, what seemed to be, tactical grounds. Therefore, the Government could still not count on their support for the vote on the reform plan in the *Bundestag* and, more importantly, in the *Bundesrat*, which eventually had to approve the Old-Age Provision Extension Act, covering both the private pension pillar and the basic pension for the disabled and elderly. Getting the latter to approve that act was not easy given the combination of continued CDU resistance, the lack of a Red-Green majority in the *Bundesrat*, and some sceptical *Länder* governments, including some where the SPD participated in the Government. In January 2001, on the advice of the coalition parties in the parliamentary committee discussing the draft bill, the whole reform package was divided into a part containing the cuts in the statutory insurance, which could proceed without *Bundesrat* approval, i.e. the Old-Age Provision Extension Act, and another part involving financial matters of concern to the *Länder*, and as such, dependent on *Bundesrat* approval, i.e. the Old-Age Provision Act (BAHauptstadtvertretung 2004b: 271). It is possible that the Ministry also anticipated problems in gaining the consent of the *Bundesrat* and urged this strategy. However, only after protracted negotiations with the CDU and the *Länder* co-governed by the SPD in the Mediation Committee, a deal was struck and the law approved by the *Bundesrat* in May 2001, albeit by the smallest majority possible for the governing coalition. Again, the Government had to accommodate demands, such as the inclusion of real-estate as a form of retirement savings under the private scheme and the establishment of a federal agency responsible for administering government allowances. Other concessions to the *Länder* included an extension of the range of products to be included (and funded) under the private scheme, and more generous financial compensation. Even the provisions of the Old-Age Provision Act (passed in January 2001) were again amended during the mediation procedure to include a reduction of cutbacks in survivors' pensions at the request of the CDU (Jantz 2004). The final agreement was reached only after Schröder and Riestler had persuaded the *Länder* Berlin and Brandenburg to vote in favour of the bill, on the condition that the new agency administering private pension subsidies should be located in their area.

5.4 Analysis Part I: Observing Ideational Leadership

This section forms the core of the study and assembles evidence from various sources to establish whether IL could be found in the reform process. Concerning the evaluation of theoretical explanations for the adoption of the reform, the analysis has two main aims: Firstly, it investigates whether IL, as defined in Chapter 2, was present in the reform process, i.e. one or several of its aspects (denouncing the policy status quo; introducing and defending new policy principles; appealing to reform opponents to reconsider their resistance, political orientation).¹⁵⁹ Assuming

¹⁵⁸ DGB-Bundesvorstand, ISA 3/2001 *Reform in der Altersvorsorge*, 27.06.2001, p.1

¹⁵⁹ Note that the fourth aspect of IL, 'making efforts at political consensus-building' is absent as it was added to the theoretical framework only after the analysis of this case was concluded.

Chapter 5

that Minister Riester was the person to bear the final responsibility for the project of pension reform, the questions to be asked are as follows:

- 1) Did Minister Riester clearly reject the status quo in pension policy (and its old policy principles)?
- 2) Did he clearly express and legitimise new policy principles, using cognitive arguments (related to problem-solving) and normative arguments (related to societal norms and values)?
- 3) Did he appeal to critics to give up their reform resistance?
- 4) Did he act based on an interest in the contents of reform (policy orientation) or did he engage in tactical games in order to keep his power (in accordance with aspect 5 of the IL framework)?

Secondly, the analysis also attempts to give an answer to whether IL was indeed the crucial factor in the process (Section 5.5). This will be done by considering three strategies the Government might have followed in adopting the reform, and exploring the relevance of alternative explanations for dealing with reform resistance: 1) making substantial content-based concessions for reform critics and 2) ignoring or outmanoeuvring reform critics, in analysing the data collected on the case. In order to see how IL mattered in the final adoption of the reform, it presents pieces of information regarding its adoption, based on the views of observers on the reform process. In addition, the same information will allow an evaluation of Minister Riester's role during the reform process.

The remainder of Section 5.4 focuses on assessing the behaviour of the main political actor responsible, Minister Riester, who was destined to oversee the long-drawn process of structural shifts in German pension policy. Whether or not he did this in a manner that corresponded with the criteria of IL will be explored throughout the section.

5.4.1 Rejecting the Status Quo?

Chancellor Schröder's choice of Walter Riester as Minister of Labour was motivated by at least two considerations. Firstly, Riester agreed with Schröder about the need for a structural pension reform and how to tackle it: by creating an additional capital-funded pillar of pension provision. Secondly, a more symbolic motive also played a role in the choice for Riester. According to the Minister, 'on the one hand, it was a positive signal towards the unions to choose "one of them"; on the other hand, he set a signal by taking aboard a union man who did not have the reputation of being traditionalist' (BAHauptstadtvertretung 2004a:70). The lack of traditionalist thinking on Riester's part referred to his ideas and perceptions of what action needed to be taken in the labour market and in social policy, which, in his opinion, had to undergo far-reaching reforms, not merely corrective adjustments which would have left the policy status-quo largely intact. Furthermore, the issue of pensions was for him a central one:

Led by the idea of opening up a perspective for people's future, developing a reform of pension provision became the key question to me (...).To find answers to this question, while departing from a process of discussion and debate, was for me the biggest incentive to accept the Ministerial office when it was offered to me (ibid:126).

Indeed, Riester had been thinking about this issue even before he became Minister, especially during the last years of the Kohl Government. He came up with the idea of creating a 'collective agreement fund' (*Tariffonds*) to ease the problems with early retirees burdening the statutory pension scheme and discussed it with the social partners. During this period, he also voiced his ideas by publicly advocating (in interviews with, for instance, *Die Zeit* and *Süddeutsche Zeitung*), radical reform of social security schemes in reaction to long-term societal developments, which

IL and the 2001 Pension Reform

were affecting the workings of the post-war labour market. In doing so, he adhered to a sort of “holistic” view on policy-making when he said that:

Given the existing distributional systems through tax, finance, and social policy, as well as collective bargaining policy, I saw a comprehensive recalibration as essential. The Kohl Government had looked at each of these systems in isolation, to me it made more sense to see them as a connected whole and ask what each of them could contribute to a common solution (ibid: 133).

The above quotation illustrates that Riester, by virtue of his previous career and earlier thoughts and initiatives on pension issues, had acquired the profile of a reformist and a modernizer within one of the largest German trade unions. However, in what ways would he actually tackle the status quo during his office?

The policy status quo, and whether it could still be considered viable, was closely linked to the perception of the statutory scheme at the time when Riester took his first steps towards a reform proposal. Riester addressed the question of how reliable the statutory pension scheme was in his own writings with due care. One article written by the Minister at a point in the process when he was still engaged in so-called “consensus talks” with the CDU and FDP opposition (which broke down in the fall of 2000), illustrates the point.¹⁶⁰ In the article, Riester explained the rationale behind conducting a far-reaching reform, and claimed that in the upcoming pension reform, a fundamental choice had to be made about the future position of the statutory scheme. He referred to ‘political forces arguing that the statutory pension scheme would not be able to resist demographic change in the future and plead instead for a tax-financed basic pension’. In the light of this challenge, to him ‘a fundamental decision needed to be taken on whether this first pillar should continue to ensure pensioners’ living standards or whether it should merely serve to avoid the decline into poverty’. For an answer to this problem, he left no doubt about the Government’s position, which saw a tax-financed basic pension as no alternative to the current PAYGO system, and he predicted that the latter would ‘continue to form the main pillar of old-age provision’. In the Minister’s eyes, reform had to be conducted carefully in the sense that it did not burn all bridges with the past:

The contribution-based statutory pension scheme will continue to form the backbone of old-age provision. My aim is to create an affordable system of pension insurance which continues to guarantee a reasonable standard of living to retired people. But it is also true that the statutory scheme has to respond to societal changes if it is supposed to still exist in the future.

The fact that the statutory pension system was no longer viable in its present form, according to Riester, was linked to a number of challenges: demographic developments, technological progress and resulting changes in working conditions and a change of values in society. The threat to its viability lay in the combined consequences of these changes for the scheme’s financial sustainability, which Riester explained in detail. In other words, the Minister’s attitude towards the status quo in pension policy was one of caution and respect for policy legacies, but he also clearly communicated and explained the reasons why, in its present state, it was not sustainable for much longer.

During the phase of policy formulation before the start of the formal legislative process, Riester kept reiterating the need for his reform ideas by stressing the main problems that had beset current pension arrangements. With this, he usually combined an outline of proposed goals and

¹⁶⁰ ‘Keine Problemlösung auf dem Rücken der jüngeren Generation’, *Frankfurter Rundschau*, 13.03.2000.

Chapter 5

instruments needed to reach these goals. Notwithstanding earlier reforms of the pension scheme, the Minister pleaded for further reform solutions within the next decade, in order to anticipate the failure of the current system of pension provision. He linked this plea to a systematic diagnosis of the rationale for structural reform: once again, reasons relating to demographic trends were named but there was also some concern about high levels of non-wage labour costs and the system's general economic and budgetary significance.¹⁶¹

In one extensive interview,¹⁶² the Minister reiterated why it was necessary to react to the worrisome state of the pension system. Riester also hinted at 'false promises' made in the past by the state-administered system about 'securing the standard of living' and determined today's requirements in terms of how long, in order to receive a full, 'at best fictive' pension, contributions must be paid for. Neither did he miss the opportunity of stressing that, in his eyes, no other government before had reached this prudent conclusion:

We are the first ones to bring about generational justice, which means that we do not leave the problems to be resolved by the next generation. We are making sure that a long-term stabilization of the pension contribution level at an acceptable level of pension provision is guaranteed.

At the beginning of the legislative process, in an article directed to a trade union audience, he added a twist to the communicative pattern of rejecting the policy status-quo.¹⁶³ Rather than pointing outright to the failure of the state-administered system, the Minister observed a growing lack of confidence in that system due to a long period of 'an attitude of procrastination and belittlement of emerging problems'. Here, Riester was clearly referring to the recurring statement of his CDU predecessor, Blüm, who had not ceased to assert, up until the late 1990's, that 'pensions are secure' (*Die Renten sind sicher*). This instance of Riester's thinking shows that he sometimes (and possibly adapting his wording to the audience) added nuances to his attacks on the status quo, which suggest that rather than blaming the system for its failure, complacent and idle policy-makers should be the ones to blame.

During the later stage of the parliamentary process,¹⁶⁴ Riester kept reiterating the fundamental demographic challenge to the statutory system (as well as summarizing its goals and repeating its key elements). At that time, after a tedious, long-drawn, parliamentary process that often dwelled on small details of the legislative proposals, he also had to endure a lot of criticism for his proposals; however, he still tried to remind the audience of the fundamental reasons behind his reform project:

No pension scheme, however well it may function, can cope permanently with the fact that people have longer life expectancies, that they receive their pension for a longer period of time and that they face lower child birth rates. With these developments, fewer contributors will have to finance the pensions of more retired people for longer time periods.

The previous examples of Riester's communicative efforts that address the need for a change in the status quo of pension policy, illustrate that he, throughout the reform process, linked the need

¹⁶¹ 'Sicherheit für die Älteren, Bezahlbarkeit für die Jüngeren', interview with Walter Riester, *Ifo-Schnelldienst*, 28/29.2000, p.5-8.

¹⁶² Interview with Walter Riester, *Einblick*, 23.10.00; source: <http://www.einblick.dgb.de/archiv/0019/tx001901.htm>; accessed 16.10.03

¹⁶³ 'Halbzeit, Reform-Zeit: Zeit der Ernte', *Gewerkschaftliche Monatshefte*, 10/2000, source: <http://www.gmh.dgb.de/main/jahresin/2000/Leseproben/leseprobe-Riester-10-2000>, accessed 14.10.2003

¹⁶⁴ 'Eine zukunfts feste und bezahlbare Rente', *Frankfurter Allgemeine Zeitung*, 25.4.01.

IL and the 2001 Pension Reform

for structural reform to the shortcomings of the current state of the statutory pension scheme. His statements made in public and in writing, both before and during the legislative process of the 2001 pension reform, indicate that Riester fulfils the criteria for the first aspect of IL, which deals with rejection of the status quo.

5.4.2 Legitimizing New Policy Principles?

Similarly, Minister Riester undertook various efforts in legitimizing his reform plans in various communication contexts and by addressing different audiences. An example of his early pleas for substantial reform can be found in his address to the SPD party congress on the future of social security in November 1999.¹⁶⁵ In a rather programmatic statement, he looked back on those social policy changes already implemented during the first year of the Schröder Government, and listed a number of reforms that were still on the Minister's agenda. Among the upcoming projects, he announced a structural pension reform as the 'the largest social policy project ahead in the next months'. His explanation and justification of such a far-reaching reform included core goals of the reform proposal, such as the 'generational contract', 'security of the pension system', 'stable contribution rates', 'stable pension levels' and the innovation of 'additional private pension provision'. In addition, he considered this large reform project to be well in line with programmatic innovation within the SPD, as he stressed the close connection between those reform goals and the programmatic statement on which delegates were to vote during the party congress. That statement highlighted the need for 'a balance between individual responsibility and state benefits' and the upcoming pension reform was in Riester's eyes one important example of putting this balance into practice.

In 2000, the Minister continued his efforts in promoting the provisions of the proposed reform, explaining what it was about and how it should help to address the growing weaknesses of the statutory system. On one occasion, for instance, he set the reform proposals in the larger context of earlier decisions on pension policy,¹⁶⁶ and gave an overview of its goals and instruments. Appealing to 'a sense of pragmatism' in German society, which was needed to support his reform plans, he presented the totality of the past and envisaged reform measures as one cohesive programme. In this bid to muster early support for his plans, before they were formally decided upon by the cabinet and the beginning of the legislative process, Riester kept clarifying why the proposed measures were necessary. He did this by typically presenting the proposed goals and attached policy instruments as answers to the problems with the current system. With this approach, he also explicitly related new policy instruments and their underlying ideas to their expected effects. To give an example, he outlined the effects of a new pension calculation formula and the new compensation factor, which would decrease pension levels slightly to accommodate the impact of demographic effects:

If the younger generation has to spend more money from now on to secure a comfortable life for when they will retire, then it is legitimate to ask an extra contribution of those who are now receiving their pensions. It is not possible to have everyone benefit. The same is true for the new compensation factor. It is introduced to realize a slight decrease in pension claims for those who will retire in the future (starting with 0.3 percent in

¹⁶⁵ Speech of Walter Riester to the annual SPD-party congress, 'Die Zukunft des Sozialstaats', 19.11.1999, source: http://www.bmgs.bund.de/deu/drv/index_2059.cfm, accessed 13.10.2003

¹⁶⁶ 'Keine Problemlösung auf dem Rücken der jüngeren Generation', *Frankfurter Rundschau*, 13.03.2000.

Chapter 5

2011 rising up to 6 percent in 2030). Without this decrease, contribution rates and demographic developments would be no longer manageable.¹⁶⁷

Alongside this effort to legitimize his reform proposals, Riester also presented the reform's goals and principles, which have cognitive (problem-solving) and normative (relating to society's norms and values) elements to them. For instance, these included 'fair and just burden-sharing across different generations', 'long-term stabilisation of old-age provision in order to reassure the retired', 'modernisation of old-age pension provision by constructing a fully-funded pillar of private pensions', the 'prevention of old-age poverty', and several innovations improving the situation concerning widowers pensions and the pension rights of women raising children.¹⁶⁸ On another occasion,¹⁶⁹ the Minister restated that the reform's main goals addressed the statutory scheme's financing problems by saying 'we are making sure that a long-term stabilization of the pension contribution level at an acceptable level of pension provision is guaranteed'. Indeed, this reasoning proved to be at the core of the reform: getting everyone to accept that the aim to and need for lowering pension levels in the long run had to be combined with the competing goal of keeping contribution rates (as well as the state subsidy to the pension budget) under control.

Apart from frequently referring to its goals and principles, Riester also legitimized the reform by outlining its expected positive effects on various groups of the population: the young generation, older employees about to retire, and employers.¹⁷⁰ For instance, he combined his promise of a genuine structural pension reform with improvements in welfare for these three groups, as his concept was designed to provide not only a suitable, but also 'a just answer to many future questions about old-age provision'.¹⁷¹

To recapitulate, from a variety of sources, it is evident that even before the legislative phase of the reform process, the Minister had been legitimizing his reform proposal by explaining both the cognitive and normative implications of its provisions, as well as its supposed benefits to the population. Did he also continue these efforts in the later phase of the reform process? Once the parliamentary process had begun, Riester could be expected to take the opportunity of his appearance in parliament in order to continue legitimizing his proposals. A comparison of his three speeches during the readings of the bills, and before the final vote on the most controversial part of the reform, concerning the establishment of the additional private pillar, confirms this. The Minister spent most of his speaking time outlining and explaining the goals and main elements of the proposals. At the first reading of the two bills, he began by returning to the reform's underlying principle of inter-generational justice.

Concerning solutions, we are first of all concerned with finding a fair balance between the different generations. We have put forward a solution that lives up to this goal. In our pension reform, the young and the old are both winners. We create generational justice; we put emphasis on solidarity with gains, as well as on security and affordability.¹⁷²

Then, he once again went on to explain at length the goals of the reform, the creation of an

¹⁶⁷ *ibid.*, p.7

¹⁶⁸ 'Sicherheit für die Älteren, Bezahlbarkeit für die Jüngeren', *Ifo-Schnelldienst*, 28/29,2000, p.5-8

¹⁶⁹ Interview with Walter Riester, *Einblick*, 23.10.00; source: <http://www.einblick.dgb.de/archiv/0019/tx001901.htm>; accessed 16.10.03

¹⁷⁰ *op.cit.*, see footnote 168.

¹⁷¹ Interview with Walter Riester, *Einblick*, 23.10.00; source: <http://www.einblick.dgb.de/archiv/0019/tx001901.htm>; accessed 16.10.03

¹⁷² Speech of Walter Riester to parliament, 16.11.00, *Bundestag* plenary protocol 14/133, p.12753

IL and the 2001 Pension Reform

additional private pension pillar and the stabilization of contribution levels, as well as control of the growth of non-wage labour costs. Other goals pertaining to other elements of the reform were to help people (especially women) with interrupted pension contribution trajectories, and combatting old-age poverty. When concluding his talk, the Minister optimistically went back to the point of the ‘many winners’ of the reform proposals, repeating the gains of each group. Referring again to the normative legitimization of the plans, he finally alleged that ‘this reform is more than an overdue and necessary repair of the system and one of the most forward-looking reforms for many decades, combining the principle of solidarity with individual responsibility’.

At the second reading of the bill in January 2001,¹⁷³ the Minister reiterated his commitment to the four initially formulated goals (increased funding for pension provision, stabilized contribution rates, equal treatment of parents, prevention of old-age poverty), despite the numerous revisions made to the draft bill. After repeating these goals and their justification, as well as presenting the reform as the logical continuation of earlier pension reform measures by the Schröder Government, he concluded, with a certain sense of pride, that ‘all four goals have been realised with this reform, which makes it the most important social policy reform in post-WWII history’. The belief in making an historic step towards the sustainability of pension arrangements that were to result in restored public trust in the system can also be found elsewhere in Riester’s writings. In the spring of 2001, when the parliamentary process approached its climax in the mediation procedure, he stated:

The goal of our pension reform is to make the statutory system sustainable, adapting it to foreseeable demographic change. We want to secure the level of pension provision for current and future pensioners, make for predictability and regain confidence in the statutory scheme.¹⁷⁴

With regard to sustainability, he highlighted the tax-credit scheme whose effect was to lead to a situation in which future pensioners would reach a level of provision that is ‘permanently higher than the current level of provision in the state-run system’. With perhaps startling confidence, Riester also claimed that ‘we have started our task of dissolving the reform backlog in this country and with this pension reform we live up to this expectation’. All in all, the reform was supposed to reduce the backlog of reforms (Reformstau) in the country by making pensions sustainable for the older generation and affordable for the younger generation.

The Minister’s final appearance at the last reading of the bill for the Old-Age Extension Act in May 2001 may be seen as an attempt to legitimize the essence of what had begun with a handful of core ideas almost two years earlier. Riester listed up the improvements that had been adopted in the final version of the bill (concerning the status of women, people with ill health and disabilities), particularly stressing the generosity of subsidies for the private pension plans:

We are not only talking about a quantum leap in old-age provision, but we carry it out because the capital-covered additional pension as second pension will be subsidized for everyone. This means solidarity with a gain!¹⁷⁵

Using a legitimizing pattern, which he had used before on various occasions, Riester ended his final speech in parliament by again pointing out the supposed winners of the pension innovations:

¹⁷³ Speech of Walter Riester to parliament, 26.01.2001, *Bundestag* plenary protocol 14/147, p.14428

¹⁷⁴ ‘Eine zukunfts feste und bezahlbare Rente’, *Frankfurter Allgemeine Zeitung*, 25.4.01.

¹⁷⁵ Speech of Walter Riester to parliament, 11.05.2001, *Bundestag* plenary protocol 14/168, p.16444

Chapter 5

These are the future retirees who know that they will receive a higher pension than according to the present situation; the younger generation who knows that their contributions will stay affordable and that they will receive two sorts of pensions later on; and, everyone in this country raising children who know that their pension claims will be adjusted accordingly.

In addition, he remarked, underlining his satisfaction with the reform, that ‘by concluding this reform we make clear that the term “reform” also implies that people are better off afterwards compared to the pre-reform situation’.¹⁷⁶

To conclude, this compilation of the Minister’s written and public spoken statements includes a variety of examples in which he explained and/or legitimized the 2001 pension reform by referring to its goals and principles. He did so by either linking these goals to the problems the reform was supposed to address (making cognitive arguments) or by showing that the normative principles underlying the reform (and by implication the reform as such) indeed relate to socially desirable norms and values. Riester also legitimized the reform measures with references to the expected benefits for the main groups of the population that were to benefit from the changes. All in all, the conclusion can be drawn that Riester fulfils the criteria for the second aspect of IL that deals with legitimizing a reform in cognitive and normative terms.

5.4.3 Appeals to Give up Reform Resistance

Once Riester, the former IG Metall deputy chairman, entered the political arena, it soon became clear that the way towards comprehensive recalibration of socio-economic policies would be more difficult than expected. Early in his period in office, he succeeded in defending his ideas on pension reform against more traditional thinkers within the SPD in the process of drawing up the coalition agreement. At that time, the Minister realized that it was ‘decisive to take on the challenge of achieving a forward-looking pension reform’. For him, this first instance of internal party confrontation was clearly a learning experience, which possibly influenced his later style in dealing with the opposition and led him to pledge not to allow others to restrict him even before embarking on my work as Minister of Labour’ (Riester 2004: 85).

Later on, the Minister indeed took the opportunity on various occasions in the reform process to voice his disillusionment with reform critics. In 1999, at a fairly early phase in the reform process,¹⁷⁷ he sharply attacked the approach of the CDU/FDP opposition towards social policy issues as ‘populist, lacking in concepts and untrustworthy’. Admittedly, the choice of such a tone was probably related to the context of the party congress, which tends to invite a more confrontational rhetoric and can be seen as distinct from Riester’s other public reactions to criticism.

Looking at some examples, it appears that the Minister’s attacks on criticism in other contexts, such as interviews and parliamentary speeches, were qualitatively different. They often struck up a more serious and warning tone, especially when directed at the opposition, on whose cooperation in the CDU-dominated *Bundesrat* the Minister ultimately depended for part of the proposals. When asked about how he would deal with the resistance of the parliamentary opposition, he pointed out in an interview that the CDU would have a severe credibility problem if

¹⁷⁶ *ibid*, p.16445

¹⁷⁷ Speech of Walter Riester to the SPD annual party congress, ‘Die Zukunft des Sozialstaats’, 19.11.1999, source: http://www.bmgs.bund.de/deu/drv/index_2059.cfm, accessed 13.10.2003

IL and the 2001 Pension Reform

they dared to veto the tax credits to citizens for private pension provision.¹⁷⁸ The background behind this assessment was that the Government's funding plans exceeded by far the amount of funding the CDU had requested, indicating that a veto would contradict their earlier arguments and subsequently be counterproductive to them and to the progress of the reform. This statement may be taken as an example of an appeal to the opposition to rethink their attitude.

Furthermore, at the second and final reading of the Old-Age Provision Act bill in January 2001,¹⁷⁹ the Minister accused the CDU of party-political tactics in their continued resistance to elements of the reform. In addition, he severely criticized the way in which the CDU had pretended for some time to cooperate with the Government. The offer of the Christian Democrats to enter into consensus talks with the Government to work constructively towards solutions and their subsequent switch to blocking behaviour was one object of the Minister's frustrated remarks. Against the background of a controversial CDU advertising campaign to mobilize society against the Government's pension plans, Riester also attacked the opposition for their agitating behaviour and for using populist arguments: instead of using reasoned argumentation, he alleged, they were rather keen on defaming the Government, and particularly his own person. The Minister also took advantage of his final appearance in parliament, before the *Bundesrat* vote on the reform, to lament about the opposition's non-cooperative attitude:

As always in life, there cannot only be winners. Ladies and Gentlemen of the opposition, you have not come a long way. Today, you stand at exactly the same point where you departed from. I regret this since I have wished for the opposition to cooperate constructively.¹⁸⁰

As he had done on the previous occasion, he addressed the issue of the opposition's behaviour while making a careful distinction between what he saw as 'constructive cooperation' by the liberal FDP and the 'blockade, procrastination and defamation' on the part of the Christian Democrats. In both cases, he directly referred to parliamentarians whose behaviour he saw as exemplary for both parties. Apart from underscoring that his appeals to reform critics became remarkably direct towards the end of the reform process, such rhetoric also highlighted the end of policy-making under the condition of cross-party consensus, which had dominated German pension policy-making for many decades (Bäcker 2002).

In conclusion, the examples presented above support the idea that Minister Riester did confront the hurdle of reform resistance. Regarding the theoretical framework of IL, this means that his way of communicating provided sufficient evidence for the aspect of the IL concept, 'appealing to give up reform resistance'. Most of the examples were found in the later stages of the reform process (after the bills had entered into the parliamentary process), after it had become obvious that the opposition was not going to cooperate with the government on the proposal and the opposition's efforts in derailing the reform concept had become more pronounced.

5.4.4 Political Orientation

To come to a judgment about Riester's political orientation, it is worthwhile considering the Minister's own ideas about his aspirations as a politician and his attitude towards political power.

¹⁷⁸ Interview with Walter Riester, *Einblick*, 23.10.00; source: <http://www.einblick.dgb.de/archiv/0019/tx001901.htm>; accessed 16.10.03

¹⁷⁹ Speech of Walter Riester to parliament, 26.01.2001, *Bundestag* plenary protocol 14/147, p.14428

¹⁸⁰ Speech of Walter Riester to parliament, 11.05.2001, *Bundestag* plenary protocol 14/168, p.16445

Chapter 5

When Riester himself reflected upon his own political style and his understanding of holding a political office with considerable authority, he made clear that his intention was not to adapt too much to the rules of the political arena and to participate in political rituals. At the same time, he was well aware that this pledge to keep his integrity and to remain true to his personal beliefs might equally be interpreted as a lack of flexibility in the political game and thus as a potential weakness by political observers. He also speculated that political opponents of his would see this “weakness” magnified. This was due to the fact that he largely lacked connections to the SPD parliamentary group, as he had no previous experience as a member of parliament because of his direct transfer to politics from the trade union movement. The Minister compared his entry into politics with making an entrance into a closed system that consisted of an inner political circle and an attached media-driven environment. He also admitted to having difficulties with that system, being ‘someone to whom the principle “give and take” did not matter and who could not accept it as political leadership style’ (Riester 2004: 95). In other words, these thoughts point to a politician who intended to set out and follow his own path, and engage as little as possible with established political circles, but who also was self-conscious of the drawbacks of this choice.

Related to Riester’s attitude towards “doing politics” was his personal interpretation of power, which, according to him, ‘is no end in itself (...) but one that only shows in social relations [...]. It is not a negative term by definition, but one that implies the shaping and changing social realities’ (Riester 2004:96). About his approach to power and policy-making, he explained that:

It is important to me to link my concerns to societal realities and developments. I am not interested in - as it is done frequently - developing my ideas while depending on plotting and underhand doings. On the other hand, I want to do justice to societal complexity and integrate different needs of different groups in society, also beyond what seems to be necessary (ibid: 96-97).

At the same time, he recognized that his efforts to remain ‘authentic’ may have their price:

Of course the question arises whether I would have made things easier for myself if I had adapted more, if I had participated more fully in the political game, or if I had been on the spot more clearly. All of this may have been correct, but it was not my style of doing things (ibid: 98).

Riester’s self-characterization reveals that he hardly saw his mission in politics as one of achieving political results in order to gain power and personal prestige, but rather as informed by idealism and personal integrity, which can be associated with a policy-seeking motivation. His own idea of leadership seemed to be clearly directed towards effecting policy change in a way that does not depend on political “give and take” as he puts it, but rather relying on the power of ideas and arguments. How did these intentions fare in the realities of the process of pension reform? Did Riester’s behaviour during the reform process also have a steering role in the reform process? These questions will be taken up again in Section 5.5.2.

To conclude, the analysis in this section supports the supposition that Minister Riester manifested elements of IL. The findings reveal a recurrent argumentative structure that included linking the necessity of reform to existing and expected policy problems, and an exposition of the reform concept, including its goals, its instruments and their expected effects. The “modernizer” Riester exposed the disadvantages of the old statutory pension scheme while trying to justify the core of his reform proposal, which rested on the principle of generational justice. His answer to the old system’s troubles was to adapt the financing of the statutory system while at the same time introducing a second pillar of privately funded pension provision. This proposal was defended by communication in terms of both reform necessity and appropriateness. Riester’s speeches in parliament disclosed numerous attempts to condemn the blocking tactics of the Christian Democrats, and his accusations directed at the opposition and their destructive attitude can be seen

IL and the 2001 Pension Reform

as indicative of the third aspect of IL. Finally, the Minister's policy-orientation could be verified with the help of his biographical writings. From the findings of this section, it can be concluded that Minister Riester fulfilled the criteria for four aspects of IL, which include that a key politician rejects the policy status quo, legitimizes new policy, appeals to reform opponents to give up their resistance, and shows a clear policy-orientation in his or her attitude towards political office. In short, the findings support the argument that Minister Riester was an ideational leader during the process leading up to the 2000/2001 pension reform. However, we need to bear in mind that the assessment of communication content does not tell us much about the effectiveness of the message. In other words, the question whether such purposeful communication - even if in agreement with the aspects of IL - also had an influence on the achievement of the reform cannot be ascertained from texts alone. Section 5.5 addresses this very question.

5.5 Analysis Part II: What Role for Ideational Leadership?

This second part of the analysis follows on from illustrating the presence of IL. The question of interest is now why the reform was eventually successful, and to what extent Riester, who has been identified as an ideational leader, can be seen as crucial to its adoption. In order to answer the question of how important IL proved to be, I will draw on the views from interview accounts as to why the process eventually led to the legislative passage, as well as on Riester's own account, as sources of information. Additionally, I will also consider which mix of strategies the government used in order to push through their reform concept, and how Riester's role related to these strategies. I will consider each of these in turn.

5.5.1 Strategies of the Government to Adopt the Reform

In order to evaluate to what extent IL by Minister Riester led to a successful conclusion of the reform, we need to consider which strategies were used by the Government and how they may have contributed to the reform outcome. This will be done by considering what observers thought about the relevance of three possible strategies to get the reform adopted. These strategies involved argumentation involving persuasion; making concessions, and ignoring or outmanoeuvring reform opponents. The assumption is that finding considerable evidence for the argumentation strategy, relative to the other two, would provide extra support for the role of the ideational leader Riester.

To begin with, the first strategy, legitimizing reform proposals by way of argumentation and persuasion, was recognized clearly as a strategy employed by the government, and Minister Riester's share in it was explicitly stressed. However, while respondents recognized that there had been efforts to legitimize the reform in public, towards interest groups and to persuade the SPD's parliamentary group (Interviews policy expert 22.04.04, Green party official 16.07.04, former SPD MP, 15.06.04), it was also pointed out that this communicative strategy was found to be lacking in one way or another. More specifically, it was alleged that communication on the reform drafts between the Ministry and the SPD party faction began too late in the process, had a flavour of 'there is no alternative' about it (Interview SPD official 28.06.04), was too limited in the beginning of the process (Interview BMGS official 16.06.04), or too open towards the diverging positions of other policy stakeholders (Interview Green party official 29.06.04). On the other hand, from the perspective of interest groups, the Government's communication was qualified as resolute and as 'leaving no alternative' as far as the 'if' of the reform was concerned. Concerning

Chapter 5

the details of the reform draft, reformers tried to be persuasive by using economic arguments and sophisticated calculations in order to underline the need to adjust the statutory scheme. However, this approach was seen to be too one-sided as it stressed the technical details of policy instruments rather than the design of the reform in its entirety (Interviews DGB official 14.06.04 and former DGB official, 28.06.04).

Following on from this, the use of the second strategy, making concessions to reform critics, was also widely acknowledged. In particular, trade unions were named as those who saw their demands accommodated by the government, but also social welfare associations (who are lobbying for the interests of recipients of social security benefits), and critics within the SPD were named as being successful in achieving concessions. At the same time, respondents rarely reflected on the importance of these concessions for the final result from the Government's perspective, but when they did, opinions diverged on whether granting them had been positive or negative for the overall outcome of the reform. For instance, it was argued that when the Minister agreed to concessions in response to demands from the SPD parliamentary party, this decision came too late to avoid damage to his reputation linked with his performance in the reform process (Interview former SPD MP, 15.06.04). However, it is unclear whether this unfortunate course of events delayed the adoption of the reform. In contrast, the view from the perspective of the Minister's staff on concession-making was different. A ministry source saw the concessions concerning the status of occupational pensions in particular as a crucial instrument in winning the approval of trade unions for the new minimum pension levels that were a core provision of the reform (Interview senior official BMGS, 16.06.04). As far as the opposition was concerned (and apart from the question as to whether concessions had contributed to the final result), the significance of the Minister's concessions was that they illustrated the remarkable influence trade unions could have on the Red-Green Government (Interview CDU MP, 17.06.04), and eventually, on the extent of pension reform.

In contrast to the former two strategies, the presence and significance of the third strategy, ignoring or outmanoeuvring reform opponents, was more contested. An SPD source found this type of strategy to be characteristic of the early phase, corresponding to the agenda-setting and policy formulation phase up to 2000, of the reform process (Interview SPD party official 28.06.04). The choice not to take the criticism of 'traditionalists' within the SPD during the concept development phase seriously was an example of the government ignoring opponents in the early stage of the reform process (Interview senior official BMGS, 16.06.04). Another obvious example of this strategy was mentioned several times: the attempt by Minister Riester to encourage the CDU opposition in separate talks to agree to a cross-party consensus on the pension plans (Interviews policy expert 22.04.04, Green party official 29.06.04, SPD party official 28.06.04). While the Minister wanted these talks to bring the opposition 'on board', they were at the same time an attempt to outmanoeuvre intra-party opponents, that is, to neutralise critical voices within the SPD with the "threat" of CDU parliamentary approval (Interviews policy expert 22.04.04, Green party official 29.06.04). However, as the talks broke down before the legislative process (despite the fact that the government had accommodated and even over fulfilled CDU demands on funding private pension provision), it is questionable whether this strategy was ultimately productive. Only after it had become clear that the CDU was no longer prepared to engage in consensus-building, did the Minister start to look elsewhere for support for his proposal, i.e. within his own party and with the trade unions (Interview SPD party official, 18.06.04). Conversely, from the perspective of trade union officials, there was little question of being ignored or outmanoeuvred by the Government during the later (legislative) stage of the process, as it had been responding actively with concessions to their most important points of criticism (Interview former DGB official 28.06.04). Finally, the decision to split the reform package into two parts, one

IL and the 2001 Pension Reform

of which did not require *Bundesrat* approval - in order to avoid prolonged negotiations on provisions that could be adopted by a single majority in the *Bundestag* - can also be seen as an example of this strategy.

On the basis of the evidence just presented, and keeping the course of the reform process in mind, the following may be concluded: the first strategy, legitimizing reforms by way of consistent communication and persuasion, was present in the efforts of the reformists, and was associated with the Minister in particular.¹⁸¹ However, the argumentation in favour of reform was found to be more comprehensive vis-à-vis the general public and interest groups (especially trade unions) than vis-à-vis the SPD party faction in parliament, which apparently alienated some of its left-wing parliamentarians and formed a hindrance in the process. The second strategy, making concessions to reform opponents, was found to be equally important. Indeed, given the numerous occasions during the process when the reform provisions were modified, by Riester, and sometimes by Schröder, it is hard to neglect the role of concessions, including the final compromise reached between the coalition and some of the *Länder* in the Mediation Committee on the outcome of reform. In this respect, the accounts of respondents reaffirmed what has been stressed in the summary of the reform process (Sections 5.2 and 5.3). Notwithstanding the Ministry's efforts to "sell" its reform proposals, many of its measures were seen as unacceptable to key actors such as the CDU, the trade unions and their allies within the left wing of the SPD. Despite the government's effort to legitimize the proposals, it was inevitable that this kind of resistance necessitated a number of concessions in order to bring the reform to a close. By contrast, evading criticism or sidestepping it was apparently not a viable option. The observations on the role of the third strategy, ignoring or outmanoeuvring reform opponents, made it appear less important relative to the other two strategies, indicating an overall weaker role. The practice (during the pre-legislative phase) of purposefully excluding interest groups from the debate, Riester's attempt to involve the CDU in a cross-party consensus in order to strengthen his stance vis-à-vis the objectors in his own party, and the division of the proposals into two separate draft bills to avoid the *Bundesrat* having to approve of all provisions, fell into this category.

Keeping in mind that both the argumentation strategy, notwithstanding its procedural weaknesses, and concession-making were prominently present in the reform process, let us take a closer look at Minister Riester's leadership qualities.

5.5.2 The Role of Minister Riester in the Reform Process: Signs of Leadership?

What can finally be said about the role of Minister Riester himself? Having found evidence of his IL on the basis of criteria relating to communication, was he also (perceived as) a leader who could see the reform through?

The Minister reportedly displayed certain leadership abilities during the process. One source from the Ministry of Labour even praised the Minister for 'his achievement of paradigmatic change in the face of fierce resistance' (interview BMGS senior official, 16.06.04). His sound knowledge of facts and thorough conviction that the changes he advocated were necessary made

¹⁸¹ One lesson learned from the interview accounts is that the strategies might be complementary (in the sense of occurring together), rather than being mutually exclusive, as the term 'alternative explanations' implies. Indeed, 7 out of 9 interviewees reported that all three strategies had been used by the Government, albeit at different stages in the process and in different intensities.

Chapter 5

him into a credible reformer. His reformist attitude was allegedly also helped by his background, his determination to innovate and by a certain level of political support:

Riester has shown stamina, and he did so in a special kind of way. He was an outsider to the political arena [...] he had no mandate in parliament and could only influence the parliamentary group in his quality as a Minister (...). Yet I think we would not have come that far if we had not had a Minister recruited from outside the political landscape who was willing to explore new paths [...]. In addition, his political backing by the Chancellor was of central importance, and so was the loyalty of the coalition's parliamentary groups that was needed for the eventual success' (Interview BMSG senior official 16.06.04).

Riester's personal observation of the reform process reinforces this appraisal of someone who was willing to persevere if the chance to do so was politically endorsed. At possibly the most precarious moment in the reform process, in December 2000, while travelling abroad during the parliamentary expert hearings on the draft bills, he prematurely returned to Berlin due to heavy criticism of the drafts and the demand by trade unions for the controversial adjustment factor to be dropped (and claiming an alleged promise to do so by the SPD party faction, which the Minister was not informed of). Despite the delicate situation and speculations in the media about Riester's resignation over the issue, the Minister, after reassuring himself of the continued backing of Chancellor Schröder (and the SPD party faction), decided to continue in office, although he had been informed that the reform had to proceed without the controversial adjustment factor. After the crisis was defused, the Minister recalled that 'I quickly returned to work and was determined to push through the pension reform despite everything that had happened' (Riester 2004: 159).

The views on Riester's leadership orientation held by other observers were more diverse and stressed different aspects of how leadership may express itself. For instance, the Minister's party colleagues were more critical of the Minister's abilities in this respect. One source noted that he was good at handling the communication and persuasion aspects of his job, but that at the same time, he regrettably made mistakes when it came to process management. As for the latter, this referred to Riester's misinterpretation of the power resources of his opponents and to unfortunate choices, such as the Minister's deliberate absence during a key parliamentary hearing (Interview former SPD MP, 15.06.04). Another SPD source found but little evidence for Riester's leadership, judging him 'too sensitive to influences from within the Ministry and neglectful in terms of building support within the party' (Interview SPD party official, 18.06.04). Other coalition sources confirmed the latter view, but still attested to the Minister's leadership. At the same time, they found him to be lacking in sensibility to political processes and actors, as well as being too responsive to outside suggestions (Interview Green party official, 29.06.04). However, it was also suggested that the Minister clearly deserved to take the credits for the adoption of the reform, despite deficiencies in dealing with the process, including the Minister's tendency for making concessions too easily (Interview Green party official 16.07.04). As regards the views of policy stakeholders, trade union representatives were divided on whether Riester behaved as a leader in the process. On the one hand, he was seen above all as a policy-oriented politician, who was 'consistently arguing for his plans and giving others the impression he was strongly convinced of their importance and their quality' (Interview DGB official, 16.06.04). On the other hand, it was stated that 'the many amendments to the proposals do not attest to a strong leadership style' (Interview former DGB official, 28.06.04).

The picture emerging from this survey of evidence about the form and role of Riester's leadership is diverse: it was certainly there, but at the same time it was continuously put to the test. As Section 5.4.5 has illustrated, the Minister started out with clear aspirations to change policy in accordance with his principles. Eventually, he steered his reform proposals towards adoption, despite serious ups and downs in the intermediate process, coupled with situations that resulted in legislative adjustments. Although the media helped to foster a picture of a tarnished politician who

IL and the 2001 Pension Reform

had to water down his reform plans as the process went along, Riester, with the backing of Chancellor Schröder, managed to hold on to the core points of the reform until its adoption in May 2001. In this sense, his idealism and focus on substantive policy issues paid off, although the way to the finishing line had been far from smooth, and personally disappointing: his initial belief in the willingness to cooperate with several prominent CDU politicians (Riester 2004: 170) had been frustrated, and the lack of learning potential of his former working environment, the trade unions had become obvious (ibid: 144).

5.5.3 Decisive Factors in Getting the Proposals Accepted

After assessing the strategies followed by the Government and the role of the Minister's leadership, it is worth considering whether there was evidence of any other factors possibly playing a crucial role in the eventual adoption of the reform, perhaps by increasing acceptance of the reforms. The purpose of doing so is to check whether interview accounts support or disconfirm on this count the earlier findings of this section, as the evidence gained by consulting a small number of observers on this question may not have produced answers that covered all aspects.

Firstly, the favourable economic situation provided support for the acceptance of the new private pension scheme. Stock exchanges at the time were flourishing (the so-called "New Economy boom"), which was said to influence positively the debate about the potentials and possibilities of capital-funded pension provision at a time when the reform process unfolded (Interviews policy expert 22.04.04, Green party official 29.06.04, SPD party official 15.06.04, former DGB official 28.06.04). In connection with this, the financial industry, that is, banks and insurance companies hoping to profit from the business possibilities offered by the new scheme, reportedly employed lobbying activities in the process, so as to have the reform designed to the best of their interests and to see it concluded (Interviews policy expert 22.04.04, BMGS senior official 16.06.04). A second factor mentioned in this context was "reform fatigue", in the sense that actors became more conciliatory as they wished to see the conclusion of a long-drawn out process on debating pension reforms (Interview SPD official, 28.06.04). Sources from a trade union background mentioned that a sort of "resignation to the facts" had helped reform adoption, while denying that the trade unions' decrease of resistance to the proposals had little to do with an increase of acceptance, but rather with accepting the inevitability of the reform (Interview former DGB official, 28.06.04). This acceptance was 'without real conviction, due to serious doubts about the long-term viability of the reform' (Interview DGB official, 14.06.04).

Furthermore, the role of concessions and the accommodation of a series of demands by the government in the course of the process were also stressed by several respondents (Interviews former SPD MP 15.06.04, SPD official 28.06.04, policy expert 22.04.04). In particular, the massive increase of tax subsidies for the private scheme, announced by Chancellor Schröder after the contours of the reform had been made public, was said to have been influential for the conclusion of the process (Interview policy expert 22.04.04). These statements do sustain the importance of the alternative strategy of concession-making mentioned above.

Subsequently, it was acknowledged that the demands of policy advisors and pension experts (both nationally and internationally, e.g. by the OECD) had helped in creating awareness of Germany's pension problems and advanced progress towards a concrete reform proposal and its adoption (Interviews BMGS senior official 26.06.04). In a similar vein, policy-makers' awareness of the state of the pension scheme - when seen in international perspective - was also furthered by its reporting obligations under the European Union's open method of coordination (Interview former DGB official 28.06.04). As a parallel process, there had been a notable change in the debate on pension provision. It consisted of a switch from a former closed debate between a small

Chapter 5

group of experts and policymakers towards a more open and broader societal discussion on what the future of pensions should be, taking into account the problems posed by demographic trends and so forth (Interviews Green party official 29.06.04, CDU MP, 17.06.04, SPD party official, 15.06.04). This opening up was assisted by a different style of media reporting, perhaps due to a generational change, which did no longer see reforms of statutory pensions as undesirable or unnecessary (Interview CDU MP, 17.06.04). These two factors in particular, when taken together, shaped an environment, in which Minister Riester's ideas about an additional pension pillar and adjustments to the statutory scheme fell on fertile ground. Notwithstanding the many voices that disagreed about the fine-tuning of the reform's goals and the desirable instruments to reach these, as the reform process went on, the 'if' of the reform seemed increasingly indisputable.

Finally, an important factor in concluding the reform was that the actors involved, after some reflection on the issue, had understood that the reform did not represent a radical and complete policy turnaround, as a ministry source reported:

I think that after a phase of uncertainty about whether the passage of the law would be blocked (this would have meant to avoid systemic change altogether) or whether - by passing the law - a path could be opened up to win back confidence for the statutory pension scheme, those forces willing to carry out the reform won. All actors involved realized after all that the reform proposal did not carry the risk of a total systemic change (Interview BMGS senior official, 16.06.04).

The last point underscores that Riester's nuanced reform strategy, complementing the pension system with new pillars while preserving the existing statutory pillar, had finally been understood by policy stakeholders as more of a chance than a threat, and this realization facilitated eventual agreement. If this is a correct interpretation, it supports both the argumentation strategy and the effectiveness of Riester's leadership capabilities.

5.5.4 Combining the Findings: Did IL Have an Impact?

To what extent can IL be seen as responsible for the reform outcome? To answer this question, I will reconsider the different elements discussed so far in this section. How plausible an explanation is ideational leadership by Minister Riester for the adoption of the reform?¹⁸² I will argue that both IL and concession-making had their share in concluding the Riester pension reform. In order to draw this conclusion, I considered the role played by argumentation and the other two alternative strategies the Government had at its disposal in order to push ahead with the pension reform; the role played by Minister's leadership; and other factors that were important in achieving the reform.

Regarding the choice of strategies to conclude the reform, the Government, and most prominently the Minister of Labour, did carry out an argumentation strategy. However, it was

¹⁸² One caveat is in order: one, if not *the* major difficulty of gauging the effects of IL lies in the fact that it is difficult to pinpoint 'instances' of leadership, such as important decisions taken by a key politician during the reform process, and evaluate the immediate reaction of reform opponents in terms of whether leadership had an effect, in terms of preference changes towards approval or at least acceptance of the reformist position. A possible drawback is that such processes might occur with considerable delay, complicating efforts to detect them, as reactions would have to be monitored over a long period of time. I rather assume that leadership resembles an ongoing process with few discernable "peaks" and the way to proceed is to assemble as much evidence as possible that illustrates leadership, and show how it contributed to the final result of reform adoption. In doing so, showing the (relative) absence of alternative explanations strengthens the argument about IL.

IL and the 2001 Pension Reform

directed more at policy stakeholders and the public than the SPD party faction, a fact which did not help a smooth debate between the ministry and the coalition parties. The evidence for this strategy can be seen to back up the findings about Riester being an ideational leader in terms of the first two aspects of the IL concept.

The evaluation of the Minister's political orientation and role suggests that he brought a policy-oriented approach to political office, hoping to make a difference to policy-making by staying true to his own principles and, by extension, policy ideas. At the same time, despite a fair amount of criticism about his style of handling the reform process and in the knowledge of the Chancellor's backing, he carried on with his plans, determined to bring the project to a conclusion, which testified to his leadership capabilities. The impression his role in the process left on others was one of leadership expressed in terms of steadily defending the core of his proposals, while being forced to accommodate various demands in the course of the same process: this he did by way of concessions to the trade unions, the opposition, and last, but not least, to the coalition's parliamentary parties.

As this limitation on Riester's leadership already indicates, of the two alternative strategies, concession-making was important to calm the demands of critics in the pre-legislative and the legislative phase up to the final compromise reached by the Mediation Committee in May 2001. From the review of decisive factors contributing to the finalization of the reform, those concessions also emerged to be relevant. At the same time, it suggested that reform critics realized that the draft bills were not going to introduce a complete make-over of German pension arrangements, but were an attempt to make state pensions more sustainable in the future, which is consistent with the message Riester had been spreading from the outset of the reform plans. Considering all the evidence together, it is fair to conclude that IL and concession-making were both important factors in finalizing the reform. The Minister was certainly forward-looking and idea-driven, as he defended his reform proposals with personal conviction and stamina and in this sense, the choice of the Chancellor for the trade union modernizer was probably a sensible one. Nevertheless, his personal attitude towards the practice of political power may have eventually caused him to clash with established political circles, complicating his task of steering the reform through the legislative process and gathering support for its adoption; instead, he watched his plan being watered down despite his attempts to keep it intact. To the extent that he had to make more and more concessions to critics as the process went along, his authority weakened somewhat, inviting additional demands. That loss of authority was surely also related to his decision to prepare the draft bill in the relative secrecy of the Ministry before going public, and to some miscalculations with respect to the scope of opposition his proposals would meet. Conceding these weaknesses, he sought to compensate for them by putting a lot of energy in persuading critics of the merits of his policy ideas and by showing remarkable stamina in the face of criticism.

The Importance of Political Consensus-Building: a New Aspect of IL

Finally, the results of the analysis pointed to a new aspect of IL that stresses the need for undertaking political consensus-building. The reason is that Riester's performance, in this respect, was found to be lacking and it is plausible to suggest that a systematic focus on activities linked to this aspect could have aided the adoption of far-reaching reforms. In what ways did this deficiency show? Admittedly, the Minister preferred to keep away from 'political games' and was inclined towards preserving personal integrity in political disputes (Riester 2004: 94-95). However, this does not mean that he did not sense the importance of winning over political opponents to support his proposals: at some points in the reform process his actions demonstrated that he saw the need to engage in political consensus-building in order to bring his reform project to completion. During the difficult period in the autumn of 2000, when the reform legislation was still at its

Chapter 5

drafting stage and Riester saw himself faced with day-to-day complaints from societal associations (including the trade unions) that were readily backed by the CDU opposition, he sensed that

This moment was critical for the reform. Our plan could only be saved if we could take away the Union's (i.e. the Christian Democrats) "sounding board" of societal associations in order to end the public discussion on possible details of the reform. This, in turn, meant to quickly present a legislative draft and to persuade the trade unions to support its provisions (ibid: 154).

At that moment, Riester thus thought actively about accommodating the trade union's demands in order to increase overall support for the proposals. He also tried to convince the speaker for social policy issues in the SPD parliamentary group, Ulla Schmidt, that only after getting the trade unions on board could a viable agreement be reached. However, renewed union demands and lobbying efforts of the VDR to scrap the unpopular adjustment factor escalated the situation and thwarted Riester's plans. To make matters worse, the SPD parliamentary party had decided to offer the unions a compromise without consulting Riester beforehand.

This course of events has shown how important political consensus-seeking attempts can be in achieving a final result on reform, and that the lack of success of such a strategy can at least hinder or delay such a result. In Riester's case, he seems to have underestimated the amount of support he would need to speedily conclude the reform process. While Riester did pursue an agreement with the trade unions (after attempting to find a basis for early consensus with the opposition), he apparently neglected to build bridges within the parliamentary parties of the Red-Green coalition, whose support he seemingly took for granted. Thus, his efforts at consensus-seeking remained in this respect deficient.

5.6 Conclusion

In this chapter, I have described and analyzed the process leading to the 2001 pension reform initiated by Minister of Labour Walter Riester. This significant reform ended the one-pillar structure of German pension arrangements, introduced a second privately financed and state-subsidized element, and strengthened the third, company-based element of pension provision. Section 5.2 has clarified why I consider this reform to be structural in character with reference to its changes in financing, benefits, and regulation, and outlined the parameters of the political process by looking at its chronology, the main actors and their policy positions. Section 5.3 has revealed that considerable opposition - both inside and outside parliament - had gathered in response to Minister Riester's initial reform proposal, and needed to be addressed by those who advocated the reform. Despite several changes to the proposal, and various concessions on the part of the Ministry towards resisting actors (opponents within the SPD, the CDU and trade unions), Riester nevertheless managed to preserve some innovative features of the reform when it was finally adopted in the spring of 2001. A combined analysis of documents and interviews has shown that the Minister may be described as an ideational leader on the basis of four initially formulated aspects of IL. Nevertheless, he failed to pay due attention to the need for consensus-building with all relevant critics including his opponents in the SPD. This was a mistake which made the reform process, from his perspective, more difficult, but, more importantly, could not derail it completely. At the same time, although he had the credentials of an ideational leader, he also needed to make considerable concessions to reform critics: ignoring their demands completely would not have resulted in the desired adoption of the reform.

IL and the 2001 Pension Reform

Two main lessons can be learned from this analysis: firstly, the first three aspects associated with IL can indeed be found in the political communication efforts of a key policy-maker who, in the final analysis, managed to adopt a structural reform. In addition, Riester's political motivation corresponded to a policy-seeking orientation. Secondly, the IL hypothesis has helped to shed light on how the reform was brought to a successful conclusion. However, in the face of compelling political-institutional obstacles, Minister Riester, with the consent and backing of Chancellor Schröder, also had to make concessions in order to accomplish a final breakthrough. Therefore, Riester's ideational leadership was but one of at least two factors to explain this particular structural reform. In terms of refining the IL concept, the evidence of Riester's failure to engage sufficiently in comprehensive consensus-building, suggested an addition to the IL concept, that is, the aspect "efforts at political consensus-building". At the same time, other aspects, such as "discarding the status quo" should be interpreted in a slightly different way. For instance, IL is essentially innovative in character, but does not necessarily imply that the policy status quo needs to be discarded completely. Regarding the latter, the study of the Riester pension reform demonstrates how a key policy-maker may carry out innovation by advocating new elements that address pressing problems, while preserving more traditional and still appreciated elements of existing policy.

Chapter 5

6. Hartz IV: IL Leading to Structural Reform in Labour Market Policy?

6.1 Introduction

The analysis of the Riester pension reform has demonstrated that the responsible Minister showed characteristics of ideational leadership (IL) before that reform was adopted. However, as explained in the methodological chapter (Chapter 3), this finding needs to be corroborated by further evidence. To this end, I will look at the case of a second structural reform to see whether IL also played a prominent role there. After having covered the area of pension policy, I will proceed to analyze another key social policy area that has also recently seen a structural reform: unemployment insurance.

My second case centres on the 4th Law on Modern Services on the Labour Market, also known as “Hartz IV”, which came into effect on January 1st, 2005. The unofficial name of the reform may be traced to Peter Hartz, the former director of human resources of Volkswagen AG, who headed the government-appointed ‘Commission on the Modernisation of Labour Market Services’ in the spring of 2002. The recommendations made by the Hartz-Commission were transformed into four laws (called Hartz I through to Hartz IV), which were passed between December 2002 and December 2003. Most measures contained in these laws were related to active labour market policy, but their most controversial elements brought major changes to the schemes of unemployment protection. These changes were: drastically shortened duration of insurance benefits; tighter requirements for the unemployed to accept suitable jobs; simplification of insurance regulations; wage insurance for older unemployed workers; and the merger of unemployment assistance and social assistance (Reissert 2005). It is this last reform that will be analyzed in this case study.

The remainder of the chapter is structured as follows. Section 6.2 explains why Hartz IV qualifies as a structural reform and will introduce its main provisions. Section 6.3 provides a summary of the process leading to the concrete reform proposal, its acceptance by parliament, the positions of political and other important actors, and important events in the reform process. By combining information on the contents of the reform and the political process, the reader should be well equipped for the analysis in Sections 6.4 and 6.5. Section 6.4 sheds light upon the question whether IL, in its different aspects, was shown by Minister Clement (6.4.1), and how his role related to other important “reform-promoting” actors (6.4.2). Finally, Section 6.5 explores why the proposal for Hartz IV eventually became law and to what extent IL influenced the process.¹⁸³

¹⁸³ Former Minister Wolfgang Clement endorses the reconstruction of the reform process in this chapter. Furthermore, he stated that he had fully identified himself with the greater project of comprehensive labour market reforms including Hartz-IV. From his perspective, the negotiations aimed at reaching a final compromise on Hartz IV had been extremely difficult, but at the same time, the December 2003 compromise had been vital to make the reform happen (personal communication, 22.11 and 28.11.06).

6.2 Features of Unemployment Insurance and the Hartz IV Reform

This section provides necessary background knowledge for understanding the system of German unemployment insurance and for seeing why the Hartz IV reform radically broke with some of its foundations.¹⁸⁴ Moreover, by explaining the structural character of the reform, I will make clear why Hartz IV is a suitable case.

In the post-war German welfare state, unemployment protection was provided within a two-pillar system consisting of unemployment insurance (*Arbeitslosengeld*) and unemployment assistance (*Arbeitslosenhilfe*). From the 1960's onwards, the system was complemented by the scheme of social assistance (*Sozialhilfe*), which provided a guaranteed minimum income available to anyone in need, no matter whether someone was available (as a registered unemployed person) to the labour market, or not. The table below illustrates the basic characteristics of this *de facto* three-pillar structure:

Benefit	Unemployment Insurance	Unemployment assistance	Social assistance
Entitlement	After 12 months of insured employment during previous 3 years	After exhausting entitlement to unemployment insurance when still unemployed	All persons in need irrespective of status on labour market ¹⁸⁵
Financing	Insurance contributions	Taxes (federal Government budget)	Taxes (Local Government budgets, but regulated by federal law)
Level	Percentage of previous net earnings, not taxed	Related to previous net earnings + means-tested	Flat-rate amount for each member in household + cost of housing
Character	Earnings-related	Earnings-related + means-test	Flat-rate
Maximum duration	Dependent on length of previous employment and age	Initially granted for one year; in principle indefinitely as long as qualifying conditions persist	Indefinitely as long as individual need persists

Table 6.1: Comparison of the three benefits before the Hartz IV reform (Jantz 2004)

During the 1970s and 1980s, local government budgets were increasingly strained due to mass unemployment and cutbacks in the first and second pillars of unemployment insurance. This process, called the ‘municipalization of unemployment’, left local governments with the administrative and financial responsibility for the increasing number of unemployed (Hanesch 1987 cited in Reissert 2003: 2.1). Studies have confirmed that a relationship exists between the

¹⁸⁴ The information contained in this paragraph follows Reissert’s overview of the German system of unemployment protection (2005).

¹⁸⁵ If household income from all sources (including unemployment insurance or assistance) is below minimum level, the gap will be covered by social assistance.

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

rise in unemployment, the rise in social assistance expenditure, and the decline in investment expenditure in local governments (Seitz and Kurz 1999 cited in Giaimo 2002). The tendency of the different pillars to shift responsibilities for benefit recipients back and forth between them (see Section 6.3 for a short summary of this problem) has helped to contribute to a growing consensus in the 1990's that the co-existence of the three programmes was undesirable and fraught with problems. Moreover, during the 1990's, German unification and massive shifts in the East German labour market contributed to successive, yet in character incremental reforms of the unemployment benefit schemes. Since the mid-1990's, job-seekers' obligations to look for work, to accept job offers and placements in activation programmes and sanctions for non-compliance, have been extended in both the unemployment benefit system and the social assistance system (Webber 1989; Gerlinger 2003:293). These reforms proved to be detrimental to the social assistance scheme. One of them was a reform limiting a certain sub-type of unemployment assistance, which implied cutbacks in the federal budget, which were compensated by rising expenditures of local governments and the *Länder* (Karr et al. 1993a cited in Perschke-Hartmann 1994). Despite these intensifying pressures within the three-pillar structure, no comprehensive reform had been attempted in tackling these problems. In 2003, the Hartz IV proposal was the first attempt to do so.

The core of the Hartz IV law is the merger of two different benefit schemes, creating one new scheme to provide a "secondary unemployment benefit" (*Arbeitslosengeld II*, or short ALG II). This new scheme, effective as of January 1st 2005, provides a means-tested benefit for households of registered unemployed who do not qualify for unemployment insurance benefits. The benefit level equals the level of ordinary social assistance, which grants a guaranteed minimum level of income defined as a flat-rate amount plus the cost of housing.¹⁸⁶ One notable exception is that people, who claim the new benefit after the end of their entitlement to unemployment insurance (and would have otherwise been able to claim unemployment assistance), receive a degressive supplement in order to compensate for the difference between the insurance benefit and the new benefit.¹⁸⁷ As with unemployment assistance and social assistance, the new benefit is granted for an indefinite time, as long as claimants fulfil the qualifying conditions of unemployment and individual need. ALG II is financed from the budget of the federal Government and administered jointly by the FEA's local labour offices and local authorities' social assistance offices under the FEA's general responsibility (*Trägerschaft*). As with unemployment assistance (but unlike social assistance), those entitled to the new benefit are also covered by the statutory pension, health insurance and invalidity schemes; the costs for this are borne by the federal Government.

In addition to the merger, the Hartz IV reform has also tightened requirements for the unemployed with respect to their obligation to accept suitable job offers. Firstly, people eligible for the new benefit must in principle accept any job offer (with exceptions): a job offer cannot be refused on the grounds of being incommensurate with former employment and training, longer travelling time or more unfavourable conditions of employment.¹⁸⁸ Secondly, while the Hartz I law had already reversed the burden of proof for the acceptability of job offers for unemployment

¹⁸⁶ This amount is currently € 345 per month for the first adult in a household in the Western *Länder* and € 331 in the Eastern *Länder*, with dependents receiving lower amounts. These amounts slightly exceed the flat-rate amounts for social assistance because it includes lump-sums for specific needs that are paid on an individual basis to social assistance recipients.

¹⁸⁷ This supplement covers a maximum of two thirds of the difference between the two sorts of benefit, with a maximum of € 160 per month. It is reduced by half after one year and is phased out after two years of claiming the new benefit.

¹⁸⁸ See corresponding paragraph 10 on acceptability of work, BGBl I Nr.66 (2003), S.2954, § 10 (2).

Chapter 6

insurance benefits,¹⁸⁹ Hartz IV introduced even tighter sanctions for those who refuse job or training offers, especially for the young. For example, adult recipients of ALG II who refuse such offers are subject to a 30 percent reduction in the flat-rate benefit; while recipients under the age of 25 are disqualified from the benefit (with the exception of housing costs).

In terms of numbers of recipients before Hartz IV was enacted, the status quo situation presented itself as follows: in mid-July 2004, 2,26 million persons received unemployment assistance, while there were 1,1 million households (in 2003) with social assistance recipients, alone or with dependents. At the time of the launch of ALG II, estimates on the number of new benefit recipients in 2005 amounted to a total of 2,66 million eligible households (referred to under the new rules as *Bedarfsgemeinschaften*), comprising a total of 5,371 million people, out of which 3,659 million were considered to be available for work.¹⁹⁰

How many of those entitled to the new benefit would gain financially compared to the situation before the reform? In general, the expectation was that most former social assistance recipients would slightly benefit or see their position unchanged, while most recipients of unemployment assistance would, on the whole, lose at least some of their entitlements. The table below shows estimates as of mid 2003.

June 2003	West in millions	in %	East in millions	In %	Total in millions
Recipients of unemployment assistance	1,087	100	0,967	100	2,054
post-Hartz IV situation of recipients					
no entitlement	0,217	20	0,348	36	0,565
less benefit	0,554	51	0,425	44	0,979
about the same	0,120	11	0,06	6	0,180
higher benefit	0,196	18	0,135	14	0,331

Table 6.2: Consequences of Hartz IV

(source: *DGB-Informationen zur Sozial- und Arbeitsmarktpolitik 1/2004, p.5*)

The Structural Reform Qualities of Hartz IV

Which of its characteristics makes Hartz IV a structural reform? First of all, the reform constituted a major change of the benefit structure of German unemployment insurance. It created a clear two-pillar benefit structure in the system of unemployment insurance (based on unemployment benefit and ALG II), and therefore ended the *de facto* three-pillar structure. The latter came about due to the social assistance scheme increasingly being used by the unemployed (Reiners 1993; Hinrichs 1994),¹⁹¹ while it was originally intended as a last resort for those in need and unable to work. As

¹⁸⁹ Previously, the FEA had to prove in court cases that a certain job was suitable and acceptable for an unemployed person. Hartz I laid the burden of proof with the unemployed: any job offer is regarded to be acceptable and refusal to accept it means to be disqualified from unemployment insurance benefits for a certain period.

¹⁹⁰ The data were given in a talk given by Marc Heinrich, BMWA, titled *Die Grundsicherung für Arbeitssuchende (SGBII)*, 28.01.2005, Berlin.

¹⁹¹ Since the mid-70s, social assistance expenditure has risen much more rapidly than other categories of social spending and, notably, other local government expenditure. These large increases have mostly been caused by mounting

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

Hartz IV thus merged two forms of benefit into one, it simplified the existing system, but the shift in the benefit structure also had a second component, namely a change in eligibility rules: the new benefit ALG II is granted only after a means-test, in contrast to unemployment assistance, which was a hybrid between an insurance-based and a means-tested benefit.

Secondly, concerning the financing structure, although on the face of it the source of financing seems unaltered, important changes have been made: the new benefit is in principle tax-financed (from the federal budget), just like the former unemployment assistance benefit. However, in the course of parliamentary proceedings, it was agreed that local authorities were going to finance some items that are paid on top of the flat-rate benefit, i.e. costs for housing and heating (Giaino and Manow 1999). In fact, the benefit is co-financed by the federal Government and local authorities.

Thirdly, the management structure of the new scheme is clearly different from the ones for unemployment assistance and unemployed social assistance recipients. In contrast to the original plans of the Government, which envisaged a “centralistic” organization under the FEA’s auspices (which would in itself have implied a change in management structure), Hartz IV provides for a rather complex cooperation between the local offices (*Arbeitsagenturen*) of FEA and local authorities in the form of local consortia (*Arbeitsgemeinschaften*). The exceptions to this are 69 local governments (*Optionskommunen*), which are going to administer and support the recipients of the new benefit without any involvement from the FEA.

Given the long phase of immobility in the *de facto* three pillar system, the question arises as to how much political and societal resistance confronted these changes when the first serious reform plans took shape. Ironically, the changes in terms of organization or management were a greater source of controversy than those connected to the actual merger of the two benefits. The latter was regarded, with the benefit of hindsight, as a very logical step, yet a step many politicians had not dared to take only few years earlier, that is, during the first Schröder Government. As a SPD MP remarked:

The idea of merging the two systems is not new, but revolutionary, one of the largest reforms in German social policy ever. This is why we first had to muster the necessary courage to bear the resulting conflict; we did not dare to tackle the issue immediately (Interview, 25.01.05).

After this outline of the status quo in German unemployment insurance and the structural changes of the Hartz IV Law, I will now turn to the reform process.

6.3 The Reform Process: Chronology, Actors and Policy Positions

It is impossible to give an account of the Hartz IV reform without mentioning the developments that contributed to its placement on the political agenda of the Schröder Government. The current section will outline the chronology of the reform process, beginning with its agenda-setting phase, and, subsequently looks at the legislation-building and decision-making phases. Although, in accordance with the research design, the analysis of the case ends with the final decision by

unemployment (Reissert 1998). In 2001, more than 40 percent of all claims to social assistance were caused by registered unemployment, amounting to € 3 billion of the € 7 to 8 billion spent by local governments on this benefit (Gemeindefinanzreformkommission 2003).

Chapter 6

parliament, one sub-section (6.3.2) is dedicated to the events after formal decision-making, as they are relevant for the final shape of the reform.

6.3.1 The Chronology of a Merger Project

The first Red-Green coalition agreement of 1998 included a declaration of intent to improve cooperation between the local offices of the FEA and social assistance offices. This approach led to the initiation of an experiment with 30 pilot cooperation projects at local level under the acronym “Mozart”, which was considered reasonably successful.¹⁹² In the spring of 2002, a scandal involving the FEA and its job placement statistics came to light, prompting the Schröder Government to rethink the internal organisation of the agency. The political answer resulted in the appointment of a commission, chaired by Hartz, with a mandate to work out a blueprint for organizational reform of FEA, as well as other instruments of labour market policy. This mandate also included developing the organizational aspects (excluding finances) of a future merger of unemployment assistance and social assistance (Brandhorst 2003:39).

The commission’s report was released in August 2002, just before the federal elections scheduled for September, and it drew massive attention from the media and the public. Chancellor Schröder earned much political credit by committing himself, in case he was re-elected, to implement the proposals of the Hartz report ‘on a one-by-one basis’ (*Eins-zu-Eins Umsetzung*). The merger of unemployment assistance and social assistance was firmly put on the Government’s political agenda. However, it took yet another year (until August 2003) before the Cabinet approved and presented a draft bill to parliament.

Between 2002 and 2003, extensive preparations had begun - on different levels - to establish a definite legislative basis for the merger. A special working group of the Commission for the Reform of Communal Finances (*Gemeindefinanzreformkommission*) was given the task of making suggestions for the financial relationship between the federal, *Länder* and communal level regarding Hartz IV. By early 2003, polls indicated that the SPD was steadily losing popularity, while unemployment continued to rise. Because of these developments, and in reaction to the accusations by the media of “twiddling his thumbs”, Chancellor Schröder sought to renew his image as a reformer by announcing a comprehensive reform programme titled *Agenda 2010* in March 2003. The merger of unemployment assistance and social assistance formed part of this ambitious and contentious programme, and was backed by an important financial pledge directed at financially weak local authorities. The merger plan also appeared promptly in Minister Clement’s implementation schedule of *Agenda 2010*. Subsequently, the process of working out the details of a draft bill was carried out by a coalition working group with the participation of officials from the Ministry of Economics and Labour Affairs (BMWA). Drawing on the proposals from the Hartz-Commission and the recommendations made by the respective working group of the Commission for the Reform of Communal Finances, its task consisted of working out the details of the draft bill in order to enable, at a later date, a smooth passing by parliament.

The core points of the Government’s draft bill included the following: the new ALG II benefit was to be based on a level similar to social assistance; benefit recipients were to turn to and receive support from local job centres, and the FEA was to bear overall responsibility, both financially and organizationally, for these local offices. Concerning the issue of acceptability,

¹⁹² Presentation ‘Die Grundsicherung fuer Arbeitssuchende (SGBIII)’, Referat II B4 Grundsatzfragen des SGBII, BMWA, Berlin, 28.01.05

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

recipients had to accept any job offered to them. The citation below from a high-ranking ministry official illustrates the underlying philosophy of the Hartz IV reform, which went further than just merging two systems:

The object of the 4th Law for Modern Services on the Labour Market is the merger of unemployment assistance and social assistance with a new, need-oriented and means-tested benefit for people available for work. In doing so, measures that promote reintegration in the labour market have to take preference over benefits enabling reasonable maintenance. Taking up paid employment is going to be promoted by integrative measures and incentives. Those who work will have more money at their disposal than those who do not work despite being available for work.¹⁹³

In September 2003, the parliamentary readings of the draft bill began, and despite the fact that 80 to 90 percent of the initial text could be found back in the final version (Interview BMWA official, 28.01.05), the remaining contentious points made for very difficult negotiations. In November 2003, the *Bundesrat*, by adopting a rival concept launched by the CDU-led *Länder*, rejected the Government's draft, which started the proceedings of the Mediation Committee. A month later, just before Christmas, the committee reached a compromise based on a settlement on the acceptability criteria for the unemployed, and the organizational consequences of the Hartz IV reform. The compromise was reached under considerable media attention and public interest, and only after the personal involvement of the main party leaders. In addition, it came about as a result of behind closed-doors horse-trading, as a whole range of reforms was included in the same mediation procedure.¹⁹⁴ The compromise included the general responsibility for the support and attendance of beneficiaries of ALG II to be taken over by both the FEA and local governments (towns and municipal bodies). To realize this solution, so-called local consortia (*Arbeitsgemeinschaften*) were to be established to take over local service provision. The financial responsibility for the benefit and administrative costs were borne by the FEA (thus by the federal budget), while local governments took over costs for housing and heating and some other items paid on top of the flat-rate amount of ALG II. The provisions with regard to the acceptability of job offers were again amended,¹⁹⁵ returning to the original formulation of the Government draft; in principle, the unemployed were now expected to take up any job offer they received in order to avoid being disqualified from the benefit.¹⁹⁶

However, this compromise did not mean that the reform was swiftly concluded. On the contrary, its complete adoption required a second parliamentary process through which the details of the agreed form of cooperation between FEA and local authorities had to be clarified. What is more, the possibility of an "opt-out" from this cooperation for local authorities had to be clarified and made into law. Given that agreement on these points was far from certain from the outset, it took another six months (and another mediation procedure), until the *Bundestag* passed the follow-up law to Hartz IV, the so-called *Kommunales Optionsgesetz (KOG)* on July 2nd, 2004 (see for an overview Perschke-Hartmann 1994). This final compromise, which settled the details of the

¹⁹³ Letter of BMWA parliamentary secretary Gerd Andres to the parliamentary parties of the Government coalition, 26.06.2003

¹⁹⁴ These included very diverse issues such the Hartz III-reform (organisational reform of the FEA), the loosening of labour law regulations such as dismissal laws and the law on collective agreements, the loosening of the regulations on crafts and trades, and a range of reforms related to taxation, e.g. bringing forward a planned income tax relief for citizens by one year.

¹⁹⁵ By way of a parliamentary amendment, reform critics had succeeded in declaring work unacceptable that 'is not paid according to the applicable collective agreement or, when this is lacking, according to what is paid according to local conditions'. This clause had been inserted in order to avoid downward pressures on salaries.

¹⁹⁶ Beschlussempfehlung des Vermittlungsausschusses, *Bundestag-DS* 15/2259, 16.12.2003.

Chapter 6

implementation of Hartz IV and concluded the reform process, stipulated the inclusion of an experimentation clause, as well as an agreement on splitting costs between the federal Government and local authorities. Concerning the former, 69 local authorities were offered the opportunity (for an initial period of six years) to opt out of the local consortia-model and provide services to the long-term unemployed. In terms of financing the new benefit, the federal Government would cover the ALG II benefit and its administration, while local authorities would bear the costs for housing and heating.¹⁹⁷

6.3.2 Reactions to Hartz IV Beyond the Parliamentary Process

Once the legislative work was finished, the Government still could not lean back and prepare quietly for the official introduction date of the new benefit on the 1st of January 2005. Following the distribution of application forms and increased media coverage of the practical details and possibly negative implications for potential recipients of ALG II, Schröder and Clement were confronted by a wave of recurring demonstrations (dubbed *Montagsdemonstrationen* by the organizers in an analogy with the famous demonstrations of the East Germans in 1989), which drew most of their support in Eastern Germany. Although the protests, which started in August 2004, died out after several weeks, they had two main effects. Firstly, although Minister Clement repeatedly insisted on carrying out the reform as parliament had passed it, the Government reacted with a few minor corrections to the timing of payment of ALG II (which was brought forward), and the rules regarding the amount of assets recipients and their children were allowed to have. Secondly, in reaction to these protests, the responsible Ministry stepped up its public communication efforts to combat misinformation, which thrived on the distortion of reform consequences by the media. Consequently, the street protests lost their momentum. As a trade union official remarked:

The public relations and communication deficit became painfully clear: the Monday demonstrations can be explained by a lack of communication by the Government and the media in equal measure. Therefore, fears were allowed to build up although not all of them were justified (Interview DGB official, 03.02.05).

A SPD parliamentarian who accused the media of a ‘merciless and organised campaign against Hartz IV’ observed that after the compromise was reached in July 2004, the media changed its attitude and journalists tried to achieve a better balance in reporting on the reform. He suspects that ‘the turnaround only happened following the Federal Press Office’s launch of a large advertising campaign informing about Hartz IV’ (25.01.05). Interestingly, Minister Clement himself, though several months later, admitted in an interview that communication deficits played a role in relation to Hartz IV by remarking that ‘in terms of communication, this one obviously was not a masterstroke’. Only a day later, Schröder made it clear in another interview that Clement was the one to bear the responsibility for the recent labour market reform, including Hartz IV.¹⁹⁸ Some press observers were quick to interpret this statement as the Chancellor distancing himself from his Minister. Despite the rather hasty implementation of the administrative infrastructure needed to implement the compromises of December 2003 and June 2004 (and continued media

¹⁹⁷ This may seem an odd construction in practice but reflects the Government’s willingness to accommodate the wishes of local governments. The compromise also entailed a financial concession by the federal Government: It would bear 29,1 percent of local government costs, resulting in a predicted financial relief of € 3,2 billion.

¹⁹⁸ ‘Schröder: Clement für Erfolg von Hartz IV verantwortlich’, *Frankfurter Allgemeine Zeitung*, 29.12.2004, p.2

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

focus on the expected delays and problems with the implementation), most of the new ALG II recipients did receive their first benefit on time in January 2005.

Table 6.3 gives an overview of the Hartz IV process:

Date	Event
October 1998	1 st Red-Green Coalition agreement envisages 'cooperation between employment agencies and social assistant offices'
February 2002	Scandal surrounding statistical reporting of Federal Employment Agency (FEA)
March 2002	Hartz-commission takes up work
August 2002	Hartz-commission publishes final report; Chancellor Schröder pledges to implement report 'point for point' in case of re-election in September 2002
September 2003	Red-Green Government re-elected, Wolfgang Clement becomes head of newly created Ministry of Economic Affairs and Labour
March 2003	Schröder announces Government programme Agenda 2010, containing merger as one of the reform projects
April 2003	Commission on reform of communal finances presents final report (included a sub-group on financial implications of merger project)
June 2003	Red-Green coalition working groups presents cornerstones for concept bill
August 2003	Cabinet decides on concept bill
September - October 2003	Readings of the bill, bill agreed upon by the Bundestag
November 2003	Bundesrat adopts rival bill backed by CDU-Länder, Mediation Committee begins work
December 2003	Compromise reached in the Mediation Committee, bill finally adopted by the Bundestag
January - June 2004	2 nd parliamentary process of 'communal opt-out bill', culminating in another conciliatory process
August 2004	Popular protests (mostly in East Germany) against Hartz-IV effects; some minor changes to the law
January 2005	Hartz IV becomes effective

Table 6.3: Important events in the Hartz IV political process, source: own compilation

6.3.3 Principal Actors in the Reform Process and Their Policy Positions

It goes without saying that the process described above can be understood better with knowledge about the main actors and their positions and/or orientations with regard to the reform proposals. Therefore, this section illustrates the political context of the reform, showing what kind of reform resistance the Government was confronted with. The positions of important actors are presented below, focussing on the Government, the main political parties, local authority associations and trade unions.

Chapter 6

To begin with, some introductory remarks on the degree of controversy about the Hartz IV reform are in place. At the time of political agenda-setting, which coincided with the release of the Hartz-proposals, the main political parties had agreed on the general need for the reform. In the debate on negative consequences of parallel systems, involving politics and policy experts alike, major arguments towards bringing an end to the coexistence of unemployment assistance and social assistance for the unemployed were (Webber 1989):

- the administrative costs due to the coexistence of two bureaucracies: the FEA with its local net of labour offices, on the one hand, and the social assistance offices of local governments, on the other;
- the creation of a separate system of active labour market measures for social assistance recipients at the local level (access to similar measures of the FEA is usually restricted to recipients of unemployment insurance or assistance);
- the fact that the unemployed claiming social assistance and unemployment benefits needed to deal with two different administrations and legal frameworks;
- and the tendency of each of the two systems to shift benefit recipients to the other system, the so-called 'shift-yard' problem (*Verschiebebahnhofe*), most visible in the case of local governments, which established job creation programmes for social assistance recipients in order to provide them with new entitlements to unemployment insurance.

Nevertheless, agreement on the goals of reform and its underlying necessity does not imply agreement on the means and instruments in reaching these goals. In this respect, Hartz IV caused strong disagreement between the major political parties on the administrative details of implementation.

The Government, that is, Minister of Economic Affairs and Labour Clement, with the backing of Chancellor Schröder, championed the merger of the two benefit systems. This specific reform project was an integral part of Schröder's *Agenda 2010*. While Schröder had endorsed the proposals of the Hartz-Commission concerning a merger with his implementation pledge in the run-up to the federal elections, Clement assumed political responsibility for the preparatory work, the legislative process and subsequent implementation of the reform after he had taken up his post in October 2002.

The parliamentary parties of the Red-Green coalition stood largely behind the bill they had helped to prepare, by way of a coalition working group with some participation from the Ministry. In terms of content, they favoured moderate incentives for the unemployed to take up work (acceptability criteria), and were in favour of the FEA to take on responsibility for new beneficiaries, in terms of financing and job placement/support. While the parliamentary party of the Greens rallied behind the coalition proposals, the Social Democrats faced more opposition within their own ranks. This was not surprising, as the party was undergoing a lengthy process of coming to terms with the whole catalogue of measures announced in Chancellor Schröder's *Agenda 2010* in the spring and summer of 2003.

There was a process of polarization, fuelled by the announcement of *Agenda 2010* which would cost us, the SPD, a lot of energy. We had started an intra-party dialogue which was risky and which indicated that we had to pay a high price for the reform (Interview SPD MP, 25.01.05).

Against this background, left-wing Social Democrats opposed the merger because they feared a spiral of retrenchment of social protection.

The Christian Democratic parties (CDU/CSU) and the Liberals (FDP) formed a conservative-liberal front against the Government's proposal. In terms of the regulation surrounding the benefit,

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

they pushed for stricter demands on the unemployed to take up work (reasonability criteria), and for additional incentives for recipients to earn extra money. Also, from the outset they pleaded for the ALG II benefit to be set at the level of social assistance, a position that was also embraced by employers' associations and economic research institutes, which claimed that the level of social security benefit defines the minimum salary at which unemployed persons are willing to take up work. Both hoped that a lower level of social security in the case of unemployment – combined with the obligation to also accept lower paid work – would lead to an expansion in the low-wage sector (Perschke-Hartmann 1994:42-43). For ideological reasons, both Christian Democrats and Liberals tended to subscribe to those ideas. They were applied in a CDU draft for the so-called *Existenzgrundlagengesetz* that offered an opposition alternative to the Government's draft bill, and associated with the CDU Prime Minister of Hesse, Roland Koch. The position of conservatives and liberals regarding the organisational and financial design of the reform was a lot more consequential: they squarely opposed the Government position by demanding that the competence for support of long-term unemployed should be transferred to local authorities alone. In their view, they were much better suited to carry out the tasks of job placement and support of ALG II recipients. The main arguments given were greater flexibility and proximity as well as familiarity with local conditions of unemployment. In this position, they saw themselves backed by the DLT (*Deutscher Landkreistag*), one of the local authority associations (see paragraph below) and the German Council of Economic Advisers (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*) (Bandelow 2006).

As far as societal actors were concerned, local authority peak associations, *Deutscher Städtetag* (DST), *Deutscher Landkreistag* (DLT), *Deutscher Städte- und Gemeindebund* (DSGB) were important in as much as they were directly affected by the administrative-organizational aspect of the reform. The interests of these organisations were quite diverse: while large towns and cities were eager to transfer their responsibility for the long-term unemployed to the FEA, provincial authorities (*Landkreise*) mostly saw Hartz IV as a chance to take over responsibilities from local FEA offices in order to ensure their organizational viability, which had come under pressure from several developments (Interview policy expert, FHTW Berlin, 21.03.05). Accordingly, the peak associations of towns and local governments, DST and DSGB, were pleading to hand over the responsibility for long-term unemployed to the federal Government and the *Länder*. In their words,

Labour market policy for the increasing number of long-term unemployed has to be coordinated with economic policy instruments and must not be left to local governments in the form of a new social benefit or social assistance as the last safety-net of social security.¹⁹⁹

On the other hand, the DLT position stressed that administrative districts (*Landkreise* plus '*kreisfreie Städte*') were well-positioned to carry responsibility for a uniform new system assisting the long-term unemployed. In addition, it reaffirmed the need to have this task financed in a solid way and secured under constitutional law.²⁰⁰ There is evidence to suggest that these associations lobbied the Government and the opposition parties so as to insure that their respective financial and organizational interests would be protected (Interview *Spiegel* journalist, 03.02.05).

¹⁹⁹ Letter of *Deutscher Städte- und Gemeindebund* and *Deutscher Städtetag* to Prof. Bernd Reissert, FHTW Berlin, 18.12.2002.

²⁰⁰ *Deutscher Landkreistag*: Arbeitslosen- und Sozialhilfe durch einheitliches Leistungssystem ersetzen! Pressemitteilung, 18.06.2002, source: <http://www.landkreistag.de>

Chapter 6

Finally, trade unions, represented by their peak organisation DGB, took an early stance against the Government proposals for Hartz IV. They were in fact opposed to the paradigm change from a salary-based to a necessity-based benefit for the long-term unemployed. In their view, the reform meant a change for the worse for the majority of long-term unemployed, bringing only slight improvements to a group of social assistance recipients and unemployed with very low incomes. In their view, these benefit cuts for many recipients of unemployment assistance (at the beginning of 2003, the means-test character of this benefit had been further strengthened) meant further social welfare cuts for this segment of the population and consequently, a loss of purchasing power in economically weak regions. What is more, the DGB saw the tightening of criteria for accepting work as a possible development towards a low-wage sector, which they rejected. The level of the proposed benefit, corresponding to the level of social assistance after a 2-year transition period, was also a point of contention. An earlier statement by the Chancellor (to the DGB federal congress) that the reform was primarily intended to effect savings on bureaucracy and not to lower the level of unemployment assistance, was still well-remembered. In short, in the DGB's view, the reform should be offering integrated support and services to the long-term unemployed instead of achieving cost savings reached at their expense.²⁰¹ After *Agenda 2010* had been announced in March 2003, the DGB mobilised its members to protest against what it saw as considerable social retrenchments, of which, although the only one, the Hartz-reform was an important measure. However, most of their substantial objections and offering an opposition alternative to the Government's draft bill. Other suggestions for the merger project, such as the benefit level and the acceptability criteria, were not taken up. In the view of the DGB, the fears and demands of the trade unions had been all but ignored by a Minister who seemed to be open for talks but did not deviate from his general reform line, thus escalating the situation between trade unions and the Government (Interview DGB official, 02.02.05).

The fact that Hartz IV was not discussed in isolation, but was seen by trade unions (and diverse social welfare associations and churches) in the context of a larger debate on the future of social security provision (*Agenda 2010*, health care and pension reform) hindered a pragmatic discussion, which the Government had hoped for. Instead, the arguments of diverse welfare-oriented interest groups against the plans were framed in polemic terms: by earmarking the new benefit as being a direct road to poverty, they accused the Government of impoverishing the unemployed and consolidating budgets at the cost of socially weak groups. Rather than acknowledging the Government's self-declared goal of improving job placement support for the long-term unemployed able to work, the criticism of these groups centred on the consequences of Hartz IV for the distributional goals of social policy.

6.4 Analysis Part I: Observing Ideational Leadership

This section constitutes the core of the case study, as it presents evidence from various sources in order to establish whether IL could be found in the process. With regard to evaluating theoretical perspectives that explain the realization of the reform, the goal of this analysis is twofold. Firstly, it needs to establish whether ideational leadership, as defined in Chapter 2, may be found in the

²⁰¹ Sozialabbau – DGB-Argumente gegen die Absenkung der Arbeitslosenhilfe auf Sozialhilfeniveau, *Einblick* 08/03, 28.04.2003, source: www.einblick.dgb.de

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

reform process, that is, one or several of its aspects (denouncing the policy status quo; introducing and defending new (cognitive/normative) policy principles; appealing to reform opponents to reconsider their resistance; building political consensus based on subject matter or content, not by tactical games). Considering that Minister Clement was the person to bear the final responsibility for this particular reform project, the following questions needed to be asked:

- 1) Did Minister Clement clearly reject the status quo in unemployment insurance/labour market policy (and its old policy principles)?
- 2) Did he clearly express and legitimize new policy principles, using cognitive arguments (related to problem-solving) and normative arguments (related to societal norms and values)?
- 3) Did he appeal to critics to give up their reform resistance?
- 4) Did he engage in political coalition-building in order to push through reform, based on an interest in reform content or did he engage in tactical games in order to keep his power (in accordance with aspects 4 en 5 of the IL framework)?

Secondly, the analysis tries to answer whether IL was indeed the crucial factor in the process (Section 6.4.4). This will be done by considering which strategies the Government followed and by asking what role Minister Clement played in the process. The approach followed here also explores the relevance of alternative explanations in dealing with reform resistance: 1) making substantial content-based concessions to reform critics and 2) ignoring or outmanoeuvring reform critics, in analysing the data collected on the case. The initial part of the analysis, however, focuses on assessing the behaviour of the main responsible political actor, Minister Clement, who was destined to play a leading role in pushing through the reform proposal after accepting his ministerial post in October 2002. Whether he did this in a way that matched my criteria of ideational leadership will be explored in the remainder of this section.

6.4.1 Rejecting the Status Quo?

After 2002, the status quo in German labour market policy had been increasingly seen as no longer tenable (Interviews Ministry official NRW, 21.01.05; SPD mayor, 31.01.05; policy expert IAB 08.03.05) and this realization coincided with a background of rising financial and economic problems. Against this general background, the status quo referred to in the first aspect of IL also relates to a specific problem within unemployment protection, recognized by policy makers and experts alike: the inefficient co-existence of the systems of unemployment assistance and social assistance. A party adviser gave her view on the roots of the problem in the following way:

Just like the proposals for conducting the merger, the problems have grown slowly. The unemployment assistance benefit and the practice of shifting individuals between this benefit and social assistance have not been created for ideological reasons, but in reaction to financial pressures (or incentives). Such systems often do not arise for pragmatic reasons but grow over time. The problem has long been criticized by policy experts and academics alike (Interview CDU/CSU party adviser, 01.02.05).

In short, the inefficiencies and deficiencies in terms of bringing benefit recipients back into paid employment, came to be recognized as a major shortcoming of the dual system in assisting the long-term unemployed and those without former employment, but, in principle, able to work. The Hartz-Commission expressed its dissatisfaction with the situation as follows:

The parallel existence of two social benefit systems leads to considerable administration efforts and intransparency in the support of beneficiaries as well as unnecessary obstacles for those affected. [...] A lack of coordination and responsibility concerning the efforts to integrate unemployed persons can slow down the

Chapter 6

process of placing people into jobs. In addition, there are cost-shifting effects between the funding bodies of the benefit systems (Hartz-Kommission 2002: 125-127).

With his pledge to implement the recommendations of the commission in case of re-election in September 2002, the Chancellor endorsed the questioning of the status quo and the proposals of the commission. When Minister Clement entered the newly formed Ministry of Economics and Labour, the whole of the Hartz proposals became part of his portfolio. He quickly identified himself with the reforms, including the merger project that was later to be known as Hartz IV. Rather than leaving his own imprint on his particular area of labour market policy by way of proposing alternative plans, he embraced the Hartz proposals as if they had been of his own making and started working on their legislative implementation (Interview *Spiegel* journalist, 03.02.05). Did the Minister, during this process, contribute to the questioning of the status quo in labour market policy?

Concerning the specific proposal on the merger of unemployment and social assistance, evidence exists that he had propagated a change of the status quo prior to the announcement of *Agenda 2010* by Chancellor Schröder. In a speech to the *Bundestag* during the debate of the first and second Hartz-laws, he had mentioned the project, presenting it within the totality of labour market reforms that originated in the Hartz proposals:

The third big step has already been announced: before January 2004 we must have overcome the parallel existence of unemployment assistance and social assistance and combined both in a new secondary unemployment benefit, as it is called in the concept of the Hartz-Commission.²⁰²

Asked about his own expectations for the year 2003, following the presentation of dire economic forecasts, he had pleaded for an activating employment policy in response, adding that:

We must achieve structural change in order to have more growth and employment. This cannot be accomplished without pain: with the planned merger of unemployment assistance and social assistance we will be faced with the task to bring 800.000 unemployed social assistance recipients back into employment.²⁰³

On another occasion, in a lengthy February 2003 interview with the weekly *Die Zeit*,²⁰⁴ Clement stressed:

What will be decisive is a fundamental turnaround: we no longer pay for unemployment but we place people into jobs. In this connection, we need a different conception of work in Germany, namely that work is a means through which the self-responsibility of the individual needs to be shown. And this turnaround will begin with young people.

In the same interview, when asked whether he was discouraged by recent political reactions to his earlier reform announcements in the area of dismissal protection, he revealed his general attitude towards the policy status quo:

²⁰² Speech of Minister Clement at the first and second reading of the Hartz I and II bills, 7.11.2002, source: www.arbeitsmarktreform.de/Arbeitsmarktreform/Navigation/Presse/, accessed 23.03.2005.

²⁰³ Interview with Minister Clement, *Welt am Sonntag*, 26.1.2003.

²⁰⁴ Interview with Wolfgang Clement, *Hamburger Zeit Matinee*, 16.02.02, source: http://zeus.zeit.de/text/politik/zeit_matinee_160203.

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

In order to make it clear: there must be no single instrument or policy relevant to the labour market which is exempt from a process of questioning, in the sense of whether it obstructs a positive development or whether it does not.

Following the announcement of *Agenda 2010* in March 2003, the Ministry's key points on the merger, contained in its implementation schedule, clearly highlight the main deficiency of the status quo and its goal, ending the inefficient co-existence of two benefits and two administrations for people who are threatened or affected by long-term unemployment.²⁰⁵ In a discussion with journalists on the roots of the German problem, about a month after the presentation of the Chancellor's reform programme, Clement clearly breaks with the past in labour market policy:

It is surely more important to know that we had the wrong recipes in labour market policy. We do know that today. We should have made sure, most of all, to place successfully the unemployed into jobs, to enable them to get back to work. Instead, almost everything revolved around rights of social protection which did not really protect but contributed to the continuation of social distress, namely unemployment.²⁰⁶

Later in 2003, while work on the draft bill was making progress, Clement continued to call attention to the errors made in the past, as he stressed in a *Zeit* interview, 'Basically, it is neither just nor reasonable to invest enormous sums, about € 30 million per year, to fight unemployment and still lack successes, as it is now. This is why we need to embark on a different path'.²⁰⁷ Equally, the preamble of the Ministry's bill presented to the *Bundestag* in September 2003 starts with a short summary of why the present state of affairs must not continue:

The Commission for Modern Services on the Labour Market (i.e. the Hartz-Commission) has made clear that the present parallel existence of two state-run benefit systems – unemployment assistance and social assistance for those able to work – is inefficient, intransparent and little citizen-friendly.²⁰⁸

In his parliamentary speeches during the readings of the draft bill, Clement reiterated his need to reject the policy status quo:

The bills we have now introduced into parliament – for the third and fourth Hartz laws – open up the opportunity for the future *Bundesagentur für Arbeit* to act effectively and customer-oriented as the modern service provider on the labour market. They end – that is the core of the Hartz IV concept – the inefficient parallel existence of unemployment assistance and social assistance. We must bring an end to these two benefit systems, one on the local level and one on the federal level. We must also end the contradictions that exist between the two systems.²⁰⁹

At the bill's second and third reading, at a point in the process where the administrative and financial implications of the reform had gained prominence in the debate, he continued to remind his audience of the basic reason for their work:

²⁰⁵ BMWA (2003), *Umsetzungsfahrplan zur Agenda 2010 im Bereich Wirtschaft und Arbeit: Arbeitslosen- und Sozialhilfe zusammenführen*, p.9-11, source: http://www.arbeitnehmerkammer.de/sozialpolitik/doku/04_gesetze/gesetzgebung/2003/2003_04_08_agenda2010.pdf.

²⁰⁶ 'Wir sind am Anschlag', Interview with Minister Clement, *Der Spiegel*, 16/2003.

²⁰⁷ 'Die Zeit in der in Deutschland gewartet wurde, bis sich was bewegt, die ist einfach zu lang', Interview with Minister Clement, *Die Zeit* 30/2003.

²⁰⁸ *Bundestag-DS* 15/1516, 05.09.2003, p.1

²⁰⁹ Speech of Minister Clement at the first reading of the Hartz IV bill, *Bundestag* plenary protocol 15/60, 11.09.03, p.5106

Chapter 6

We must end the situation that, in Germany, two benefit systems exist next to one another: unemployment assistance as a welfare system of the state, and on the other, social assistance as a welfare system of the local authorities. These two systems have developed in parallel, are full of contradictions and sometimes work against each other. We must integrate them in order to finally work more systematically with one instrument that is geared towards all job seekers.²¹⁰

Even in his later parliamentary appearances, during the readings of the follow-up *Optionsgesetz*, Clement would not miss the opportunity of reminding his audience that the present situation had become intolerable:

Only by providing integrated support and measures we can avoid that long-term unemployed continue to be pushed back and forth between institutions and between the different social support programmes in Germany, as has happened much too frequently until now. In this matter, we have reached consensus.²¹¹

Clement's last speech in parliament during the whole of the Hartz IV process likewise paid attention to the fundamental reason for the reform:

To put it clearly: the merger of unemployment assistance and social assistance – that is what the *Optionsgesetz* is about – is long overdue. We have committed the mistake - for decades - of sustaining two social benefit systems, one state-run and one administered locally, alongside each other and in part against each other; at the least they were not sufficiently coordinated.²¹²

The previous examples of the Minister's efforts to reject the status quo illustrate that he consistently related the necessity for reform to the wrongs of the existing situation. A sizeable number of statements made in public, as well as appearing in documents drawn up by the Ministry, both before and during the legislative process of the Hartz IV reform, signal that Clement meets the criteria for the first aspect of IL, "rejecting the status quo". Although the Minister was neither the first nor the only politician to criticize the effectiveness of existing policies,²¹³ he was in the position to argue forcefully the case against the status quo, which he obviously did. Once the governing Red-Green coalition had reached a consensus on the need for merging the two systems, the focus of the reformists might have shifted: from convincing actors of the need to take legislative action to persuading them of the benefits of the particular approach chosen.²¹⁴ However, Clement's continuing references to the undesirable status quo, served as a consistent reminder of the cross-party consensus on the merger and the Government's resolve to finalize the reform, especially in the later stage of the legislative process, when the implementation of Hartz IV was at stake.

²¹⁰ Speech of Minister Clement at the second and third reading of the Hartz IV bill, *Bundestag* plenary protocol 15/67, 17.10.03, p. 5738

²¹¹ Speech of Minister Clement at the first reading of the *Optionsgesetz* bill, *Bundestag* plenary protocol 15/103, 02.04.04, p. 9350

²¹² Speech of Minister Clement at the 2nd/3rd reading of the *Optionsgesetz* bill, *Bundestag* plenary protocol 15/105, 29.04.04, p.9488-89

²¹³ The co-existence of several benefits had already been seen as problematic by opposition parties before the SPD-led Government took political action. Examples of this are a 2001 CDU/CSU discussion paper by the party's labour market policy speaker [Laumann, K.-J. (2001) CDU/CSU-Fraktion, Arbeit für alle: Wege zu einer neuen Sozialhilfe] and an unsuccessful motion submitted to the *Bundestag* in May 2001 [FDP-Fraktion(2001), Für eine sinnvolle Zusammenführung von Arbeitslosen- und Sozialhilfe, *Bundestag-DS* 14/5963].

²¹⁴ This also applied, for the most part, to trade unions, churches and social welfare associations. These contributed plenty of criticism on the details of the reform until it was fully worked out and passed the legislative hurdles, but did not see it as an 'unbearable reform' (Interview SPD MP 25.01.05).

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

6.4.2 Legitimizing New Policy Principles?

Following on from this, the question is whether Minister Clement, apart from distancing himself from the status quo, also legitimized the new policy principles underlying the Hartz IV proposals. Firstly, these principles need to be identified. The philosophy behind Hartz IV may be linked to the dual principle of *‘Fördern und Fordern’* (compare the English expression “carrot and stick”). Allegedly, this concept took up a central position in the Ministry’s strategy behind the reform (Interview BMWA official, 28.01.05). It corresponds to the idea that the unemployed should receive appropriate financial and administrative support in their efforts to return to paid employment (*‘Fördern’*). At the same time, they are expected to be more flexible than in the past, accepting jobs which may be inferior, both in terms of necessary qualifications and salary, to their previous job (*‘Fordern’*). In line with a general trend of activating labour market policies and a shift towards recommodification of long-term unemployed (Interview policy expert IAB, 08.03.05),²¹⁵ this principle was announced by Chancellor Schröder as a prominent element of *Agenda 2010*:

This is why we need one-stop agencies for benefits and related matters. In this way, we increase the chances of those who are able and willing to work [...]. At the same time, we accommodate those people with whom we will have to be more demanding [...]. No one will be allowed in the future to lean back on the cost of society at large. Who refuses to accept reasonable work – we are going to adjust the criteria for this – will face sanctions.²¹⁶

In this context, it is important to realize the qualitative dimension of change in the approach towards the (long-term) unemployed, as the two quotes below illustrate:

The element of demanding has been institutionalized with Hartz IV and had important consequences for the decommodification of the long-term unemployed [...]. The receipt of the new benefit is more strongly linked to the individual’s cooperation to take up work [...]. Behind this I see the idea that any job (also if less well paid than the previous one) is better than no job at all and this clearly contradicts traditional ways of thinking in Germany (Interview policy expert IAB, 08.03.05).

What remained mostly unnoticed was that we got a completely new paradigm concerning the financing of unemployed who are able to work: financing on the basis of need and no longer related to number of years in paid employment or to salary levels (Interview SPD mayor, 31.01.05).

In addition to the *‘Fördern und Fordern’* maxim, Hartz IV also became associated with a redefinition of the normative principle (or value) of social justice, in the sense of placing more responsibility on the individual work-seeker receiving benefits from a community of contribution- and tax-payers. Social justice forms part and parcel of the social-democratic party programme of the SPD, and is commonly invoked by SPD politicians, both as a programmatic goal and a justification of policy measures, and also underpinning, more generally, the Red-Green coalition’s labour market policy reform programme.

Did Minister Clement propagate *‘Fördern and Fordern’* and the social justice principle underlying the new benefit? He was certainly not idle when it came to stressing the underlying

²¹⁵ Recommodification refers to a process due to which work seekers must make a living on the basis of his or her employability on the labour market as opposed to social insurance benefits.

²¹⁶ Press- and Information Office of the Federal Government (2003) *Agenda 2010 – Mut zum Frieden und Mut zur Veränderung*, government declaration of Bundeskanzler Gerhard Schröder, 14.03.2003, p.21-22

Chapter 6

principles of the reform and linking them to the envisaged goals of the reform project. In addition, he frequently linked them to the Government's long-term goal of bringing more unemployed back into work, a goal that supersedes the immediate objective of ending bureaucratic inefficiencies and "shift yards".

Clement, on various occasions in the process, did indeed legitimize the shift in perspective on the rights and obligations of the unemployed on various occasions in the process. Firstly, after the March 2003 announcement of *Agenda 2010*, he explained at length the measures belonging to his portfolio, including the merger, in a speech to the SPD parliamentary party. He justified the project as follows:

The creation of a unitary benefit system of unemployment assistance for all who are able to work is a crucial step towards placing people faster in jobs and apprenticeships. And, by the way, it is one of the greatest structural reforms we have resolved to do. We will merge the two systems because their co-existence is inefficient and because they hamper employment [...]. The most important goal of our reform – one cannot stress it often enough – is a faster and more carefully tailored placement of people fit to work.²¹⁷

The goal of getting people back to work with greater speed and a greater focus on targets, as implied in the 'carrot and stick' approach to the unemployed, served here as the main rationale behind the reform, along with the expected efficiency gains. On the same occasion, Clement reminded his SPD audience of the logic behind *Agenda 2010*, which included 'recalibrating the welfare state towards more justice in terms of benefits and needs'.²¹⁸ Apart from a renewed interest in the definition of justice, the question of when a society can be considered as "social" is also raised by Hartz IV, according to Clement:

We have to question the assumption that the length of entitlement to unemployment benefit or social assistance is crucial in deciding whether a society can be qualified as "social". Much more important is the question of how entitlements enable citizens to make a living on their own and live their lives completely or at least, as far as possible, in accordance with self-responsibility. This will mean that in the future any reasonable job offer has to be accepted.²¹⁹

Following the controversial SPD special party convention in June 2003 (where Chancellor Schröder called for a necessary change of mentality in Germany concerning the principle of self-responsibility), Clement agreed in an interview with the need for a 'discussion on basic values', and stressed that, regarding labour market reforms, 'decisively, any legal work is reasonable in principle'.²²⁰ Asked in a later interview if it made sense to oblige unemployed persons to accept jobs that did not match their previous work experience, the Minister replied with a reference to a redefined version of the solidarity principle:

We must make sure that all possibilities to take up work are fully utilized. This also has to do with a change of mentality that we need in Germany. The Chancellor has made this clear and I want to underscore in all clarity: we are dependent on people seeing solidarity as a mutual task and obligation, i.e. society is there for those in need, e.g. for those without jobs, but that those who are able to accept work do accept it, this is the crucial point. [...] We have to let go of the idea that the state or the community of contribution-payers could finance any situation.²²¹

²¹⁷ Speech of Minister Clement to the SPD parliamentary party on 'Agenda 2010 für Wirtschaft und Arbeit', 08.04.2003, Berlin.

²¹⁸ *ibid.*

²¹⁹ 'Wir sind am Anschlag', interview with Minister Clement, *Der Spiegel* 16/2003.

²²⁰ 'Jeder Job ist zumutbar', interview with Minister Clement, *Die Zeit*, source: <http://zeus.zeit.de/text/2003/24/Clement>.

²²¹ 'Clement: Arbeitslosenzahl bleibt unter 5 Millionen', *Deutschlandfunk Interview* 07.08.03, source: http://www.dradio.de/dlf/sendungen/interview_dlf/155952/

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

During the parliamentary process, Clement clearly legitimized the goal of creating a one-stop agency for those seeking work with the ‘carrot and stick’ and the solidarity principle:

We must ensure that every woman and every man in Germany seeking work has one agency where she or he gets advice and support on the way back into the labour market. This is not simply a technical aspect since it is linked with the often mentioned principle of ‘*Fördern und Fordern*’. We must expect that work-seekers, who receive an offer of a job, accept it. [...] Someone who rejects reasonable work cannot rely on the fact that he receives public funds. This principle of reasonability, which applies to everyone, must be brought to bear in Germany. It is an expression of the principle of solidarity that someone claiming the support of society also needs to be prepared to do what relieves society. Therefore she or he must accept reasonable work.²²²

Asked more broadly why he was convinced that his way of redefining policy was the correct one - in contrast to the demands of his SPD-critics - the Minister responded with a reference to principles:

In any case, I am sure that the comprehensive welfare state we used to have is no longer tenable here or anywhere in the world. We need to think again more in terms of our own capabilities and make use of them. That means self-responsibility, self-initiative and autonomy, solidarity and subsidiarity, justice in terms of education and employment, but also distributive justice. These are only catchwords but perhaps they serve to map out the direction which we have to follow.²²³

Even after the compromise of December 2003 had been reached, at the two readings of the *Optionsgesetz*, he still reiterated the ‘carrot and stick’ principle underlying the merger:

Our maxim ‘*Fördern und Fordern*’ is a guiding idea behind the new basic benefit for the unemployed. By implementing this maxim, every unemployed woman and man receives the support she or he needs. We will ensure that any recipient of the new benefit gets qualified support which deserves this label. But we also demand, from her or him, to do everything to get out of unemployment.²²⁴

People finally have to be taken out of unemployment and placed back into work. We must not concentrate on financing unemployment. The latter has been demanded by everyone for decades, but, unfortunately, no significant progress has been made. We must apply the principle of ‘*Fördern und Fordern*’. All this is contained in the legislation that we have brought under way.²²⁵

The most extensive statement explaining the elements of the ‘carrot and stick’ principle was made late in the legislative process, just after the conclusion of the parliamentary process in July 2004. In this speech, Clement fleshed out the elements of ‘*Fördern*’ (personal case managers, new benefit, possibilities to keep additional earnings from work etc.) and ‘*Fordern*’ (reasonable work, cutting benefits when rejecting work). He also explained the benefits of the principle in terms of the normative goal of social justice:

The philosophy of ‘*Fördern and Fordern*’ at a one-stop agency’ is more efficient and more equitable than anything we have achieved in labour market policy so far [...]. And it must be stated clearly that he or she who does not make an effort, should not be sustained by the grace of the public. Social justice is no one-way

²²² Speech of Minister Clement at the second and third reading of the Hartz IV bill, *Bundestag* plenary protocol 15/67, 17.10.03, p.5738

²²³ Interview with Minister Clement, *Tagesspiegel*, 02.11.03

²²⁴ Speech of Minister Clement at the first reading of the *Kommunales Optionsgesetz* bill, *Bundestag* plenary protocol 15/103, 02.04.04, p. 9350

²²⁵ Speech of Minister Clement at the second and third reading of the *Kommunales Optionsgesetz* bill, *Bundestag* plenary protocol 15/105, 29.04.04, p. 9489

Chapter 6

street. To sum up the question whether Hartz IV confirms to criteria of social justice, I am firmly convinced that the answer is yes.²²⁶

To conclude, the Minister's public statements contain plenty of passages in which he explained and/or legitimized the Hartz IV project by reference to its underlying principles. In these statements, he either linked these principles to the goals of the reform (in cognitive arguments) or he shows that they (and by implication the entire reform) relate to socially desirable norms and values. Clement also made a connection between the endeavour to place people more quickly and efficiently into jobs and the activating approach implied by the 'carrot and stick' approach. Furthermore, this goal was linked to new definitions of social justice and solidarity implying continued support to those needing it, but, at the same time, asking for more self-initiative from them than was previously done. Taken together, these observations warrant the conclusion that Clement fulfilled the criteria for the second aspect of IL, legitimizing a reform with cognitive and normative arguments.

6.4.3 Appeals to Rethink Reform Resistance

On various occasions in parliament, Minister Clement appealed to those, who had opposed his plans, to implement the merger. Furthermore, he also lamented the style of some of his political opponents. Below, I will present examples of such communicative patterns as empirical evidence for the third aspect of IL.

During the first reading of the draft bill in the *Bundestag*, Clement spent considerable time explaining why he rejected the rival draft bill of the CDU/CSU. Here, he appealed to common goals of 'bringing the responsibility for the financing and organisation of the future job centres together' and 'supplying benefits from one source', and stated that the opposition's draft did not envisage doing away with the existing doubling of structures.²²⁷ Consequently, at the second reading, he aptly summarized the remaining 'core differences' with the opposition on the division of labour between the FEA and local authorities, and appealed to parliament not to 'engage in dogmatic discussions' and 'avoid artificial divisions' but 'to unite those actors we need in the fight against unemployment'. By making such statements, he clearly anticipated and tried to allay the opposition's resistance to the Government plan. When the bill of the follow-up *Optionsgesetz* was presented in parliament, Clement intensified his calls to complete the legislative task, even in the face of resistance:

I take on and bear the responsibility for this project to succeed. I say this notwithstanding those – whom we know – who keep speaking of chaos, of a catastrophe, of certain failure, of sloppiness and what have you. We will leave them behind and realize the reform. It is inescapably necessary.²²⁸

He also made clear that the controversial character of the bill in the eyes of the opposition could not bring Hartz IV to a halt:

²²⁶ Statement of Minister Clement at a BMWA press conference on 'Ergebnisse des Vermittlungsausschusses Hartz IV' 01.07.04, Berlin.

²²⁷ Speech of Minister Clement at the first reading of the Hartz IV bill, *Bundestag* plenary protocol 15/60, 11.09.03, p.5107

²²⁸ Speech of Minister Clement at the first reading of the *Kommunales Optionsgesetz* bill, *Bundestag* plenary protocol 15/103, 02.04.04, p. 9350

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

We will have to discuss the bill we bring in today in the Mediation Committee (...) However, I want to be very clear on this: This discussion cannot and must not stop the set-up of the *Arbeitsgemeinschaften* and the merger of unemployment assistance and social assistance.²²⁹

Between the first and the final reading, the debate on the shortcomings of the organizational design in the *Optionsgesetz*, had intensified: the Minister opened his speech at the plenary debate with a clear rebuke of those who countered the Government's effort in bringing Hartz IV to a close:

It is of special importance to give a warning to those who make for pessimism in Germany: those who are defeatist, those who badmouth, those who try to prevent reforms, those who see chaos looming everywhere. They are the ones who want to prevent growth and progress. They must not and they will not stop our reforms.²³⁰

Reaffirming the resolve of the Government to go ahead with Hartz IV, irrespective of whether agreement was to be reached on the *Optionsgesetz* or not, he warned the parliamentary opposition:

The fate of the *Optionsgesetz* does not change our planning for the merger of the benefits unemployment assistance and social assistance. I say this loud and clear because I observe that the opposition seemingly cannot keep these two issues apart or perhaps does not want to. Some, however, try to abuse the discussion about the concrete technical and organisational design of this system change on the 1st of January 2005. They abuse it in order to question the solution of a divided responsibility between the FEA and the local authorities we agreed upon in the conciliatory committee.²³¹

Before the start of the Mediation Committee deliberations, in a subsequent speech to the *Bundesrat*, he clearly expressed his disapproval of the tone of the debate and the political style of his opponents:

We want a pragmatic discussion, just as we had with you until the end of March. [...] The debate at the second and third reading of the draft bill in the *Bundestag* was strikingly different. I do not want to hide that I was shocked by the style of the debate on the merger. One who replaces pragmatic arguments by personal defamation does not solve problems but creates them. I am hopeful and glad that the tone of the debate in the *Bundesrat* is more factual and I ask for your cooperation with the problems at issue.²³²

While the parliamentary process of the *Optionsgesetz* ended with another government-endorsed compromise, Minister Clement had to face, late in the summer of 2004, large-scale street protests against the Hartz IV project. As the next citations show, he criticized this particular way of showing disapproval, and argued that the protests only deflected attention from the real problem:

The societal scandal we are faced with is not Hartz IV, but long-term unemployment and a certain amount of fatalism that comes with getting used to this phenomenon. I need to tell those who now propagate civil disobedience that this is completely misplaced. I am trying to appeal for civil action for apprenticeship places and jobs, that is what we need today in Germany, and not protests against reforms that can overcome unemployment.²³³

²²⁹ *ibid*, p. 9352

²³⁰ Speech of Minister Clement to the Bundestag, *Bundestag* plenary protocol 15/105, 29.04.04, p.9488

²³¹ *ibid*, p.9489

²³² Speech of Minister Clement to the *Bundesrat* plenary session on the 'Kommunales Optionsgesetz', 14.05.04, Berlin, source: www.bmwa.bund.de/navigation/presse/reden-und-statements, accessed 14.12.04.

²³³ Interview with Minister Clement, *Deutschlandfunk*, 6.8.2004, source: www.dradio.de/dlf/sendungen/interview_dlf/292036

Chapter 6

Many people in this country pretend that we have designed these labour market reforms as a way of agonizing people. (...) I do not have a bad conscience. The real catastrophe is not the entitlement to a social basic benefit available to all job-seekers, but continually rising long-term unemployment.²³⁴

In conclusion, the evidence presented above supports the idea that Minister Clement did indeed confront the hurdles of resistance by reform critics. In terms of the theoretical framework, this means that he demonstrated the third aspect of the IL concept, appealing to give up reform resistance, which brings him one step closer to meeting all of the five IL aspects. He engaged with it most fiercely during the later stages of the reform process, when the opposition's efforts to block an agreement on the organizational design of local consortia and the financing of the reform, became more and more obvious. During the first part of the parliamentary process, he appealed less against resistance in general but rather criticized the opposition's plans, which challenged the concept of the Government on crucial details. His firm attitude towards those who wanted to thwart his reform plans during the legislative process was again confirmed by his response to the public protests (after the formal conclusion of the reform), which were, in his opinion, not relevant, as they failed to recognize the real problem.

6.4.4 Political Consensus-Building and Political Orientation

In order to explore the fourth and fifth aspects of ideational leadership, we need to ask whether Minister Clement undertook efforts to organize the necessary support for adopting the project, without resorting to tactical behaviour related to a power-seeking rather than to a policy-seeking orientation. In other words, did the Minister act like someone who tried to convince and win the approval of his political opponents for the sake of the reform or did he resort to political tactics in order to get his way? The answer to this question will be approximated by examining evidence (statements and opinions) on the Minister's political style.

In the media, Clement was often portrayed as an impatient doer; the variety and sheer number of reform initiatives and ideas he launched - often without prior consultation of his party, the SPD - earned him the nickname 'minister of announcements'.²³⁵ Besides being impulsive and proactive, he also acquired the reputation of being hard-working and having professional competence in dealing with complex subject matters. In addition, as former editor-in-chief of the daily *Hamburger Morgenpost*, the Minister knew how to present himself and his policies in the media. After his start as "Superminister", combining the portfolios of the previous Ministers of Economics and Labour and Social Affairs, he played the role of chief reformer well, trying to give neither the opposition nor his own party the opportunity to attack him, which obviously changed during the Hartz IV process.²³⁶ For many SPD traditionalists, he personalised a growing schism within the party, being seen as a "neoliberal modernizer", who asked more of the ordinary man in the street than of businesses and employers.²³⁷ This image was apparently carried over from his previous position as Minister-President of North-Rhine-Westphalia, and related to his willingness to accommodate the wishes of business on issues such as the loosening of dismissal regulations, and acceptability criteria for jobs. In addition, he was inclined to engage in political confrontations

²³⁴ 'Wolfgang Clement: 600.000 Jobs für Langzeitarbeitslose', *Die Welt*, 18.08.2004

²³⁵ 'Wer ist Wolfgang Clement?', *Tagesspiegel*, 27.03.05.

²³⁶ 'Der rüde Reformier', *sueddeutsche.de*, 19.09.03, source: www.sueddeutsche.de/sz/politik/red-artikel544/

²³⁷ 'Superminister ausser Kontrolle', *Spiegel Online*, 30.03.2004.

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

in order to defend his personal convictions on policy issues such as the dispute about industry emissions with Minister of Environmental Affairs Trittin, which was decided - in Clement's favour - by Chancellor Schröder.²³⁸ Equally, his firm rejection of a new tax on business to create additional apprenticeship places – in opposition to the stance of SPD-leader Müntefering – brought him in conflict with his party but yielded a new, voluntary initiative targeted at industry and trade, with no additional demands on employers.²³⁹ In any case, Clement seemed conscious of his key role in the Schröder Cabinet and did, at least on one occasion (before the final conciliation committee meeting in June 2004) threaten immediately to 'draw consequences' if Hartz IV were to fail.²⁴⁰

Sources from political parties did not describe him as someone who preferred tactical games, but, on the contrary, as 'pragmatic and focused on results and no political tactician' (Interview adviser B90/Greens, 03.02.05), as 'pragmatic, compromise-oriented negotiator, not tactical' (Interview CDU/CSU advisor, 01.02.05), or as 'someone who persuaded through arguments, no tactical talent' (Interview *Spiegel* journalist, 03.02.05). While defending his own convictions fervently, if necessary, even against the majority of his party comrades, he did not seem overly attached to ideals or ideologies.²⁴¹ These qualities indicate a straight-forward and down-to-earth political style and, as he showed with Hartz IV, a genuine concern about the substance of the reform. However, another aspect mentioned was his disposition to engage in the search for compromises, which, at times, was seen as problematic by fellow party members:

He was in the end – through his personal engagement – more ready to compromise than we were, so that we had to watch out that he did not give away too much (...) An individual's capacity to suffer is greater than that of a group (Interview SPD MP, 25.01.05).

This indicates that the Minister cared more about the realization of the project than about whether all provisions proposed by the Government would pass the parliamentary hurdles and be implemented. This speculation is supported by the following observations on how Clement dealt with details:

Clement is someone who stressed the need for and importance of Hartz IV, he is more of a propagandist than someone who negotiates about the details of the compromise (...) Being little involved in the preparatory work and the Mediation Committee negotiations on details, he urged all sides to come to an agreement.' (Interview *Spiegel* journalist, 03.02.05).

The Minister did not seem to look for a consensus (with the trade unions, SS), was result-oriented and kept his line of argument at the expense of sacrificing Social Democratic values. From the Government's perspective he was surely the right person to accompany the process (Interview former Hartz-Commission member, 08.02.05). In other words, the exact contents of the reform seem to have mattered less to the Minister than did achieving a result: his efforts at persuasion were aimed at concluding a reform at all rather than the detailed implementation of the Ministry's reform proposal. In this way, Clement demonstrated insight into the need for political consensus-building to prevent a last-minute failure of the reform.

²³⁸ 'Super-Reformer mit ausgeprägtem Hang zur Ungeduld', *Agence France Presse – German*, 11.08.2004.

²³⁹ 'Wer ist Wolfgang Clement?', *Tagesspiegel*, 27.03.05

²⁴⁰ 'Clement – der letzte Reformer', *Tagesanzeiger*, 30.06.04

²⁴¹ 'Wer ist Wolfgang Clement?', *Tagesspiegel*, 27.03.05

Chapter 6

What can we conclude from the Minister's political style after having examined his part in the process? Does he fulfil the IL criterion for political coalition-building coupled with a policy orientation? At this point, the evidence is somewhat contradictory. On the one hand, Clement did make considerable efforts to keep his concept intact, avoiding giving in to the demands of intra-party critics and interest groups, but was ultimately forced, by the realities of a conservative majority in the *Bundesrat*, to accommodate some demands from the opposition in order to avoid a last-minute failure. The Hartz IV reform formed part of a larger basket of reforms in the final conciliatory committee negotiations. Thus, due to the inevitable horse trading that occurs in such settings, it is almost impossible to trace how much influence the Minister could exert over the coalition negotiators in order to keep the contents of that particular reform intact.

To conclude on the findings of section 6.4, Minister Clement fits the first three criteria of IL, stipulating that a key politician 1) rejects the policy status quo, 2) legitimizes new policy, and 3) appeals to reform opponents to stop their resistance. Concerning the fourth and fifth aspect, the evidence is less straightforward. While Clement insisted firmly on the Government concept vis-à-vis the demands of interest groups (and later popular protest), his efforts at political consensus-building, in order to secure the opposition's support, were not fruitful: the Minister had little choice but to work towards a final compromise with the opposition because of diametrically opposed positions on the question of administrative responsibility and financing of the reform. On the other hand, the evidence suggests that he undertook this task with a great deal of pragmatism and personal dedication in reaching a solution, which points to his policy-orientation. In fact, there is more evidence about Clement adhering to pragmatic (and not ideological) argumentation and persuasion than to suggest tactical behaviour and self-interested motivations. In this sense, we may conclude that Clement complied with the fourth and fifth aspects of ideational leadership. Consequently, he meets all criteria we set for ideational leadership, warranting the qualification of an 'ideational leader'.

Finally, the study of the evidence revealed that the conditions for exerting IL were favourable: this was because of other actors' efforts to promote the reform before the Minister appeared on the scene of federal politics, and to some extent, also while the Minister was busy advocating Hartz IV. In this context, Chancellor Schröder and the Hartz-Commission deserve to be mentioned. The Chancellor contributed to the renouncing of the policy status quo, by first establishing the Hartz-Commission, and by turning its recommendations into a political pledge, which put the Hartz IV reform on the policy agenda and initiated a phase of policy formulation. Later, through his *Agenda 2010* speech, he helped Clement, by making a case for rejecting present structures and, by setting the scene for more self-responsibility among citizens, to legitimise Hartz IV:

We also need to think about our social support systems and ask ourselves whether welfare benefits are really benefiting those who need them. I do not accept that people who are able and willing to work need to turn to the social assistance office while others, who may not be available for work, receive unemployment assistance. Neither do I accept that people, who are comparable in their willingness to work, receive different amounts of financial support. I do not think this is successful labour market integration.²⁴²

In this sense, it may be argued that the Chancellor contributed to the ideational innovation Clement

²⁴² Government declaration by Chancellor Gerhard Schröder, 'Agenda 2010 – Mut zum Frieden und Mut zur Veränderung' 14.03.2003, *Presse- und Informationsamt der Bundesregierung (2003)*, p.21-22

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

was advocating. With regard to the Hartz-Commission, it contributed to a change in mentality in the debate on the long-term unemployed by giving a clear impulse (the blueprint for the merger of two systems) for the departure from current policies. By doing so, it helped to end a long-drawn period of political hesitation and resistance to fundamental changes in labour market policy. Seen from this angle, it may also be argued that the Hartz-Commission prepared the ground for Clement's efforts at ideational innovation by creating a climate in which the status quo became seen as debatable and by making proposals for policy alternatives. Subsequently, Section 6.5 deals with the question of whether Clement's IL was decisive in determining the reform outcome.

6.5 Analysis Part II: What Role for Ideational Leadership?

The second part of the analysis goes one step further than illustrating the presence of IL, which has been done in Section 6.4. The main question to be explored in this section is why the reform was eventually adopted, and to what extent Clement, as an ideational leader, can be seen as a driving force behind its passing. In answering the question of how important IL proved to be in the process, interview accounts proved to be valuable sources of information, as they disclosed views on why the process eventually led to the passing of reform legislation reform, on which strategies the government used to push through their reform concept; and, finally, by shedding light on Clement's role. I will consider each of these in turn.

6.5.1 Strategies of the Government to Adopt the Reform

It was generally agreed that the argumentation strategy was present in the reform process, yet there was disagreement on when it was used most, and how important it was relative to the other strategies. Two interviewees pointed out that argumentation mattered most in the phase preceding the legislative process; one of them stressed its role during the proceedings of the coalition working group (Interviews NRW Ministry official, 21.01.05 and B90-Greens adviser, 03.02.05). Argumentation was also crucial in the attempt to convince critics of a clear competence distribution (the FEA's central responsibility in the draft bill), before the competence issue was again discussed - and substantially altered - by the Mediation Committee (Interview SPD mayor, 31.01.05). Even observers, who did not ascribe a prominent role to it acknowledged its use, or pointed out that it was used only to feign openness to the arguments of interest groups, while the official policy stance was not to give in to them (Interview DGB official, 02.02.05). At one interview, it was pointed out that argumentation inevitably goes together with making concessions (Interview CDU/CDU adviser, 01.02.05).

The second strategy, making concessions, was most commonly identified as the most prominent strategy. Concessions were made mostly during the parliamentary process, as adjustments to the draft bill, and, most significantly, in the final phases of the mediation procedure in December 2003 and June 2004. The key concessions by the Government in reaching the first compromise concerned the acceptability criteria for job offers (they were strengthened to include more types of work), and on the question of administrative competence (Interview BMWA official, 28.01.05). The 2004 compromise included the concession of a fixed number of local governments who could "opt out" of the local consortia, granting them extra financial compensation. Seen from the perspective of trade unions, few concessions had been made to them before and during the parliamentary process, except for minor adaptations to the law after the summer of 2004 (Interviews DGB official, 02.02.05 and VerDi official, 08.02.05). It was also

Chapter 6

highlighted that, from the coalition's point of view, making some concessions was seen as inevitable from the start given the opposition's majority in the *Bundesrat* (Interview SPD MP, 25.01.05), and thus, proved crucial in solving the still controversial question of administrative competence (Interview IAB policy expert, 08.03.05).

When it came to the strategy of ignoring or outmanoeuvring reform critics, respondents could be divided into those who felt that their own party or organization's critique was ignored in the process, and those who thought there was no serious room to ignore criticism, at least not when it came from the Christian Democratic-governed *Länder*, who had the power to reject the Government's proposal in the *Bundesrat*. One interviewee pointed out that some active labour market policy measures first contained in the Hartz IV draft concept bill had been made into separate laws in order to pass them without *Bundesrat* approval, but these measures did not relate to the core of the merger project (Interview NRW Ministry official, 21.01.05): in this respect, there was no room for an outmanoeuvring strategy. Another confirmed that the criticism by the trade unions, and the public protests in the summer of 2004 (which only led to minor modifications) were hardly paid attention to by the Government, while it had no choice but to engage more seriously with the criticism voiced by the opposition (Interview B90/Greens party adviser, 03.02.05), due to their majority in the *Bundesrat*, which could have resulted in the reform project being derailed.

How do these observations on possible strategies contribute to answer the initial question? Firstly, they help us to make inferences about how important these strategies were relative to each other. Secondly, they indicate the limits of the IL explanation in accounting for the adoption of reform. Concession-making by the Government, especially during the first mediation process concluded at the end of 2003, appeared to have been decisive in agreeing on the shape of the reform as far as the first Hartz IV law was concerned. The importance of making concessions in order to pass the implementation law, the *Optionsgesetz*, was hardly mentioned by interviewees in this respect. At the same time, the Government's initial argumentative efforts cannot be neglected. Argumentation had an impact on the initial shape of the reform concept, especially in the early phases of the reform process (when interest groups were involved both through informal consultations and the *Gemeindefinanzkommission*), but it was not sufficient to reach a final result. Given the adamant stance of the conservative-liberal opposition, we may conclude that the Government's argumentation was more effective in persuading critics within the coalition (which was nonetheless important) than in the conservative-liberal camp.

Persuasion was thus not absent, but it played a greater role during the preparatory stages of the proposed reform. As far as the strategy of ignoring or outmanoeuvring critics was concerned, the Government largely ignored criticism from trade unions and social welfare associations, as it could afford to do so. On the other hand, it could not disregard the criticism of local authority associations, which formed an informal coalition with the opposition, and the opposition parties themselves, (especially the Christian Democrats), which could urge their *Länder* in the *Bundesrat* to block the proposal. Neither did the Hartz IV reform offer an opportunity to outmanoeuvre this institution, as it had implications for the lower levels of government, which necessitated obtaining *Bundesrat* approval. Consequently, in this case, ignoring reform criticism was not a viable option in pushing the reform through. As it were, the evaluation of the strategies indicates that the reform was achieved with a mix of argumentation and (last-minute) concessions, and not by ignoring criticism.

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

6.5.2 The Role of Minister Clement in the Reform Process

Perhaps surprisingly, all interviewees, regardless of their institutional affiliation, indicated that Minister Clement played a major role throughout the reform process. This was attributed to his personal commitment to the reform and his intense involvement in the negotiations of the first conciliatory process and later in the legislative process of the *Optionsgesetz*. A high-ranking, former BMWA official described him as ‘very involved and remarkably enthusiastic’ and ‘intent on motivating his staff and on keeping the process going’ (Interview former BMWA official, 23.01.06). Moreover, Clement ‘made himself into - and was made into - the symbol of Hartz IV’ (Interview SPD MP 25.01.05), ‘took on the responsibility for the reform wholeheartedly’ (Interview NRW Ministry official, 21.01.05) and ‘turned the reform process into his personal project’ (Interview SPD mayor, 31.01.05). With regard to his role in the conciliatory negotiations, he took on the ‘role of chief negotiator’ (Interview adviser B90/Greens, 03.02.05) and functioned as a ‘moving power’ in the working group of the conciliatory committee’. Moreover,

Clement’s leadership, negotiation skills and use of his political weight as a Minister made a compromise possible, at a time (i.e. December 2003), when it was far from clear whether the *Bundesrat* would vote in favour of the bill (Interview BMWA official, 28.01.05).

When enquiring more specifically as to whether Clement demonstrated leadership during the process, responses were mostly affirmative, even by reform critics, and stressed the connection between leadership and adhering to one’s policy plans. The Minister, and along with him his State Secretary Andres, ‘massively fought for reform’, and ‘tried to win acceptance and the trust of the SPD parliamentary party’ (Interview BA official, 04.10.05). Furthermore, the Minister was seen to display ‘leadership throughout the process and a willingness to go further than his own party in finding compromises’ (Statement FDP MP, 31.01.05). Similarly, others judged him as ‘being determined to follow the Government’s course and to sit out criticism’ (Interview SPD MP, 25.01.05). One observer found that both Chancellor Schröder and Minister Clement showed strong leadership and little consideration vis-à-vis their clientele, pushing through their programme against resistance (Interview IAB policy expert, 05.03.05). Another interpretation of leadership was linked by a respondent impressed by Clement’s engagement in the legislative process of the implementation law in the spring of 2004.

He has also shown leadership by including reform critics and main political actors involved. This is (...) when we fought, together with the *Deutscher Städtetag*, about the details of financing. He started a persuasion and negotiation process, I believe unique in German post-war history that led to an increase in acceptance through argumentation (Interview SPD mayor, 31.01.05).

6.5.3 Decisive Factors?

Alongside the Minister’s role, which, apparently, was perceived as central to, and increasingly associated with leadership, I also investigated what interviewees thought were decisive factor(s) behind the passing of the reform. Once, it was observed that it is unlikely to find a single such factor in a process depending on a lot of tiresome work on details carried out by a large number of dedicated people in various working groups (Interview SPD MP, 25.01.05). Accordingly, most interview accounts explicitly pointed to a combination of factors that had proven decisive. For instance, the mix of high unemployment, which increasingly set the government under pressure to act, and the stamina of its members in pushing through the project were found to be vital (Interview SPD mayor, 31.01.05). This observation supports the idea from the preceding subsection that Clement’s leadership did matter in bringing about the reform. Other factors mentioned

Chapter 6

included the consensus on the necessity for reform, and changes in labour-market policy discourse pleaded for by experts. The former relates to an increased urgency to get the unemployed back to work and the absurdity of the co-existence of two systems for the same clientele (Statement FDP MP, 31.01.05), while the latter points to the role of the Hartz- Commission, which functioned as a catalyst for the process that followed and also as a reference point for working out concrete legislative proposals (Interview VerDi official, 08.02.05). Finally, the role played by local authority associations was mentioned, both as a factor that broke a major stalemate in the negotiation process, and that helped to work out the final compromise on financial compensation (Interview *Spiegel* journalist, 03.02.05).

Notably, the compromise reached in the Mediation Committee was most frequently seen as a vital factor in the adoption of Hartz IV. It relied on the willingness of the Government to agree on such a compromise in December 2003 (on the major controversial points of administrative responsibility and acceptability criteria for work). More specifically, the compromise required a readiness to make financial concessions to the *Länder* and local authorities, and its acceptance of overall financial liability for the new benefit (Interviews DGB official 02.02.05 and B90/Greens advisor 03.02.05). However, it was also alleged that the compromise was the result of a political “non-decision”, reflecting a conscious choice for leaving the details to be decided by the implementing agencies, as well as the ultimate consequence of the government failing to reach an early stance on the implementation issue (Interviews BMWa official 19.08.05 and labour-market policy expert 21.03.05). In another interpretation, the compromise was the consequence of the lack of an “exit strategy” in case the government concept could not be realized (Interview BA official, 04.10.05). Finally, the realization of the necessity to reach a compromise, both by the Government and the opposition, with the failure of Hartz IV looming as worst-case scenario, was also regarded as important (Interviews CDU/CSU adviser, 01.02.05 and *Spiegel* journalist 03.02.05). While from the Minister’s perspective, concerns about his own and the government’s reformer image were central to this realization (Interview BMWa official 19.08.05), the opposition’s approval was owed to the prevailing of the more conciliatory (i.e. opposing a blockade) wing within the CDU (Interview BMWa official 28.01.05)

To conclude, Section 6.5 has explored why the Hartz IV reform was eventually adopted and to what extent IL was crucial to this process. My answer is that both IL and concession-making played their respective roles in concluding Hartz IV. In order to reach a conclusion, I considered the role played by (government) argumentation and the Minister’s leadership; the evidence from the other two alternative strategies the government may have employed in order to advance with Hartz IV; and other factors that were important in achieving the reform. As regards government strategies, argumentation was especially present in the agenda-setting and pre-legislative phases, and until the end of the legislative phases, where argumentation efforts were employed to convince critics; this strategy can be seen as corresponding to the first two aspects of IL. In addition, the evaluation of the Minister’s role suggested that he made an important contribution towards completing the reform process, demonstrating leadership in its course. Clement was intensely involved in the process, at least from the moment the mediation procedure began in November 2003, and he kept pushing for a conclusion to the reform, even when, initially in December 2003, the limits of persuasion became apparent. These two elements together suggest that IL did indeed contribute to the concluding of the reform process. At the same time, out of the two alternative strategies, only concession-making proved to matter in the decision-making phase on the way to the final compromise in the mediation committee. This observation is backed up by witnesses to the process, who suggested several decisive factors that contributed to the finalization of the reform without agreeing on one particular factor. However, it was frequently suggested that the crucial compromise in the Mediation Committee enabling the passing of the reform was decisive -

Hartz IV: IL Leading to Structural Reform in Labor Market Policy?

supporting the evidence in favour of the concession-making strategy - and made a difference for the final result. Consequently, we can conclude that both IL and concession-making had a bearing on the realization of the reform.

Having established this, one should note that ascertaining the relative influence of ideational leadership is fraught with difficulty. However, I think in order to verify this claim, one should examine to what extent the substance of the compromise matches the reform's core characteristics and conclude whether the concessions made for the sake of the final compromise outweighed argumentation and IL in importance. After all, it would be hard to maintain that ideational innovation through IL had prevailed, if the compromise had resulted in a thorough revision of the reform. Specifically, did the Government have to sacrifice the core of the reform in order to save it? While the initial government proposal already implied its structural character, this was not diminished by the final compromise(s). The merger of two benefit schemes came about as envisaged by the Red-Green Government, even though the responsibility for the recipients of the new benefit ended up being more complex than was intended by the Hartz-Commission or the drafters of the government proposal.²⁴³ It came to be relevant because the issue of administrative responsibility, which, in the beginning, was assumed to be uncontroversial, touched on the sphere of competences and attached financial relations between various levels of government.

The compromise that emerged from the two mediation procedures on Hartz IV forced the Government to make concessions, but it did not derail the overall project. Admittedly, it *did* delay its introduction, but left its core intact. That is to say, the merger of two benefit schemes and the new approach to the long-term unemployed and former social assistance recipients was introduced, as set out in the original plan. Although the Government (and Minister Clement) did not fully realize their plan with regard to the organization of the reform provisions (i.e. the centralistic model of responsibility for the new benefit), its substance, that is, the combination of granting a benefit, and offering support services at one-stop agencies for all those available for work, was implemented as planned.²⁴⁴

6.6 Conclusion

In this chapter, I have analyzed the process leading up to the merger of unemployment assistance and social assistance, known as the Hartz IV reform. Considering that it broke with the status-quo of a *de facto* three-pillar system of German unemployment protection, it qualified as a structural reform. I have outlined the long-drawn political process that led to the passing of legislation and described the difficult political context in which the reform was debated and finally adopted. To conclude, I will return to the initial IL hypothesis in order to see whether the Hartz IV case confirmed or disconfirmed it. In Section 6.4, I have established that Minister Clement acted during the reform process in accordance with the criteria of ideational leadership and have pointed out

²⁴³ As a reminder: instead of the straightforward organisation around job *centres* under the organizational and financial auspices of the FEA, the position of the Christian Democrat opposition and part of local authority associations (especially the *Deutsche Landkreistag*) pleaded until the end for a greater role for local governments. This was also true for the second conciliation procedure in June 2004.

²⁴⁴ An alternative interpretation, from a perspective that stresses the effects of the reform *after* implementation, would be that the administrative and financial provisions of the compromise have unduly complicated the implementation of the new benefit ALGII while the essence of the merger had been to simplify and streamline the procedures of what used to be two separate systems.

Chapter 6

that the Minister's endeavour to promote Hartz IV was aided by Chancellor Schröder and the Hartz commission. While Clement's performance as an IL was undoubtedly important, Section 6.4.1 has suggested a combination of argumentation efforts and concessions as the key to the realization of Hartz IV. Similarly, Section 6.4.2 has stressed the importance of the Minister's leadership - to keep the reform process going and to bring it to a close - and the forging of compromises, particularly at the end of 2003, and again in June 2004. These findings confirm that IL was important in achieving a break from traditional ways of thinking in labour market policy and in bringing an ambitious reform closer to decision point. Yet, IL alone could not bring the reform to an end. Rather, it was IL in combination with the Government's willingness to achieve a compromise on reform implementation, which led to its adoption. The communicative efforts of a reform-minded and results-oriented Minister like Clement were essential to maintaining the momentum in the reform process and to pushing the parliamentary opposition towards the reform's conclusion, even though the final result differed from the initial government concept. Instead of getting its centralistic solution adopted, the compromise provided for a split of administrative competences between local consortia and a number of local authorities, as well as for the division of financing responsibilities with regard to the new benefit. In his task of bringing the reform process closer towards completion, Clement could rely on the political commitment of Chancellor Schröder, who also helped his minister by providing a general direction for social and economic policy reform. Moreover, as a conceptual blueprint for Hartz IV, Clement could draw upon the work carried out by the Hartz-Commission. Yet, despite all communicative efforts by Clement (and to some extent by Schröder) to achieve a mentality change with regard to the question of how to tackle long-term unemployment, the reform was only concluded after accommodating the criticism of the parliamentary opposition concerning the role of local governments, and the *Länder* in the *Bundesrat*. The Minister's willingness and ability to achieve a compromise proved to be crucial for the Government in ensuring that the core provisions of the reform were adopted and in upholding its reformist image in the eyes of the public.

The conclusion that the reform was not adopted by IL alone, but was realized after lengthy negotiations, due to treating *Bundesrat* rejection, confirms my theoretical expectations about when (i.e. in which phase of) the reform process IL will be most effective (see Chapter 2). As the institutional veto power of the *Bundesrat* was strong at the time, due to its domination by opposition-governed *Länder*, IL could be expected to meet the biggest obstacles in the decision-making phase, when a compromise had to be found through bargaining.

7. IL in the Area of Health Care Policy: Did it Lead to Structural Reforms?

7.1. Introduction

This final empirical chapter will examine reform developments in German health care policy. More specifically, in this third case study, I will investigate whether a presumed ideational leader was able to adopt reforms, which resulted in shifts within the finance, care provision or regulation dimension of health care policy. Section 7.2 reiterates why this case study focuses on evaluating the outcomes of an individual's period in office, instead of on a single reform process, as was the case in Chapters 5 and 6. In addition, it explains the procedure used to identify this policy-maker (a small expert survey comparing several "candidate" ideational leaders backed up by an extra criterion closely connected to IL). Following on from this, Section 7.3 provides some background to the institutional set-up of the German health care system and its actors. I will also outline the state of the health care sector in the 1990's in terms of its main problems. Section 7.4 forms the backbone of the chapter, examining and evaluating the major reforms undertaken during the 1990's, the 1992 Structural Health Care Act (*Gesundheitsstrukturgesetz* or GSG, Section 7.4.1), and the 1997 Health Care Restructuring Acts (1./2.*GKV-Neuordnungsgesetz* or GKV-NOG, Section 7.4.2). For each of these reforms, I will describe their provisions, re-count the respective reform processes, and, finally, outline the political factors that influenced the final reform result. The role of Minister Seehofer in the enactment of the reforms will be considered separately and both sub-sections end with an evaluation in the light of the structural reform criteria used in this study. The conclusion summarizes the main findings in terms of the link between IL and (structural) reform outcomes.

7.2 Selection and Delineation of the Case

As I have discussed in Chapter 3, when explaining the multiple case study design and its constituent cases, the third case differs from the others in that it was selected on the basis of the independent variable under evaluation in this study, IL. The aim of employing a third case in the overall logic of the design is to see whether a case selected on the independent variable, i.e. the presence of an ideational leader, would also show the outcome expected by the theoretical framework, namely structural reform(s). In order to put this requirement into practice, I first selected four criteria that would help me identify an IL-type policy-maker without examining his or her political performance in the context of a specific reform beforehand. These criteria had to meet two requirements: a) being closely related (although not identical) to the five aspects of IL including the expected political style of an ideational leader, and b) being precise enough for use in questions to respondents without further operationalization. They included:

Chapter 7

- determination of a Minister to change the status quo in health care during his/her term
- ability of a Minister to promote and legitimize structural reforms
- ability of a Minister to decrease or overcome reform resistance
- political style of a Minister (more policy-oriented or more power-oriented)

These four criteria are close enough to the five aspects of the IL framework so as to ensure the selection of a politician who conforms to the same criteria used to detect and evaluate IL in the other cases. Note that the third case differs from the others in that I am interested in identifying someone who demonstrated IL throughout his or her term in office. This warrants certain differences between the criteria and the original aspects, which are more “process-sensitive” as they are geared to the narrow context of one reform project. Thus, IL aspects 3 and 4 were combined here in the third criterion.

The approach followed in making the case selection was to enlist the help of experts. In order to corroborate my own impressions and previous knowledge of various Ministers of Health, I asked several close observers of health care politics to identify a presumed ideational leader. The experts received a short survey,²⁴⁵ in which they were asked to compare two past Ministers of Health, Horst Seehofer (1992-1998), Andrea Fischer (1998-2001), and the current Minister Ulla Schmidt (2001-present) using the four criteria listed above. In addition to inquiring about these four criteria, which were to form the basis for case selection, one complementary question concerned the policy legacy of the Ministers.²⁴⁶ A summary of the results for each question yielded the following ranking (the numbers in brackets refer to the total of points scored):

- Determination to change the status-quo
1. Seehofer (17) 2. Fischer (15) 3. Schmidt (13)
- Ability to promote/legitimize reforms
1. Seehofer (18) 2. Fischer/Schmidt (13)
- Ability to overcome reform resistance
1. Seehofer (17.5) 2. Schmidt (11.5) 3. Fischer (10)
- Political style
1. Fischer (more policy-oriented) 2. Seehofer/Schmidt (policy-/power-oriented)

The results for these four questions show that Minister Seehofer was clearly ranked highest on “determination to change the status quo”, “promoting and legitimizing far-reaching reforms”, as well as “overcoming reform resistance”. Fischer and Schmidt together trailed Seehofer on the second criterion, Fischer ranked second on the determination criterion and Schmidt was ranked after Seehofer in terms of overcoming reform resistance. As far as political style was concerned, Fischer was rated as more policy-oriented, while Seehofer and Schmidt were judged as both

²⁴⁵ See for further information on affiliation of survey participants, wording of the questions and scores of each Minister per question the Appendix on the website http://www.ru.nl/politicologie/over_politicologie/wie_wat_waar/personen/stiller/

²⁴⁶ The Ministers were ranked on a four-point scale from “weak” to “striking” regarding criteria 1 to 3, and as “more policy-oriented”, more “power-oriented”, or “both” regarding criterion 4. The last question allowed an open answer to obtain some more detailed views on Ministers’ performances.

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

policy- and power-oriented, the difference being that some respondents could not place Schmidt in that respect and gave an indefinite answer (“don’t know”). Based on these results, Minister Seehofer appeared to be the best choice as presumed ideational leader for the case on health care policy, as his reputation matched most closely the qualities of IL. On three out of four IL-based criteria, he ranked highest compared to the two other ministers, except for the political style criterion, where Seehofer was ranked (together with Schmidt) as both policy- and power-oriented after Fischer, who was seen as the most policy-oriented minister.²⁴⁷

This result, however, may have been biased in certain ways due to the wording of the questions about the second and third criteria, which contained the term “structural reform”. More concretely, the danger existed that respondents, knowing about the policy legacy of each minister, read those questions as if the candidates had actually achieved such reforms, which conflicts with my aim of making a selection on the independent variable (IL), as the overall aim of the case study is to establish whether structural reform did occur. Therefore, in order to compensate for the risk of selecting Seehofer on the basis of the dependent variable, structural reform, and to double-check the result of the survey, I applied an additional criterion for selection on all three candidates. This criterion is directly related to the aspects of IL but does not have a link to the outcome of reform: it refers to whether the candidates had outspoken ideas on what they wanted to achieve in the area of health care before taking office or at the very beginning of their term.²⁴⁸

On the basis of this criterion, the three candidates fared differently: Seehofer had already, during his time as MP (when he vice-chaired an expert commission on health care reform),²⁴⁹ and as State Secretary, entertained views on how to increase efficiency in the cost-intensive hospital sector.²⁵⁰ As soon as he was appointed as Minister, he clearly voiced his ideas on how to deal with the problem of rising costs in the health care sector,²⁵¹ presenting his proposals as being without alternative, if the goal of stabilizing non-wage labour costs was to be reached.²⁵² Doing so, he surprised observers with unconventional views on how to realize cost savings, stressing that the burdens of his envisaged reform had to be spread equally between patients and other stakeholders.²⁵³ His successor Andrea Fischer was more known for her progressive ideas on the

²⁴⁷ In terms of policy legacies (last survey question) Seehofer’s achievements appeared ambiguous: experts referred to them as “substantial/positive/remarkable” (and in relation to the GSG), but also as “standstill in terms of renewing structures” or as “mere commencement of structural reform”. Fischer’s legacy was evaluated as “weak” and “not up to the task” as it was marked a fruitless fight against interest groups. Current Minister Schmidt’s legacy so far falls somewhere in between, as respondents disagreed about whether she initiated structural reforms or merely reversed previous ones and continued to implement traditional cost-containment measures. Based on this comparison, the choice for Seehofer is interesting as the case study may shed more light on the ambiguity of his policy legacy and establish whether his record on structural reforms echoes these opinions.

²⁴⁸ Since the ideational element of IL is essentially about using policy ideas (in a cognitive and normative sense) to legitimize reforms, it can be assumed that a potential ideational leader enters office with outspoken ideas he or she would like to put into practice.

²⁴⁹ Seehofer had been the vice-chairman of the parliamentary *Enquete-Kommission ‘Strukturereform der GKV’* before working at the Ministry of Labour (Interview former SPD MP, 24.01.06)

²⁵⁰ ‘Der neue Gesundheitsminister: Horst Seehofer’, *Das Krankenhaus* 5/92, p. 211.

²⁵¹ These ideas were probably influenced by his earlier experience working under Minister of Labour and Social Order Blüm with the failed 1988 Health Reform Act (GRG), which was attacked heavily by interest groups in the formulation phase and failed in the implementation phase. This experience enabled a learning process that likely impacted on Seehofer’s style of policy-making and reform design in terms of substance (cf. Perschke-Hartmann 1994:275).

²⁵² During his first week in office, Seehofer was quoted as announcing: ‘Either the enormous task in front of me will succeed or the rising health care costs will eat up employees’ and pensioners’ incomes in the electorally important year 1994’ (‘Der Eimer ist voll’, *Der Spiegel* 19/92, p.24).

²⁵³ ‘Klotzen statt Kleckern’, *Der Spiegel* 21/92, p.37-38; ‘Kampf gegen die Haie’, *Der Spiegel* 24/92, p.112-119.

Chapter 7

future of social security (in her office as speaker for social policy issues of the Green parliamentary party) than on health care policy specifically.²⁵⁴ Whatever ideas she may have held on health care, when she was appointed as Minister in October 1998, they became restricted by the task of implementing the Red-Green coalition agreement, which stipulated that the last reforms of the CDU/FDP coalition needed to be repealed. While doing so, she also faced the delicate task of achieving considerable cost-savings and complying with the coalition's declared goal to bring down non-wage labour costs, including health care contributions, leading her to resort to instruments of state-prescribed budgeting.²⁵⁵ This left little room for Fischer to voice her own ideas on policy, and the coalition agreement envisaged a substantial reform not earlier than the year 2000 (Brandhorst 2003: 215). Finally, Ulla Schmidt started out as an interim minister after taking over from Fischer who resigned in January 2001. Previously, she had been a social policy specialist for the SPD parliamentary party with no previous experience of health care issues,²⁵⁶ and lacked outspoken ideas on health care. Chancellor Schröder wanted her to calm relations with health care stakeholders after Fischer's turbulent period in office, and Schmidt was told to (and expected to) put off substantial reforms until after the 2002 elections.²⁵⁷ Her first months in office were accordingly marked by dealing with the current business of her predecessor Fischer. Her primary task was to take care of the stability of health care contributions and to avoid any policy moves that would provoke new protests by doctors.²⁵⁸ Indeed, the start of her term became synonymous with an "appeasement" of care providers, which, for instance, could be seen from her early decision to abolish budgeting rules for physicians (Brandhorst 2003: 217; Bandelow 2007: 18). In a nutshell, Schmidt started out more as a consensus-oriented administrator than as an innovator and her own policy ideas remained unspecified.

The above comparison demonstrates that Seehofer was the only Minister who had clear ideas on how he wanted to shape policy from the outset (and even before) and wasted no time in working out a reform concept. In contrast, Fischer and Schmidt's ideas to reshape health care policy did not become visible to the same extent, which makes them less likely to be ideational leaders; possibly because their first decisions in office were subordinated to political constraints. To conclude, on the basis of the additional criterion, the prior selection of Seehofer as a presumed ideational leader can be confirmed.

Horst Seehofer is a member of the CDU's Bavarian sister party CSU and served as Minister in the last two cabinets under Chancellor Kohl between 1992 (when he succeeded his unfortunate predecessor Gerda Hasselfeldt), and 1998. His career in the party ranks of the Bavarian CSU led him slowly but steadily to the post of State Secretary under Minister of Labour and Social Order Blüm, involving him in the preparation of the 1989 Health Reform Act (GRG). By the time he was appointed as Minister of Health, high hopes were set on Seehofer, not least by Chancellor Kohl himself. During his following six years in office, he would acquire a solid reputation for his determination to tackle the sector's problems and conduct change in an environment ridden by

²⁵⁴ 'Vulkan mit Kompetenz', *Der Spiegel* 44/98, p. 52-55

²⁵⁵ 'Andrea Fischer tritt Seehofers Erbe an', *Handelsblatt*, 14.10.98, p.4; 'Sozialreformen der Koalition stossen auf heftige Kritik', *Handelsblatt*, 11.11.98, p.1

²⁵⁶ 'Minister-Rücktritte: Gesundheit jetzt Sache der SPD', *Deutsches Ärzteblatt* 3/98, 19.01.01

²⁵⁷ 'Von der Krise zur Agrarwende', *Der Spiegel* 3/2001, p. 20-24; 'Schröders Feuerwehrfrau für heikle Aufgaben', *Handelsblatt*, 11.01.01, p.3

²⁵⁸ 'Neue Gesundheitsministerin steht vor alten Problemen', *Handelsblatt* 11.01.01, p.3

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

powerful interest groups.²⁵⁹ The case study will cover the six years Seehofer spent in office as Minister of Health, concentrating on the most important reform projects tackled during this time, the 1992 Structural Health Care Act and the 1996/1997 Health Care Restructuring Acts. Before analyzing and evaluating these reforms, I will introduce the particularities of the German health care sector.

7.3 Background on German Health Care Policy in the Early 1990s

Before embarking on the analysis of Minister Seehofer's reform legacy, I will provide a brief overview of the policy area, including its main actors and institutions, and an outline of the problems it faced at the beginning of the 1990's. Taken together, this forms necessary background information in understanding the subsequent analysis of reform processes during Seehofer's period in office.

7.3.1 Actors in the German Statutory Health Insurance (SHI)

German statutory health insurance is financed by payroll-based contributions, which are borne by employers and employees in equal parts. Employees and other members of the population are insured by sickness funds, as opposed to the state taking on this role. Financing is based on the solidarity principle, i.e. sickness fund contribution rates are set at a certain percentage rate of gross wages rather than based on personal characteristics of the insured. In addition, family members are also covered for the same contribution rate. The solidarity principle of the SHI implies that considerable redistribution occurs within sickness funds, which are supposed to be self-financing and are therefore obliged to watch their own budgets. There are various sorts of sickness funds, the most important distinction being between primary and substitute funds, which, for historical reasons, used to insure different segments of and professions in the working population. However, due to state requirements, their benefit packages were broadly similar, although significant institutional differences remained in place well into the 1990's.

Following on from this, the medical profession is organized and represented by various associations, such as the Associations of Sickness Fund Physicians (*Kassenärztliche Vereinigungen*, KVs), their federal umbrella organisation, KBV (*Kassenärztliche Bundesvereinigung*), and the physicians' chambers, united in the Federal Chamber of Physicians (*Bundesärztekammer*). Membership in these two is obligatory: the KVs are statutory providers of ambulant care to the community of the insured; they negotiate fees for their members and are involved in policy implementation, together with the sickness funds, which are subject to state

²⁵⁹ After the Kohl government was replaced by the Red-Green coalition led by Schröder, he continued to be involved in policy-making through his role as parliamentarian and social policy expert in the CSU parliamentary party before serious heart problems forced him to retreat from politics temporarily in 2001. Thereafter, in 2003, he negotiated a cross-party agreement leading to the 2004 Health Modernisation Act (GMG) with his successor, Minister of Health Ulla Schmidt (SPD). In 2004, he fell out with the CDU/CSU over an internal compromise over the future financing base of the statutory health care insurance (which he publicly criticised), and was forced to resign from most of his party posts. In November 2005 he returned to the forefront of federal politics as Minister of Agriculture and Consumer Protection in the Merkel government, but despite his new portfolio, he has since been speaking out in public on issues of health care and social policy more generally.

Chapter 7

regulation. In addition, doctors are organized in voluntary organisations such as the *Hartmannbund* and *Marburger Bund*, which are usually visible in doctors' protests and during negotiations of collective agreements, but formally, have little institutionalized influence on state policy making.

Apart from physicians, the other important group of health care providers are hospitals. Hospitals are administered by various organizations, from religious organizations to municipalities and regional entities to private investors. The administering bodies are represented by the German Association of Hospitals (*Deutsche Krankenhausgesellschaft*, DKG) and its corresponding branches in the *Länder*. In addition, pharmacists are organized - analogous to doctors - both on an obligatory basis in pharmacists' chambers, *Apothekerkammern*, and in the Federal Association of German Pharmacists (*Bundesvereinigung Deutscher Apothekerverbände*). Their profession is, however, much less involved in health politics and its institutionalized arenas of consultation and negotiation.

Finally, the role of the state in the statutory health care system is a mostly indirect, but nevertheless important one. On some issues such as hospital financing, the federal government shares its competence with the *Länder*. As regards the financing and the provision of health care, the federal state draws up regulations for sickness funds and health care providers, such as physicians and hospitals. Most importantly, it supervises the provisions of the statutory insurance and secures public access through corresponding requirements. These tasks include regulating contribution payments, setting the income threshold (which forms a ceiling for calculating individual contributions), and determining the range of benefits to be covered by sickness funds and offered by medical care providers. Finally, the state lays down the terms of cooperation between doctors and sickness funds, which has been called the 'corporatist settlement' (Giaino and Manow 1999:89).²⁶⁰ However, the competences of the state are, of course, not fixed in all respects: the reforms of the past fifteen years have resulted in a different role for the state relative to providers and insurers, as will be become clear during the discussion of reform outcomes.

In contrast to other social policy areas, the health care sector relies, to a considerable extent, on corporatist governance for its functioning. This form of governance relies on the cooperation of KVs and sickness funds, which are legally obliged - as private bodies under public law - to implement measures set out by the state in framework legislation. Implementation usually involves filling in the details of legislation through collective bargaining and by concluding agreements between the two parties, for instance, on remunerations of doctors and their terms of service. This far-reaching role in implementation is referred to as self-governance (*Selbstverwaltung*). Furthermore, KVs and sickness funds are also involved in the formulation of policies; they are represented in official consultations vis-à-vis the state by the KBV and the umbrella association of sickness funds. Self-governance is thus an instrument for the state to offer physicians and insurers a great deal of substantial autonomy, while indirectly steering their behaviour. However, it also allows the state to step in if self-governing bodies do not comply with their legal obligations to implement state policy. In such cases, the state is allowed to suspend self-administration of insurers and KVs, and to apply rule by decree, usually for a limited time (Giaino 2002: 92-93).

²⁶⁰ This settlement has his origins in the late 19th century history of the German health care sector to resolve intense class and group conflicts associated with the process of industrialization. It favoured doctors and employers over insurers and workers (see Giaino 2002: 89 ff.).

7.3.2 Problems of the Sector in the Early 1990's

When studying the development of German health care policy, one is inevitably confronted with rising costs of health care services, as well as with political efforts to contain them. Since the mid-1970's, the public health system has maintained the aim of cost containment in the statutory health insurance as its most important endeavour, irrespective of the composition of the governing coalition (Hinrichs 1994:6). Exploding costs of medical treatments and pharmaceuticals soon caused sickness funds' contribution rates to rise and, in turn, increased payroll contributions of employees and non-wage labour costs of employers. The last reform before the period considered in the case (1992-1998), the 1988 Health Care Reform Act (GRG) enacted under Minister Blüm, was the first to take up the goal of stabilizing contribution rates (*Beitragssatzstabilität*). Imposing this principle as a condition for all contracts in the health care system was a novelty, adding to the already existing goal of cost containment (Schneider 1991 in Giaimo 2002: 107). However, the measures adopted by this originally ambitious, but later on substantially watered-down law (Esping-Andersen 1990), did not offer relief for long. Although contribution rates had decreased initially in 1990, by the end of 1992, they were up again at over 13 percent (from 12.2 percent in early 1991), as health expenditures of all sorts had increased considerably. Sickness funds were forced to adjust contribution rates in order to balance their budgets. These increases in expenditures and contributions were related to the structural characteristics and incentives built into the system existing before the 1990's. These were designed in a way to keep the volume of health care provision expanding or, at least, not to encourage actors to restrict the supply, financing, or effective use of services (Gerlinger 2003). In this sense, the traditional policy of containing health care costs was faced with a trade-off: on the one hand, it set the goal of stabilizing contribution rates and controlling expenditure; on the other, it offered various financial incentives for providers to increase expenditures and thus health care costs.²⁶¹ Therefore, the problem of rising costs was intertwined with the existing structures governing the care provision and financing of health care, and any substantial reform effort had to tackle the two problems together. While the concerns about exploding costs were in themselves a sufficient reason for the government to start thinking about another reform; other economic and political considerations also troubled the newly re-elected Kohl Government. In the wake of unification, there existed already extra financial burdens for employees, such as the income tax surcharge (*Solidaritätszuschlag*) on incomes; thus, another increase in health insurance contributions was not particularly welcome. Employers, an important CDU constituency, were already complaining of competitiveness problems due to rising non-wage labour costs. Equally, pensioners, also an important clientele for the ruling CDU, would particularly suffer from further increases, since a recent pension reform had actually lowered pension levels. The concerns of these two groups were taken seriously by policy-makers, not least because in 1994, a series of elections were on the agenda. Faced with a total of fourteen elections, including local, *Länder* and European ones, and a federal election in the autumn, the Government decided that controlling non-wage labour costs, and thus social expenditure, should take priority, as part of a programme to improve the economic

²⁶¹ Until the early 1990s, these incentives included, for care providers (doctors and hospitals), the regulations governing financing and remuneration of health care provision; especially the per diem payment for hospital operating costs and individual transaction reimbursements for doctors. At the same time, for sickness funds, the system of regulated membership was factually securing their existence. Although they did try to avoid contribution rate rises, in the old system, the consequences of such rises for individual funds were rather limited (Gerlinger 2003: 6).

Chapter 7

situation, in order to avoid electoral losses (Giaimo 2002: 112). In turn, this choice made it necessary, amongst other measures, to take rapid steps in order to curb health care costs.

7.4 Analysis of the Politics of Health Care Reform

7.4.1 The 1993 Structural Health Care Reform Act (GSG)

7.4.1.1 Reform Goals and Measures

Seehofer's first major legislative project consisted of a whole package of provisions that clearly aimed at cutting costs and stabilizing SHI contribution rates. The goals cited in the bill were directly linked to the cost explosion in the health care sector:

The dramatic cost development in all areas of the statutory health insurance necessitates short-term cost-containment and structural reforms, which are to be effective in the long term. This Structural Health Care Act and the Law Amending the 5th Social Law Code are supposed to effect instant cost-savings and contribute, through structural measures, to a stabilization of contribution rates. As a result, the financial viability of the statutory health insurance will be ensured beyond the year 2000. Both bills distribute the burdens fairly over all parties involved.²⁶²

These goals were to be achieved through a range of short-term measures designed to tighten control over the budgets of several health care stakeholders. These measures were aimed at providers, insurers and patients alike, with care providers bearing the bulk of the desired cost-savings. Hospitals faced strict budgets for the period 1993-95 as well as new reimbursement arrangements; physicians working for the statutory insurance became subject to global prescription drugs budgets for the same period; and dentists' medical fees were to be decreased by 20 percent. Moreover, medicine expenditure paid by SHI would be subject to annual budgets and the pharmaceutical industry had to accept a price freeze for certain categories of medicines. Patients also had to contribute their share, as co-payments for medicine and stays in hospital were increased moderately, continuing in line with the 1988 GRG law, but avoiding undue hardship for weaker groups in society.

Most remarkably, the rules on sickness fund membership were to be relaxed from 1996 onwards, resulting in a virtually free choice of sickness fund for the insured. As a complementary measure, a financial risk-adjustment scheme was introduced, obliging funds with wealthier and healthier members to make transfers to poorer funds in order to introduce more equity into the heterogeneous sickness fund landscape (Arbeitnehmerkammer Bremen 2005; Giaimo 2002: 114-117). From a regulation perspective, the reform meant a 'particular mix of state intervention, market innovation, and continued corporatist self-governance', as it stood for state intrusion in sectoral self-governance; controlling the cost of medicine; an extension of extending joint tasks under corporatism; hospital reform; market mechanisms to enhance solidarity and efficiency; and an increase in patients' co-payments (Giaimo 2002: 114-117).

The crucial strength of the GSG was that, in the short term, it did indeed effect a reduction in health expenditure and it included a compromise that spread the burdens of such cost containment

²⁶² *Bundesrat DS 560/92, Gesetzentwurf der Bundesregierung – Entwurf eines Gesetzes zur Sicherung und Strukturverbesserung der gesetzlichen Krankenversicherung (Gesundheits-Strukturgesetz 1993), 14.08.92.*

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

equally among service providers (Interview BMG official, 27.01.06). In addition, the idea to change the role of sickness funds from being mere administrators into more pro-active and competitive organizations and to create a redistributive mechanism (in accordance with a redistributive health care system), were politically convincing and came at a time when sickness funds themselves were thinking about organizational changes (Interview health care policy expert 09.02.06).

7.4.1.2 The Reform Process

Horst Seehofer entered office on May 6th, 1992, taking over from Gerda Hasselfeldt, who had resigned at the end of April. She was generally seen as a weak Minister who was not up to her task. Minister Seehofer did not wait long before he embarked on his first reform project, making use of initiatives that had been developed within the Ministry and by the CDU parliamentary group (Esping-Andersen 1996: 258). In mid-May, he assembled the coalition's social policy experts and some Ministry officials, retreating for extended consultations lasting several weeks. From there, things proceeded quickly and the Ministry draft bill (*Referentenentwurf*) was approved by the Cabinet in August (ibid: 259). After that, Seehofer explored ways of winning the SPD parliamentary group for a "grand coalition" on the issue of health care reform. When he had received signs that the SPD was willing to compromise, he sought and received approval for his approach from the relevant chairmen of the coalition parties (Kohl and Waigel for the CDU/CSU, Kinkel for the FDP).

The following step was to convene talks between the governing coalition and a negotiating commission consisting of representatives of the *Länder* and the SPD parliamentary group in the town of Bad Lahnstein. In order to put extra pressure on those participating, the starting date was October 1st and the end date October 4th, leaving the negotiators only three full days to find the contours of an agreement (Interview former SPD MP, 24.01.06). During the Lahnstein talks, Seehofer's initial concept was complemented by new elements, such as the organizational reform of sickness funds leading to a risk compensation scheme (*Risikostrukturausgleich*). This occurred by way of a compromise with the SPD's negotiation leader and vice-chairman of the parliamentary party, Rudolf Dressler. While Seehofer had tried to involve interest groups in the main round of the negotiations, the SPD had blocked this endeavour. As a consequence, Seehofer only met with representatives of health care stakeholders before and during breaks between the main negotiation rounds (Perschke-Hartmann 1994: 260). At the end of the Lahnstein talks, both parties presented core points for the reform, and continued to discuss remaining contentious points, in a meeting with the personal participation of the Minister. In this fashion, a new draft bill was produced and presented to the *Bundestag* in November, where the parliamentary proceedings went relatively smoothly.²⁶³ With regard to the public expert hearings in parliament, the view of the pharmaceutical industry was exemplary for the way the Ministry dealt with interest groups in this process. Hardly any viewpoints suggested in the hearings, either by themselves, or by physicians or pharmacists, entered the draft bill, which, according to these groups, questioned the value of such hearings (Interview VfA representative, 15.11.05). Indeed, the public hearings in the *Bundestag* of experts and interest groups brought few changes to the draft bill (Pierson 1994: 27). All in all, the GSG was concluded with great speed, as Table 7.1 illustrates:

²⁶³ The *Bundestag* committee advice was announced by the Health Committee, overruling some doubts of the Legal Committee on the lawfulness of limitations on doctors' registration procedures and making only minimal amendments to the draft (Perschke-Hartmann 1994: 259).

Chapter 7

Date	Event
June 2, 1992	Announcement results from Ministry talks
July 14	Ministry draft bill
August 12	Cabinet decision on bill
1 st week of October	Lahnstein talks with SPD
November 5	New draft bill in BT
December 9	2 nd reading bill in BT and adoption
December 18	BR approves bill
January 1, 1993	GSG comes into effect

Table 7.1: Chronology of the GSG (BT= Bundestag, BR= Bundesrat)

The Politics of the GSG

Prior to evaluating the character of the GSG, I will identify and discuss the different factors that aided its adoption. Thereafter, I turn to the role of Minister Seehofer to illustrate how he operated in this process and to what extent his behaviour confirms his choice as presumed ideational leader. The literature describes the process leading up to the GSG as well as the outcome as exceptional compared to earlier reforms (cf. Pierson 1996; Pierson 2000; Bonoli and Palier 2000a). The GSG has been associated with ‘a break from the politics of inclusion’, referring to the successful strategy of excluding health care stakeholders from the process of policy formulation (Giaino 2002: 111 ff.). Furthermore, it has been described as effecting a re-direction of policy (*Weichenstellung*), although this did not mean the end of reforms in the health care sector (Reiners 1993: 43). If one recognizes that the GSG indeed broke away from the past in many respects, it is instructive to investigate the reasons for this. The secondary literature on the GSG, as well as evidence from my own interviews, suggests three factors.

First of all, the extra-parliamentary agreement between the coalition and the SPD is considered, in most of the literature and by the majority of interviewees, to be the main reason why the GSG could eventually succeed. Although the pact between the two sides was officially justified by the need to muster a *Länder* majority in the *Bundesrat*, there was also another reason, as Perschke-Hartmann (1994) has noted. The cross-party agreement offered a unique possibility for balancing contrary positions: measures for the organizational reform of sickness funds could be adopted - thanks to SPD backing - across coalitional party lines. As a SPD participant of the Lahnstein talks confirmed, Seehofer knew that he needed to get the SPD-led *Länder* on board in order to secure both agreement in the *Bundesrat*, and to convince the CDU/CSU and FDP parliamentary parties to participate (Interview former SPD MP, 24.01.06). As a matter of fact, Seehofer himself took the opportunity to invite the opposition to join in consensus talks with the coalition, referring also to earlier pacts:

Ladies and Gentlemen, since we need approval for this law, and since we are dealing with a complex and serious issue matter, I would like to invite the SPD and the *Länder* – on behalf of the coalition. I also ask you not to misinterpret this offer. Neither are there coalition-specific tactical motivations behind it nor do we have the intention of pitting partners against each other. I think if one needs approval, it is wise to seek talks as

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

early as possible, but not only because of the need for approval. Since other reforms (labour promotion statute, pension reform and extension of pensions to the new *Länder*) have been concluded in a cross-party agreement, it would be good if we could replicate this in the difficult area of health care and statutory health care insurance. I invite everyone involved to do so.²⁶⁴

Cross-party cooperation also gave the Minister a strong instrument against interest group protest, especially with a view to the fierce resistance of doctors and dentists. Seehofer could, in the face of their demands to change the reform concept, refer to even more radical SPD concepts concerning measures for care providers (Webber 1989). From the Ministry's perspective, the overall criticism of interest groups could be borne much more easily, as a result of the cross-party agreement, than without it (Interview BMG official, 27.01.06). In theoretical terms, this factor can be seen as a consequence of Seehofer's willingness to engage in consensus-building efforts with a view to bringing his reform plans to a successful conclusion: this is one aspect of IL which justifies Seehofer's selection as presumed ideational leader. I will return to this in the context of the Minister's political style and personal characteristics in Section 7.4.1.2.

The GSG also owed its adoption to a new approach in the Ministry's dealings with health care stakeholders (apart from the possibilities offered by cross-party cooperation just mentioned), coupled with certain procedural choices. In fact, the reform broke with a tradition of dealing with interest groups that dated back to Chancellor Konrad Adenauer (Interview policy analyst 10.11.05). From Seehofer's perspective, this change of approach was absolutely vital in avoiding the mistakes made in previous reform processes, as can be seen from the experience of his predecessor Blüm in working out the 1988 GRG (Schmidt 2002b). That reform had seriously been watered down in the process, because the Ministry allowed interest groups to influence crucially both the concept and the process of implementation. In the run-up to the GSG, however, Seehofer distanced himself from interest groups, especially towards doctors and dentists' associations, allowing them at best a role on the side-lines. Now, with the cross-party agreement in place, the traditional representative of the professions, the FDP, had been forced into the defensive, which meant that this channel of influence was effectively blocked for interest groups. Traditionally voicing the interests of the self-employed and the professions, FDP parliamentarians had openly been referred to as the 'forty-six helpers in times of need' by physicians (Interview DKG representative 22.11.05). In 1992, the situation had changed, as the former KBV chair phrased it: 'Reform critics thus had no partner left in the political arena, not even the FDP. We were powerless; no longer having political allies' (Interview former KBV chair 16.11.05). The pharmaceutical industry also found itself in a defensive position. More specifically, at the time it was portrayed as the perfect "cash cow", while its influence on health policy formulation tended to be grossly overstated (Interview VfA representative 15.11.05). Finally, the dealings of Seehofer with the German Hospital Association (DKG) were symptomatic of the new approach towards interest groups. At a biannual meeting of the advisory group '*Konzertierte Aktion für das Gesundheitswesen*', he took the opportunity to criticise the DKG heavily for the extreme expenditure growth of its members (Interview DKG representative, 22.11.05). Furthermore, this new approach also meant a new form of negotiation with interest groups, as the room for negotiation was now defined by the government unilaterally and not by both sides together, as had previously been the case (Ross 2000b: 263).

²⁶⁴ Speech of Minister Seehofer to parliament at the first reading of the GSG, *Bundestag* plenary protocol 12/105, 11.09.92, p.8995

Chapter 7

In addition, besides distancing from interest groups and closing off their lobbying efforts, some procedural factors helped Seehofer to achieve a breakthrough: among them were the choice for a rapid drafting of the bill, and the choice to enter into extra-parliamentary negotiations with the SPD, even though the legislative process had already started. After July 1992, when parliamentary proceedings and parallel negotiations with the opposition were taking place, interest groups found it hard to follow the details under discussion and also to intervene. Possibly, this parallel process was even set up intentionally to confuse and keep health care stakeholders at bay (Reiners 1993:26). With regard to the course and the openness of the reform process, it seemed that policy-makers were anxious to avoid all errors committed during the reform process of the GRG. When interpreted in this manner, a different course of action, based on learning processes, contributed to the conclusion of the GSG.

Furthermore, an increase in pressures stemming from financial and economic problems certainly contributed to the conclusion of the reform. The main sources of this pressure were, firstly, an increasing political intolerance to rising contribution rates, which, in turn, increased non-wage labour costs with adverse effects for the competitiveness of business and the economy as a whole. Secondly, the financial burdens of reunification and the effects of competition expected after the finalization of the Single Market within the EU, exacerbated fears of an economic downturn. Finally, there were spill-over effects from other policy areas: the threat of increasing contribution rates for pensions would bring extra burdens on pensioners (and was considered an electoral risk), and an additional increase in health contributions was seen as unacceptable (Giaino 2002: 111). While these developments worried policy-makers, on the other hand, they strengthened the political determination of the partners in the informal coalition, decreasing their sensitivity to interest groups' demands and their readiness to make substantive concessions (Perschke-Hartmann 1994: 261-262). In addition, and turning to the reasons for including organizational aspects of sickness funds in the GSG, Seehofer knew of the urgent need to reform the sickness fund sector. At the time, it included over 1200 individual funds with sometimes considerable differences (up to 10 percent) in contribution rates (Interview former SPD MP, 24.01.06). This fragmentation created an overhead of administrative costs and implied substantial inequalities for the insured.

The fact that pressure was mounting from different sources, provided a motive sufficient to begin without delay the drafting of a reform bill (Interviews policy analysts 10.11.05 and 11.11.05). In addition, from the Minister's perspective, the fact that the political success of Ministers of Health is linked to their ability to stabilize contribution rates was also a crucial incentive to act (Interview BMG official, 27.01.06). This view was reinforced by Seehofer himself who, on different occasions, took the opportunity of presenting several indicators of economic and financial pressure as sufficient motivation to tackle reforms immediately.

The situation is not only serious. I say this deliberately: the situation is dramatic. We booked a deficit of 5.5 billion Marks in 1991 and this year we expect a deficit of at least 10 billion Marks. The expenditure rises which were 10 per cent in 1991 and twice as high as the rises in contributions, have been gaining momentum in the first quarter of 1992 (...) Ladies and gentlemen, this is a dramatic situation. Not to engage with it and failing to act would be simply irresponsible.²⁶⁵

Record-breaking contribution rates in the old *Länder*, record-breaking deficits in the history of social insurance in the health care sector and deficits in the new *Länder* – there can only be one answer to this: we

²⁶⁵ Speech of Minister Seehofer at a debate on health care policy, *Bundestag* plenary protocol 12/98, 24.06.92, p. 8125

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

cannot allow this to continue. In this situation we do not need red cards, colourful posters or noisy conferences. What we need is the willingness to act. This coalition has the courage to do so.²⁶⁶

Seehofer's personal concern about such pressures, which he saw as an incentive to improve on the status quo situation, may be interpreted as an indication of another aspect of IL, the concern with exposing policy failure. At the same time, the Minister never pleaded for the abolishment of the SHI, but rather for its adaptation, guarding the principle of solidarity but introducing a principle of contribution stability or expenditure-centred policy (assuming that SHI expenditures need to be covered by its income from contribution). This aspect will also be taken up in Section 7.4.1.2 below. Finally, the fact that there had been a change at the top of the Ministry, leading to a change in political style, was a last but crucial factor in influencing the adoption of the GSG. As Seehofer's role is of central concern to this chapter, it will be dealt with separately in the following sub-section.

***7.4.1.3 Seehofer's Role in the GSG Process: A Minister 'Taking on the Sharks'*²⁶⁷**

Considering the different facets of Minister Seehofer's role is not only of substantive interest (in order to evaluate the hypothesis on the link between IL and structural reforms), but it also serves to back up his selection as a presumed ideational leader. By distinguishing several aspects of the Minister's conduct and personal qualities that together describe his role in the process, and by matching these, where possible, to the aspects of IL as they were used in previous case studies, it is possible to conduct an additional check as to whether Seehofer's selection as ideational leader was justified.

From the previous discussion, it followed that Seehofer contributed to each factor speeding up the reform process. In this sub-section, I will argue that at least two of the factors identified above were intertwined with his personal determination and commitment: the new approach towards interest groups and the cross-party agreement. That Seehofer was determined to shape the reform process in crucial ways did not only depend on his personal qualities, but was also due to a political learning process related to his previous experience as Parliamentary State Secretary of Minister Blüm (Interview policy analyst 11.11.05). Blüm had been notorious for his conflictive but permissive relationship with interest groups, which contributed to the failure of his proclaimed "reform of the century", the 1988 GRG. Seehofer represented a break from his predecessor's political style and practices, as he seemed determined at all costs to avoid a repetition of the errors made. At the first reading of the GSG in parliament, Seehofer referred to a remark of a physician representative, who had allegedly proclaimed 'we physicians want our Norbert Blüm back'. By this, the Minister implied that from the perspective of physicians (who had just begun to protest against the GSG), Blüm, in retrospect, appeared to be the lesser of the evils.²⁶⁸

The first aspect of his role relates to how Seehofer dealt with interest groups. As one policy expert noted:

Initially, I was surprised at how Seehofer freed himself from the pressure of interest groups. He literally stood there as a rock, presented his reform concept and made it clear that this reform was a task for the whole of society and especially those making money in the system.(...) For someone with a CSU background - who can be expected to be care provider-friendly - this was very remarkable (Interview health policy expert, 09.02.06).

²⁶⁶ Speech of Minister Seehofer at the first reading of the GSG, *Bundestag* plenary protocol 12/105, 11.09.92, p.8988

²⁶⁷ Several observers have referred to the German health care sector and its stakeholders as a 'pool of sharks', which illustrates the usually uncomfortable task of Ministers who are responsible for this policy area.

²⁶⁸ Speech of Minister Seehofer at the first reading of the GSG, *Bundestag* plenary protocol 12/105, 11.09.95, p. 8988.

Chapter 7

Seehofer's boldness in dealing with interest groups, and particularly with representatives of care providers, was both infamous and effective, as two examples will illustrate. Apparently, the Minister publicly stated that physicians had agreed to new budgeting rules while he had merely consulted a leading KBV representative on various options of implementing these budgets (Interview former KBV chair, 16.11.05). Another stakeholder, the DKG, found itself confronted with Seehofer's "carrot and stick" methods: they had the choice either to implement envisaged changes to hospital remuneration voluntarily, or their association would be converted into a body of public law, which would effectively oblige them to implement whatever the legislature required (Interview DKG representative, 22.11.05).

One of Seehofer's personal characteristics that became relevant in dealing with interest groups was that he never seemed to be afraid of confrontation but wanted it to be fair, observing rules of mutual respect and decency. He 'kept appearing at events of interest groups, not shying away from confronting his critics' (Interview policy analyst 11.11.05). For instance, when faced with a large dentists' strike in the Rhineland region, the Minister was not impressed. Reportedly, his reaction was to turn up the pressure on care providers in order to save money: 'I am going to make them all carry out their duties'. Exactly the same statement he had made shortly after his inauguration as Minister in June 1992, underlining his determination from the start.²⁶⁹ In addition, he was well informed about his opponents' arguments and knew how to enter into a dialogue with those affected by the reform, so that they felt they were being taken seriously, even if Seehofer finally did not accept their arguments (Interview CDU/CSU parliamentary party employee 23.01.06). From the opposition's perspective, he 'displayed a tendency towards populism that certainly earned him the admiration of journalists' but, at the same time, 'he possessed what politicians need and what earns them respect: competence and courage to confront political opponents' (Interview former SPD MP, 23.01.06). Notwithstanding his sometimes confrontational style, 'he kept justifying his plans, showing interest groups where their limits were, often under loud disapproval of those present' (Interview policy analyst 23.11.05). That he had acquired the nickname "most-hated Minister" did not stop him from patiently making his case for the proposals over and over again. Furthermore, he resorted to the practice of "naming and shaming": in reaction to the exaggerated campaigns of doctors and pharmacists against the GSG's provisions, he urged health care stakeholders participating in the process to stick to the truth and to stop defaming political actors in the course of a democratic process of opinion-forming. He also reminded these actors of their special responsibility to those in need of medical attention:

Notwithstanding the need to confront each other with arguments, and despite our ongoing dispute, which will continue in the weeks to come, I am calling upon doctors: beware of getting patients involved in the confrontation! (...) I want to appeal to your sense of responsibility. Think of the fears you are spreading amongst patients if you circulate such information [about supposed restrictions on necessary treatments due to the reform], despite knowing better or because of ignorance (Seehofer 09.12.92, p. 10947).²⁷⁰

From the ways in which Seehofer approached lobbyists and health care stakeholders, we can

²⁶⁹ 'Wir müssen härter rangehen', *SPIEGEL*-interview with Minister Horst Seehofer, 03.08.1992, source: <http://www.spiegel.de/spiegel/0,1518,380995,00.html>

²⁷⁰ Speech of Minister Seehofer at the final reading of the GSG, *Bundestag* plenary protocol 12/127, 09.12.92.

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

deduce both a determination to change the policy status quo, at least as far as the relationship with interest representative were concerned (IL aspect 1), and to deal with the resistance of reform opponents (IL aspect 3).

The Minister combined this open but firm approach towards health care stakeholders with other personal qualities that were useful for keeping the reform out of trouble, and which underscored his ability to promote and legitimize reforms. His personal credentials include a reputation of expert knowledge coupled with self-confidence and an ability to persuade people and to create public acceptance for policy proposals. The mix of professional competence, charm and openness in dealing with interest groups contributed to his good reputation in health care circles, and helped him to continue working as social policy specialist for the CDU/CSU parliamentary party after leaving office in 1998 (Interview CDU/CSU parliamentary party employee 23.01.06). His professional competence also owed much to his closest aides in the Ministry, in particular those heading the relevant departments, who strongly supported him (Interview health policy expert, 09.02.06). Besides, this knowledge and competence surely helped the Minister in coming up with a coherent pattern of argumentation to legitimize the GSG, as is to be expected from a politician who exhibits IL. Seehofer indeed made clear the overall goal of the health care system, defined goals of the reform (and explained its connections with the contents of the reform), and explained why the reform was also acceptable in normative terms:

I stick to my argument: we Germans can count on a qualitatively high-grade health care system; I even think the best one in the world (...) Ladies and gentlemen, I want to maintain the quality of our statutory health insurance and the health care sector for everyone. This is what this reform intends to do, by securing the functioning, the quality, and the financial sustainability of the SHI.²⁷¹

The Minister also argued that ‘it is possible to reduce an undesirable quantitative extension of health care provision, that is, inefficiencies in health care policy, without harming the necessary and high quality health care provision for German citizens’. In order to ensure the goal of maintaining high-quality health care, avoiding the future rationing of services, a necessary precondition was to make sure that ‘the SHI is also capable of financing the protection it promises to those it insures. This is why we do not take anything away from it, but secure the financial basis of the scheme. This is the underlying political goal’.²⁷² In addition, this meant to tackle its underlying structures:

Since in these days we see attempts to confuse parliamentarians on questions of detail in order to create confusion and insecurity, I would rather stress again the two main elements of the reform (...). Ladies and gentlemen, it is now of utmost importance that politicians find the strength not only to stop expenditure rises but also to change structures. Politicians must go directly to the root of the problems.²⁷³

As for the first cornerstone of the GSG, immediate curbs on expenditure rises in order to stop contribution rates increasing even further, Seehofer made a threefold argument against contribution rises, labelling them as ‘wrong in terms of health policy’ (inviting inefficiency and wastefulness), ‘economically dangerous’ (raising non-wage labour costs and endangering jobs)

²⁷¹ Speech of Minister Seehofer at the third reading of the GSG, *Bundestag* plenary protocol 12/127, 09.12.92, p.10944

²⁷² Speech of Minister Seehofer, *Bundestag* plenary protocol 12/117, 05.11.92, pp. 9932-9933

²⁷³ *ibid.*, p.9933

Chapter 7

and ‘socially unjust’ (burdening contribution payers).²⁷⁴ By adding this last aspect, Seehofer also linked normative considerations to the goal of achieving immediate savings, which he explained as follows:

I consider a health care system as unjust if we, on the one hand, spend billions on inefficiencies and an undesirable quantitative expansion of health care services, and on the other hand lack the necessary funds for great social policy challenges. I think politicians have an ethical obligation to redirect funds from the sources of wastefulness towards other tasks, where these funds are necessary for people in need, e.g. those dependent on long-term care.²⁷⁵

Another important normative argument in justifying the shape of the final reform concerned the just sharing of burdens implied by the reform:

I think that in the present political situation we have a common political obligation (extending beyond the SHI), to do our best to share as far as possible the burdens of unavoidable savings programmes. I think we have succeeded here in doing so, as care providers bear three quarters and patients and insured one quarter of the savings.²⁷⁶

In short, this selection from Seehofer’s argumentation in favour of the GSG makes it clear that he was able to come up with a discourse explaining why the reform was necessary, and to what extent it was also acceptable in normative terms. In this sense, this facet of his role in the process, based on personal competence and knowledge, may be related to the second aspect of IL.

With respect to the gathering of necessary support for his reform proposal, another personal quality became important: Seehofer surely had the ability to perceive and exploit chances that were presented along the way. Although being faced with substantial pressure, he knew how to capitalize on it, which eventually enabled him to open up a window of opportunity, namely embarking on the course of reform with the opposition on board. One interviewee put it this way:

He had the ability to sense what had to be done in the SHI and took up proposals from critically thinking institutions, which was a courageous step forward. Then, he succeeded in convincing people that these proposals were correct in the sense of improving the sustainability and future position of the SHI (Interview health policy expert, 09.02.06).

Most importantly, it was his recognizing the chances for concluding a cross-party agreement that made him approach the SPD, and in SPD social policy expert Rudolf Dressler he found a like-minded partner: ‘Seehofer knew how to keep party-political divisions open for consensus in negotiations - given the background scenario of increasing contributions - and keep them committed to common problem-solving, the task at hand’ (Perschke-Hartmann: 264). In the pre-Lahnstein situation, both Seehofer and Dressler capitalized on the constructive political climate, making use of the power of persuasion (associated with professional competence), and the good chemistry between them as chief negotiators. More generally, the role of a Minister in achieving such a cross-party consensus is a crucial one, and such consensus is only possible with a Minister who succeeds in selling one’s policy (or reform proposal) politically, which was obviously true in Seehofer’s case (Interview BMG official, 27.01.06). This was confirmed by a source, who argued that ‘the chief negotiators treated each other with personal respect and knew each other’s limits in

²⁷⁴ Speech of Minister Seehofer, *Bundestag* plenary protocol 12/105, 11.09.92, pp. 8988-8989

²⁷⁵ *ibid.*

²⁷⁶ Speech of Minister Seehofer, *Bundestag* plenary protocol 12/105, 09.12.92, p.10946

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

terms of negotiating positions' (Interview CDU/CSU parliamentary party official, 23.01.06). Reflecting on the results of the strategy, he chose to reach a cross-party agreement and a compromise was reached, which Seehofer characterised as follows:

We as policy-makers have, with this reform, taken up and used a unique chance in the last weeks and months (...). Against all claims to the contrary, this compromise has not yielded a minimal solution, but in my opinion, an optimal one (...). There has been a fair balancing of interests between four parties with each one giving and taking (...). I have experienced the talks and have tried to contribute as a broker to this compromise, so that everyone could return to their clientele, looking them straight in the eye.²⁷⁷

Apart from the value of the compromise in terms of settling the details of reform, he saw its greatest benefit in more abstract terms, since it 'demonstrates the capacity of parliamentary democracy to act, which, in turn, increases public confidence in the system'.²⁷⁸ This last aspect of Seehofer's role in the reform process, his capacity to take chances in order to gather reform support is reminiscent of the fourth aspect of IL, which is concerned with politicians who make efforts to build consensus for reform.

To sum up, this sub-section has presented several facets of the Minister's way of acting and further explained his role in the GSG reform process. Specifically, I have looked at his particular way of dealing with interest groups, influenced by political learning and informed by his characteristic of engaging in tough but fair debate with critics; his other qualities such as self-assurance and professional competence that fed into his ability to promote and legitimize reforms; and his capacity to create and take chances in order to gather necessary support. I have argued that each of these (behavioural or personal) facets can be re-interpreted as aspects of IL, as formulated in my theoretical framework. With the exception of aspect 5 (policy-orientation), which has proven difficult to demonstrate, all other aspects of IL (turning away from the status quo, legitimizing new policy, engaging with reform critics, efforts at consensus-building) were shown as elements of Seehofer's behaviour. On this basis, it seems plausible that Seehofer conformed, in the GSG reform process, substantively to the criteria of the IL framework.

7.4.1.4 Was the GSG a Structural Reform?

The analysis so far has established that the role played by Minister Seehofer was crucial in the realization of the GSG. Since the central question in this case study is whether a presumed ideational leader also achieved structural reforms, it needs to be established whether the GSG was structural. My approach will be to review the stance of various authors on this question and then ask, applying my own criteria for structural reform, whether the provisions of the GSG induced shifts in the three dimensions of the policy structure (financing, care provision and regulation). As observed above, the GSG introduced a mix of budgeting instruments, particularly aimed at care providers; an organizational reform of sickness funds concerning whom they could insure (freedom of choice for patients regardless of their occupational status); and a redistributive financial risk-adjustment scheme. To what extent were these changes structural shifts?

Regarding judgements of the GSG in the health care policy literature, it appears that authors do not exactly agree on its significance. Brandhorst (2003: 212), for instance, notes a 'paradigmatic change' from corporative coordination to a different system of incentives, in which

²⁷⁷ Speech of Minister Seehofer, *Bundestag* plenary protocol 12/117, 05.11.92, p.9936.

²⁷⁸ *ibid.*

Chapter 7

actors adapt their behaviour, on the basis of their own financial interests, to the goals of limiting both expenditure and the quantity of care services.²⁷⁹ Likewise, and taking a long-term perspective, Rosenbrock and Gerlinger (2004:249) state that the GSG ‘marked the beginning of a process of drastic change, which the legislature continued to pursue with the ‘third stage’ of health care reform and the 2000 SHI reform, and which continues to characterize health care policy at the beginning of the 21st century’.²⁸⁰ In contrast, some locate the GSG somewhere between a paradigmatic change and an adjustment of existing policy instruments: ‘the GSG does not represent a fundamental paradigmatic change, but it extends the instruments of the cost containment strategy [...] In addition, the GSG contained various elements, which were more aimed at efficiency and competition in the health sector’ (Luke 2000: 5). Others argue that against a background of two decades of incremental reform, the GSG ‘stands out as exceptional’, introducing ‘a multiplicity of structural reforms to the health sector’(Blondel 1987: 977).²⁸¹ Finally, the GSG has been characterized as an ‘emergency brake operation to control the hike of health expenditure’ but also as symptomatic for a ‘reorientation of health care policy, which almost “imperatively” brings about more far-reaching steps of reform’ (Schmidt 2002b: 132-133).²⁸² These judgements confirm that the GSG was an outstanding reform in the context of the early 1990s, i.e. compared to the immediate past, although they differ on exactly how far-ranging and significant the reform was.²⁸³ While indicating that it went beyond an incremental reform, it still needs to pass the test of a structural reform according to the criteria of this project, to which I now turn.

Beginning with the financing structure, the GSG introduced measures which affected, but did not change this aspect of the system. The increase in patients’ co-payments can be seen as a slight shift from contribution financing to private financing of care and service provision, but, importantly, it did not change its contribution-centeredness: on the whole, the financing structure of the system thus remained untouched. With regard to the structure of care provision, the diagnosis is similar: the extensive introduction of budgeting did create new rules which care

²⁷⁹ For Brandhorst, this is visible in the end of state-regulated sickness fund membership; the risk-adjustment mechanism for avoiding competition about healthy and wealthy members; the change of the compensatory system in the hospital sector (more competitiveness through a prospective budgeting system; and linking doctors’ and hospital remunerations and expenditures for medicine to the development of wages for 3 years).

²⁸⁰ Furthermore, the authors stress that the particular contribution of the GSG was to introduce a number of steering mechanisms, which durably changed actors’ incentive structures, for instance, by allowing competition between sickness funds and the introduction of lump-sum payments or individual budgets for care providers.

²⁸¹ Without defining structural reforms in detail, Giaimo and Manow noted changes in the financing mode of hospitals; the sickness fund risk-adjustment and free choice of sickness fund; the ceilings on care provision expenditure; and restrictions on doctors to set up practices.

²⁸² Hinrichs argued that the cost-containment measures allowed time for the preparation of further reforms, while the organisational reforms concerning sickness funds already established some prerequisites for a structural reform, which could also question established principles.

²⁸³ The conversations with experts and other close observers of health care policy revealed that 13 years after the adoption of the GSG, opinions on the GSG are (still) divided: some of them point to the short-lived character of some of its provisions and the abandonment of others (Interview policy analyst, 10.11.05). Others still see it as ‘paradigmatic’ (Interview policy analyst 23.11.05), and ‘a structural reform to a certain extent’ (Interview policy analyst 11.11.05) while other close observers rather think that it was a reform that defined a direction for further structural reform. However, at the time of its adoption, and with a partially failed reform predecessor, the GSG must have appeared more spectacular than we can grasp today. Another observation from the conversations was how little overall agreement exists on the definition of the term ‘structure’ in the field of health care. Interest group representatives tend to define structure somewhat narrower, i.e. regarding the institutions applying to their own clientele (Interviews DKG representative 22.11.05 and former KBV chair 16.11.05) than the wider definition adopted and used in this study, which covers the three main dimensions of a policy area.

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

providers had to respect, but they did not change the existing division of work between the different care providers in the ambulant or the stationary (hospital) sector.

By contrast, the regulation structure of the sector did undergo notable change through the organizational reform of sickness funds. Sickness funds form an intermediary between the regulating state and the care providers in a more narrow sense: in their role as insurers they receive, administer and spend insurance contributions for the services of care providers, on behalf of patients. The introduction of freedom of choice between sickness funds for the insured aimed to make funds on the whole more competitive, and the financial risk-adjustment scheme was designed to put them on a fair financial base. This meant a huge shift from a strictly state-regulated and fragmented system towards a more market-like constellation.²⁸⁴ In addition, the regulation structure saw another, although temporary, shift from self-governance to state regulation. Self-governance of care providers was infringed upon by the Ministry's introduction of budgets and, in the case of pharmaceuticals, a price stop. The latter two measures managed to rein in price rises and, in the case of the pharmaceutical industry, caused double-digit losses in turnover (Interview VfA representative 15.11.05). More specifically, the state as part of the management structure made use of its competence to rule by decree, in case self-governing bodies failed to carry out their work, which was the case in the wake of GRG (Giaino 2002: 114).

To conclude, to what extent was the GSG a structural reform? It was structural as far as the regulation structure was concerned, but it did not transform the sector's finance and care provision structures. By changing the role of the state and the organization of sickness funds, the regulation of health care was notably affected by the provisions: through the GSG, the state, on the one hand, reaffirmed and strengthened its regulatory role, even though some elements, such as the budgets, were only meant to be a temporary step; on the other hand, it introduced market-oriented elements, i.e. the patients' right to choose sickness funds freely, and therefore competition between funds. While finance and care provision structures were hardly affected, there was a strengthening of the state in regulatory matters and a greater role for the market, through the introduction of competition between funds. The latter was the actual innovation of this reform, which was successfully adopted under Seehofer's auspices.

7.4.2 The 1997 Health Care Reorganization Acts (1./2. GKV-NOG)²⁸⁵

7.4.2.1 Reform Goals and Measures

In 1995, Seehofer and his Ministry initiated consensus talks involving the 'essential partners in the health care system' to draw up legislation to develop a 'concept for a quality-oriented and financially viable future of our health care system that one can consent to in its essential elements'. With regard to the instruments needed to achieve this, an internal CDU/CSU memorandum stressed in March 1995 that 'taking out services, increasing co-payments or improving the financing base of the SHI are not the main focus of the health care reform', but rather 'creating new structures which enable self-governing bodies to confront flexibly the dynamics of the health

²⁸⁴ The conscious choice for more competition in this part of the health care system was also characterized by some respondents as a clear structural change (Interviews sickness fund analyst, 22.11.05, and policy analyst 23.11.05).

²⁸⁵ Since the laws discussed in this sub-section are strongly connected in terms of their goals and content, the discussion of the reform processes and politics will be combined. Note that the NOG laws will be treated in more detail than its predecessor, the Contribution Relief Act, which merely serves to illustrate the origins of the NOG laws and the conflictive character of policy-making at the time.

Chapter 7

care system'.²⁸⁶ However, the plan to reform self-governance without putting new burdens on patients did not materialize, and by the end of 1996, the government's turnaround on equal burden-sharing would be complete. In a message to CDU/CSU and FDP parliamentarians, it was argued that

The opposition parties (SPD and B90/The Greens) want to abolish co-payments: this is a populist proposal that would lead to the financial collapse of the SHI; [on the contrary] we need to strengthen the self-responsibility of individuals, co-payments are an indispensable component of finance health care services.²⁸⁷

By the spring of 1996, the Ministry of Health had prepared an emergency law, signalling the end of equal burden sharing. The rationale for this so-called Contribution Relief Act (*Beitragsentlastungsgesetz*) was that 'unemployment has reached a level that threatens the economic base of the welfare state'; 'the level of taxes and non-wage labour costs' was identified as the main culprit.²⁸⁸ Its measures were clearly designed to contain costs in the short term and included: a forced reduction in statutory health insurance contributions; creating more space in hospitals by applying long-term care provisions; considerable increases of co-payments for medication; abolishment of sickness fund subsidies for glasses frames and dental replacements; a reduction of statutory sickness pay by 10 percent and the reduction of funding for sickness prevention. The aim of these measures was to keep contribution rates stable in the year 1996 and reduce them by 0.4 percent in January 1997, which would amount to lowering the average rate from 13.4 to 13.0 percent.²⁸⁹

At the same time as the Contribution Relief Act was drawn up, the coalition had launched two other bills in its further pursuit of the 'third step' of health care reform, the so-called GKV-WEG (*Weiterentwicklungsgesetz*) and a reform of hospital financing (*Krankenhausfinanzierungsreform*). Both laws needed *Bundesrat* approval, but had been rejected on 12 September 1996. After that date, Seehofer invited delegates of the SPD and Greens parliamentary parties and the SPD-led *Länder* (essentially following the approach taken at Lahnstein in 1992) to explore whether there were possibilities for a renewed cross-party agreement. However, it soon became clear that this was out of the question. The SPD's Rudolf Dressler defended - in retrospect - the party's unwillingness to cooperate:

The offer of the government and the coalition to our party faction implied that we lend our support to the anti-social elements of the legislation which will be voted upon today. That is legitimate. But [...] it is equally legitimate for us to decline this offer categorically.²⁹⁰

Since the opposition refused to cooperate, work on the GKV-WEG was terminated, and the government had to choose another course of action, which eventually led to the proposal of, as an alternative, the two SHI Reorganisation Acts or NOGs (Interview BMG official, 27.01.06). In

²⁸⁶ 'Lohmann: Keine Leistungsausgrenzungen', *CDU/CSU-Fraktion Pressedienst*, 3.3.95

²⁸⁷ 'Neuaufgabe der 3. Stufe der Gesundheitsreform – Erstes und Zweites GKV-Neuordnungsgesetz', letter by MP Wolfgang Lohmann to the CDU/CSU and FDP parliamentary parties 28.11.96.

²⁸⁸ The Contribution Relief Act was embedded in the governments comprehensive 'Growth and Employment Programme', which also included measures in pension and unemployment policy, sought to consolidate social insurance budgets and reduce the total level of social contributions.

²⁸⁹ Gesetzentwurf der Fraktionen der CDU/CSU und FDP, Entwurf eines Gesetzes zur Entlastung der Beiträge in der gesetzlichen Krankenversicherung (Beitragsentlastungsgesetz – BeitrEntlG), *Bundestag DS 13/4615*, 10.05.96

²⁹⁰ Speech Rudolf Dressler, *Bundestag plenary protocol 13/181*, 12.06.1997, p.16257.

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

October 1996, a bill for the first NOG was presented with its overarching goals of reducing unemployment and ensuring the competitiveness of Germany's economy: keeping contribution rates stable should both help to control non-wage labour costs and ensure the competitiveness of German business. Remarkably, only months after the Contribution Relief Act had been presented in Parliament, the drafters of the NOGs had to admit that that Act would not succeed in reducing contribution rates by 0.4 percent as of January 1997. Additional measures were deemed necessary in order to strengthen the financial responsibility of sickness funds and make contribution hikes more difficult. As a result, the first NOG included instruments that would make contribution rate increases more difficult by linking them to automatic increases of patients' co-payments, and it introduced the possibility for patients to switch between sickness funds, in the case of contribution rate rises. It also announced measures that would 'strengthen the self-responsibility of patients, improve possibilities for self-administration bodies to regulate matters, and increase financial responsibility of sickness funds'. The character of the bill was urgent, as it stressed the 'need for short-term implementation of measures, as otherwise, sickness funds would not be able to implement them effectively before 1997'.²⁹¹

Its complement, the second NOG of November 1996, contained measures that were to make 'self-governance bodies take responsibility, both carefully and cost-consciously, for handling health care contributions'.²⁹² Its aims were to be reached through the following measures: strengthening the rights of insured; giving new possibilities to self-governance for dealing with providers; incorporating the hospital sector in financial stability provisions; financing hospital maintenance with support by patients' co-payments; and new regulations regarding the provision of dental replacements, including fixed subsidies instead of subsidies based on a certain percentage of the total costs.²⁹³ Both drafts triggered fierce political and public discussion about the desirability of their provisions. In particular, there were two contentious issues. Firstly, the limitation put on sickness funds to raise contribution rates (linked to rising co-payments for the insured), and its consequences for ensuring adequate care and services for patients. Secondly, it was feared that giving sickness funds more possibilities for redesigning individual contracts would enable them in the long run to exclude certain types of services from the benefit catalogue, and encourage selection of the insured on the basis of expected risks. In response to the debate on both issues, even the Health Ministry realised it was necessary to communicate the need for these measures to coalition parliamentarians, providing them with arguments for justification of the reform in their constituencies.²⁹⁴

7.4.2.2 The Reform Process

In order to keep the overview of these long-drawn processes brief, the key dates of the legislative

²⁹¹ *Bundestag* DS 13/5724 8.10.1996, Gesetzentwurf der Fraktionen der CDU/CSU und FDP, Entwurf eines Ersten Gesetzes zur Neuordnung von Selbstverwaltung und Eigenverantwortung in der gesetzlichen Krankenversicherung (1.GKV-Neuordnungsgesetz – 1.NOG)

²⁹² *ibid.* In particular, the hospital sector and dentists were singled out as being responsible for rising costs. In the former, rising costs were to be expected after the termination of cost-stabilising budgets in 1996, and due to expected major investment expenditures after a ruling by the Federal Administrative Court. The dental sector, for its part, gave reason to worry because it failed to promote preventive measures in place of dental replacements and since subsidy regulations gave incentives to dentists to provide comprehensive and costly dental care services.

²⁹³ *Bundesrat* DS 822/96 8.11.96, Gesetzentwurf der Bundesregierung, Entwurf eines Zweiten Gesetzes zur Neuordnung von Selbstverwaltung und Eigenverantwortung in der gesetzlichen Krankenversicherung (2. GKV-Neuordnungsgesetz – 2. GKV-NOG)

²⁹⁴ Letter of Parliamentary State Secretary Bergmann-Pohl to the CDU/CSU and FDP parliamentary parties, 14.11.96

Chapter 7

processes are summarized in Tables 7.2 and 7.3 below.

Date	Event
24 May, 1996	1st reading in BT
28 June	2 nd /3 rd reading in BT, adoption with amendments
19 July	Rejection by BR
26 August	Compromise decision reconciliation committee
29 August	BT rejects compromise decision
12 September	BR vetoes rejection
13 September	BT overrules veto by absolute majority vote
1 January, 1997	Contribution Relief Act comes into effect

Table 7.2: Summary of the legislative process of the Contribution Relief Act of 1996 (BT = Bundestag; BR = Bundesrat)

1. GKV-NOG		2. GKV-NOG	
Date	Event	Date	Event
10 October, 1996	1 st reading BT	15 November, 1996	1 st reading BT
15 November	2 nd /3 rd reading and adoption by BT	19 November	BR rejects bill
19 December	BR rejects bill	20 March, 1997	2 nd /3 rd reading BT and adoption
12 March, 1997	Compromise decision reconciliation committee	25 April	BR rejects bill for the 2 nd time
20 March	BT rejects committee decision	14 May	Recommendation Mediation Committee
25 April	BR vetoes rejection	15 May	BT rejects committee decision + reaffirms adoption of the bill; BR restates veto
12 June	BT overrules veto (absolute majority)	12 June	BT rejects veto
1 July	1. GKV-NOG comes into effect	1 July/1 January 1998	2. GKV-NOG comes stepwise into effect

Table 7.3: Summary of events in the legislative process of the two GKV-NOGs (BT = Bundestag; BR = Bundesrat)

All three processes were overshadowed by an antagonistic attitude between the two chambers of parliament, which used both their constitutional powers to either push through (*Bundestag*) or block (*Bundesrat*) the respective pieces of legislation. At the time, the CDU/CSU-FDP coalition had a slight majority in the *Bundestag*, while the *Bundesrat* was dominated by the SPD-governed *Länder*. What triggered this institutional conflict will be discussed further on in the section.

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

The Politics of the GKV-NOG Laws

In the eyes of one close observer, the NOGs represented ‘a huge step backward’ and a ‘failure in health care policy’ (Interview former SPD MP, 23.01.06). More precisely, they were perceived as a break from the consensus reached four years earlier at Lahnstein.²⁹⁵ The NOGs introduced measures to keep a lid on contribution rates and health care costs, especially regarding the employers’ share; they stood for a restoration of corporatist self-governance, as well as its extension to other sub-sectors; and they tightened the grip of the market by increasing patient cost-sharing and extending market experiments (Giaimo 2002:124-126). As such, they reflected a thorough change in the approach of Seehofer and his Ministry to policy-making by 1996. In the following, I will highlight three factors that made the process leading up to the NOGs both drawn out and controversial, arguing that the factors that had expedited the adoption of the GSG were now largely absent. The ways in which Minister Seehofer impacted on the process will be considered in the next sub-section.

To begin with, the chances of reaching another cross-party agreement between the coalition and the SPD in 1996/97 were bleak. For a host of reasons the political climate had changed, which made a similar agreement a remote possibility. First of all, the 1994 elections had produced a different power balance within the ruling CDU/CSU-FDP coalition. The FDP had gained parliamentary seats and had been revitalised vis-à-vis its larger coalition partner. It was determined to put a more neo-liberal stamp on policies than had been possible before, and it did not agree to more deals with the SPD over health care (Giaimo 2002: 129). Apparently, the memories of the treatment received in Lahnstein still had their impact. As one source recalled, ‘For the FDP, Lahnstein represented a Waterloo, which they never wanted to repeat. To speak with FDP MP Thomae: ‘There won’t be a second Lahnstein with us’ (Interview former SPD MP, 23.01.06). The new balance of power between the coalition parties once again favoured the physicians, as the Government pushed for more “individual responsibility”, taking away the cost-saving pressure on providers. Equally, employers gained more influence in health policy matters in the process leading up to the NOGs, by fuelling the debate on mass unemployment and non-wage labour costs that influenced the CDU’s position. As a consequence, its business wing gained a greater say in social policy matters (Giaimo 2002: 128). In addition, the SPD was now led by Oskar Lafontaine who, in contrast to his predecessor Scharping, seemed determined to lead a strong course of opposition to the increasingly neo-liberal policy approach of the coalition, and effectively ruled out any cross-party agreements (Interview policy analyst, 10.11.05). Moreover, it has been argued that CDU and SPD followed, at least since 1995, two different approaches to health care policy (Brandhorst 2003: 213). The government now tried to avoid additional sacrifices by care providers (apart from the budgets), an approach fostered by the parties’ relationship with business and the professions, and its recognition of the importance of the health sector for the economy and labour market opportunities. Instead, the coalition advocated a greater responsibility for patients, giving them incentives to economize on health care services (“demand-centred steering”). The SPD, on the other hand, demanded more competition on the providers’ side. They believed that the demand for medical services depended upon how doctors prescribed treatments and services and on

²⁹⁵ In this respect, one symbolic act of this break was that Minister Seehofer handed the remainders of the ‘*Positivliste*’ (one of the measures of the GSG agreed upon with the SPD to contain the price of medication but never implemented) at a meeting with the chairman of the German pharmaceutical association as a birthday present.

Chapter 7

whether it was in their financial interest to expand provision (“supply-induced demand”) (ibid: 212-214). Moreover, in 1996/1997 the forthcoming federal elections of 1998 already cast their shadow. This meant that the measures taken in the NOGs reflected that the economic situation had to improve and that high non-wage labour costs needed to be dealt with quickly for electoral reasons.²⁹⁶

In addition, procedural choices resulting from this increase in political antagonism contributed to the long-drawn out character of the process. As may be seen from Table 7.3 above, the legislative processes began in the fall of 1996 and took until the summer of 1997 to be completed. One reason for this was certainly the battle of the *Bundesrat* to assert its right of approval to the second NOG, an undertaking that eventually failed. The splitting of the draft bill into two parts was seen as an instrument for speeding up the legislative process (Interviews policy analysts 10.11.05 and 23.11.05). Other sources stressed that the splitting of the law may have been counterproductive, fuelling the opposition’s motivation to block the proposal.²⁹⁷ Once it had chosen this procedure, the Government could do little more than wait and see what the legislative process would produce (Interview sickness fund analyst, 22.11.05). Eventually, both NOGs would be adopted after making several concessions to those who had campaigned against them, including some CDU/CSU-governed *Länder*: sickness funds were not allowed to drop the so-called voluntary services from their benefit packages in case of financial problems, and the new co-payment regulations included income-based ceilings for the chronically ill and socially weak.

A second important factor concerned the qualitative change in the relationship between health policy-makers in the Government and interest groups. While this relationship had grown distant and was dominated by the Ministry at the time of the GSG, it now returned to the pre-1992 pattern. That pattern, which became most noticeable in the formulation and implementation of the 1988 GRG, may be characterized as a give-and-take relationship between the Government and stakeholders, with the latter trying to avert any damage to the interests of their clientele (Interview policy analyst, 23.11.05). For instance, the representatives of the ambulant and stationary sectors, the KBV for physicians and the DKG for the hospital sector, were reported to have re-gained access to the policy formulation process. Seehofer allegedly sought the support of the DKG, with which he was involved in intensive discussions (Interview DKG representative 22.11.05). Equally, the KBV thought that the Minister was again trying to make policy “with” them, and not, as in Lahnstein, “against” them (Interview former KBV chair 16.11.05). Those broad consultations in the policy process, which included the KBV, secured preferential treatment for doctors in the reform’s provisions. Since 1995, the coalition had revived its motto ‘priority for self-governance’ (*Vorfahrt für die Selbstverwaltung*), which entailed a rapprochement with interest groups. As a result, expenditure ceilings on medication, medical services and doctors’ remunerations were partially reversed and partially reformed. Only the ceilings on expenditure in the hospital sector remained in force, while more steering competence was given to self-governance bodies, and the insured became the focus of health policy steering efforts. This new focus on patients evoked the anger of trade unions, sickness funds and the SPD opposition, all of whom campaigned against

²⁹⁶ In fact, the importance of this time-related factor was stressed by most interviewees: in a situation which resembled a de-facto election campaign, agreements with the opposition, which tried to sharpen its electoral profile, are hard to realize. The SPD actively campaigned against higher co-payments and other elements of the NOGs, which was, in retrospect, one of the main reasons why the CDU/FDP lost the 1998 elections (Interview former SPD MP, 24.01.06).

²⁹⁷ Indeed, as one respondent reported, ‘the fact that Seehofer had several bills drawn up in order to circumvent *Bundesrat* approval, only led to conflicts about this matter (...) Personally, I was dismayed by the procedure chosen for the NOGs despite it being legitimate’ (Interview former SPD MP, 23.01.06).

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

higher burdens for patients, bringing the Ministry into an uncomfortable position.²⁹⁸ In the words of a Ministry source:

There was a complete phalanx of resistance of relevant public bodies and organizations in the policy field against the governing coalition, which had to explain itself in parliament and create acceptance among the public. However, because the elections were fast approaching, the concept behind the reform could not be successfully explained (Interview with BMG official, 27.01.06).

Not only had the political climate changed in 1996/1997, but also the challenges to be confronted were different, which gave rise to a third factor. In contrast to 1992, when the troubles of the health care sector dominated the concern of policy-makers, by the mid-1990's, they began to realize how serious the general economic situation actually was: only then did the magnitude of the financial burden, as a result of German unification, become apparent. Finance Minister Waigel struggled to present proposals for viable public budgets, while European monetary integration was about to be concluded: the new Maastricht criteria on budget deficits and public debts would shortly take effect, posing additional restrictions on policy. In addition, the new EU requirements on public budgets were not often acknowledged publicly at the time, but only slowly found their way into politicians' arguments for enacting austerity measures (Interview policy analyst, 11.11.05). In this growing climate of austerity, the government decided to launch a comprehensive 'Programme for Growth and Stability', which led to cost-saving efforts across all programmes of social insurance; health care would not be an exception. The cornerstone of this undertaking was containing the burden of social contributions, which were to be controlled at all costs. As a consequence, Minister Seehofer had little choice but to find ways of contributing to this austerity course in his own portfolio, even more so because many of the budget provisions of the GSG were about to expire and health care costs were expected to skyrocket again.

7.4.2.3 Role of Minister Seehofer in the NOG Process

There was no longer a strategy, it was all about muddling through: there was a lack of enthusiasm to shape changes (...). My impression was that during the years 1995-1997, a clear concept was lacking and policy-making was merely reactive (...). To me, it seems that Seehofer gave away a lot of his achievements during his last two years in office (Interview health policy expert, 09.02.06).

This citation summarizes aptly the disillusion felt by one observer of German health care politics when commenting on Seehofer's later years. There were strong signs that the political fortunes of the Minister had reversed in 1996/97. As the previous sub-section showed, a change in political climate, rapprochement with the stakeholders of the health care sector (especially doctors, dentists and hospitals), and a reappearance of economic and financial pressure made policy-making (and thus the adoption of reforms) in this period more difficult. I will argue that these factors had negative repercussions on how much of a steering role Seehofer could play in the process. In terms of my research question, this reduction in the Minister's political leeway lessened his chances to act as an ideational leader.

²⁹⁸ The SPD's Dressler steadily maintained his opposition against the plans, labelling them as 'a combination of a measure of punishment for the ill and a purposefully serving of some interests in the health care sector'. He also announced that the SPD would obstruct these intentions with the backing of a majority of patients, as well as the support of sickness funds and of many care providers (Speech of Rudolf Dressler, *Bundestag* plenary protocol 13/181, 12.06.97, p. 16258-16260).

Chapter 7

To begin with, his determination to tackle health care reforms ('changing the status quo' in terms of IL) was still there, but the message he tried to promote was more difficult to sell. Seehofer had to show, once more, like in 1992, personal commitment to the goal of containing costs, but he added an additional focus: personal responsibility. The Minister justified the reform proposals by pointing to a number of challenges that impacted on the SHI and the sustainability of its financial base, including rising life expectancy, medical and medical-technical progress, and increased expectations towards the health care sector's capabilities. The latter necessitated a higher degree of individual responsibility, which could be seen both as a change in attitude towards medical provision (concentrate on what is medically necessary, not on what is desirable), and as sharing more in the costs of the SHI (via co-payments or cost sharing).²⁹⁹ The fact that the Minister chose to take up this stance was linked to the realization that the health care sector was now seen as a potential generator of growth and employment, but whose potential to expand was limited by the principle of stable contribution rates. This stance was in turn influenced by a specially commissioned report of the health expert advisory council (*Sachverständigenrat zur Begutachtung der Entwicklung im Gesundheitswesen*) presented in 1997.³⁰⁰ As a consequence, policy-makers decided that care providers could no longer be burdened with additional cost savings (Interview CDU/CSU parliamentary party employee, 12.01.06). Instead, this time around it was the patients and the insured that were to provide an additional financial contribution to the sector by higher co-payments for medication and services.³⁰¹ This new approach was reinforced by a FDP-borne focus on strengthening the personal responsibility of patients, leading to the privatization of parts of the SHI provisions and allowing sickness funds to introduce elements of private health insurance in their insurance contracts (in the second NOG) to add an equivalent for the missing price mechanism.³⁰² Furthermore, co-payments were extended (through periodic increases), and the provision of dental prostheses for those insured and under 18 years of age was privatized.

Although Seehofer tried to come up with a discourse legitimizing the NOG laws, his ability to promote and legitimise the change in policy focus ran into obstacles that had not been there in 1992. This was possibly due to the fact that the NOGs clearly produced new burdens for patients, while leaving other stakeholders in relative peace. Undoubtedly, the Minister again used his rhetorical abilities to explain and justify the measures in the NOGs, both to political opponents and to the public, but it proved much more difficult to sell a reform that put most of the burdens on the insured (and those in need of treatment), unlike the GSG, which could be legitimized by reference to equal burden-sharing among those affected. Seehofer tried to deal with this dilemma by defending his preference for co-payments as a choice of the "lesser evil":

Regarding the difficult question whether to keep up the level of SHI coverage by excluding services or by realizing greater cost-sharing through more personal responsibility, I am undoubtedly in favour of greater

²⁹⁹ Speech of Minister Seehofer, *Bundestag* plenary protocol 13/166, 20.03.1997, p. 14908-14910

³⁰⁰ Sachverständigenrat (1997), *Gesundheitswesen in Deutschland. Zukunftsfaktor und Wachstumsbranche*. Band II: Fortschritt, Wachstumsmärkte, Finanzierung und Vergütung, source: <http://www.svr-gesundheit.de/Startseite/Startseite.htm>, accessed 04.04.06.

³⁰¹ An alternative proposal by Seehofer to allow the employee share of health care contributions to rise while keeping the employers' share constant (in order to avoid higher co-payments by patients) was dismissed by the CDU/CSU parliamentary group (Interview policy analyst 23.11.05, and CDU/CSU parliamentary party employee 12.01.06).

³⁰² Sickness funds therefore received additional parameters on which to compete with each other, not only through the contribution rate, both on the demand and on the provisioning side: they were authorized - for a limited period - to test new care and compensation structures (Brandhorst 2003: 214).

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

cost-sharing. The exclusion of services does not know exemption clauses nor social considerateness, it means a hundred per cent cost-sharing for those who are ill.³⁰³

Seehofer thus legitimized the increase in co-payments in the first NOG by arguing that citizens needed to spend more of their income on health care in order to avoid a further increase in non-wage costs and to maintain the current coverage catalogue of the SHI. In order to limit the negative consequences this would cause to the insured, extra co-payments were designed in a socially acceptable manner: the chronically ill and low-income households could profit from exemption clauses and income-related ceilings for such payments (*Härtefallregelung*). With regard to the new automatic mechanism for the prevention of contribution rate rises, the Minister stressed that in this fashion, higher contributions, as a result of inefficient budgeting practices, could be ruled out and yet no one would be excluded from the safety net of the SHI.³⁰⁴ As Seehofer explained, this new mechanism would be a disciplining measure, forcing sickness funds to use efficiency reserves before raising contribution rates, whilst allowing contribution rises, when needed, to cover the costs of medical progress or meet the challenges of demographic developments. A failure to accommodate the latter two trends would again, as Seehofer warned, raise the specter of budgeting or rationing health care services.³⁰⁵ Until his final speech, at the vote on the two laws, he made it clear that personal responsibility was there to stay in the SHI:

We want to carry the SHI's solidarity principle into the next century, that is, a high-quality health care provision for everyone without applying criteria of income, age or origin (...) But if we sustain the SHI at a high level (...) we also need to say truthfully that we cannot go down the path of increasing labour costs, but that we need to tell the public: we need more personal responsibility where it is reasonable. Solidarity and personal responsibility are twin concepts.³⁰⁶

Despite these efforts to defend the NOG measure in the new context of reform, defined by austerity plus personal responsibility, one observer concluded that

Seehofer no longer managed to come up with convincing chains of argumentation but tried to reach a consensus on the lowest common denominator (...) He could no longer create acceptance for the reforms he wished to adopt, if he indeed wished it. If one tried to find what remains of his own ideas, these were no longer visions of policy but rather definitions of what was still possible (Interview health policy expert, 09.02.06).

Allegedly, Seehofer also had a hard time convincing the public of the need for the measures. The general public is, by definition, a more diffused audience to address than a particular stakeholder group, and patients' associations, which nowadays represent the interests of the insured, hardly existed at the time. The existence of such associations would have given him a more defined audience to debate with, just as he engaged with doctors and dentists during the GSG process. Instead, the sickness funds claimed to speak on the patients' behalf and had decided to campaign against the reforms, which made his task increasingly difficult (Interview CDU/CSU parliamentary party employee 12.01.06; Interview former SPD MP 24.01.06). Seehofer did publicly underwrite the goals and instruments of the NOGs, but, as a CDU/CSU source speculates, by doing so, he may well have compromised his own beliefs with regard to the reform needs

³⁰³ Speech of Minister Seehofer, *Bundestag* parliamentary protocol 13/166, 20.03.1997, p. 14910

³⁰⁴ 'Kranke müssen bei Arzneien mehr zuzahlen', *Süddeutsche Zeitung*, 16.11.96; 'Gesundheitsreform-Gesetze abgelehnt', *Frankfurter Allgemeine Zeitung*, 20.12.96

³⁰⁵ See footnote 303, p.14911

³⁰⁶ Speech of Minister Seehofer, *Bundestag* plenary protocol 13/181, 12.06.97, p.16257

Chapter 7

(Interview CDU/CSU parliamentary party employee, 12.01.06).

Turning to another facet of his role, the Minister's approach to organizing the necessary political majorities for reform, by including the opposition, did not come to fruition in 1996/1997. In terms of the IL concept, this corresponds to the aspect of political consensus-building, in which the Minister clearly was not successful, despite an attempt to integrate the SPD's standpoint into the NOG predecessor laws. Another question is which motives (political or procedural) led the Minister to divide the legislation in two parts and to read it at two different time slots in parliament, since both laws did not require *Bundesrat* approval, according to the government.³⁰⁷

The Minister was also restricted by Chancellor Kohl in his freedom to move politically (and, ultimately, by mounting economic and financial pressure). Clearly, overcoming reform resistance by a cross-party agreement would have required Seehofer to have the freedom to conclude such an agreement. This discretion, however, apparently no longer existed. Kohl's unequivocal message to Seehofer had been to cut non-wage labour costs (Interview policy analyst 11.11.05), and his limited political options now excluded the option of putting most of the burden on care providers, as had been the case with the GSG five years earlier (Interview policy analyst 10.11.05). The Chancellor had also made it clear that conflicts about health care reform had to be avoided in the run-up to the 1998 elections; therefore, Seehofer needed to keep the SHI up and running, but had to stay clear of yet more reforms that would invoke the wrath of stakeholders (Interview health policy expert 09.02.06). At the time, his commitment to efficiency goals even earned him the nickname 'Minister of Austerity' (Interview policy analyst 11.11.05), which, in German politics, mostly tends to be reserved for the Minister of Finance.³⁰⁸

Finally, the Minister's reputation as an eager reformer had suffered in the meantime. Seehofer's unsuccessful attempts at continuing his term with reforms of similar standing as the GSG had not gone unnoticed in public; and he himself had been expressing his disillusionment with the situation. As a consequence, the earlier almost glorious image surrounding his personality and his determined approach to policy-making had been fading, and he had become more vulnerable politically (Interviews policy analysts 10.11. and 11.11.05). Another observer expressed Seehofer's decline in more drastic terms:

He started like a tiger, but ended as a "fur carpet": he began with an impressive dose of determination and then fell down deeply (...). This is reflected in the legislation he got adopted, which does not show a consistent line, but features an abrupt break. He was one of the strongest personalities we have ever had in this office, but towards the end he lost it (Interview health policy expert, 09.02.06).

At the beginning of 1997, a *Spiegel* article stressed that the times were over when Seehofer was referred to as a "shooting star" and a "dragon killer" by members of the governing coalition. When asked to draw up a balance of his first five years in office, he replied:

³⁰⁷ On this point, a Ministry source recalled: 'the consequence of the failure of another cross-party agreement was followed by an approach that would induce further conflict: this meant to split the NOG into two bills, none of which needed *Bundesrat* approval. The choice for this procedure led to a conflict between *Bundestag* and *Bundesrat* with the latter turning eventually to the German Constitutional Court, which later ruled that both bills indeed did not require *Bundesrat* approval' (Interview BMG official, 27.01.06).

³⁰⁸ Although Seehofer seemed to underwrite those goals, and to agree with putting a greater share of the reform burdens on patients, the measures implied in the reforms must have been compromised his beliefs in social justice as he had to succumb to austerity pressures that were out of his sphere of control.

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

Firstly, egoism in Germany is more wide-spread and more brutal than I could ever have imagined. Secondly, our social insurance programmes are financed in a fashion showing solidarity, but are taken advantage of in ways that are far removed from such solidarity. Finally, everything revolves primarily around money, this is horrible and repugnant.³⁰⁹

In short, Seehofer's role in the process of adopting the NOGs was the one of a politician still determined to improve the system, but whose options for shaping the goals and means of the legislation had been curtailed. No doubt some of these developments were of Seehofer's own making, as was the change in approach to one part of the stakeholders (doctors, pharmaceutical industry), which added to the political opposition he faced. Others, however, like the mounting pressures of an economic and financial kind, and the changed political climate, were factors out of his control. By the time Seehofer left office, he was convinced that the NOGs, with their unpopular measures, had been, in part, responsible for the electoral defeat of the Kohl Government (Interview CDU/CSU parliamentary party employee 12.01.06).

7.4.2.4 Were the NOG Laws a Structural Reform?

The previous sub-section argued that the process in which the Contribution Relief Act and the NOGs were adopted was long-drawn, full of conflicts, and constituted, in some respects, a return to pre-1992 health politics. However, what did these laws bring in terms of substance, and to what extent did they introduce changes that implied structural shifts? On the whole, the reforms of 1996/1997 pale into insignificance compared to the GSG. All in all, interview sources remain somewhat contradictory in their appraisal of the reforms. Compared with the changes introduced in the GSG, these shifts seemed to appear like 'mere adjustments' (Interview policy analyst 11.11.05). From the view of the pharmaceutical industry, which was hardly affected by the NOGs, their provisions were qualified as 'non-structural' (Interview VfA representative, 15.11.05). From the physicians' viewpoint, the NOGs initially contained the potential for a structural reform, but was opposed by the sickness funds: the initial proposal would have relaxed restrictions on doctors but was thwarted by the sickness funds, whose demands were echoed by the SPD. Thus, it could have been a structural reform (compared to the cost containment measures of the GSG), if the legislative process had turned out differently (Interview former KBV chair, 16.11.05). Equally, the second NOG contained some structural elements to strengthen the role of hospitals in self-administration bodies, and their possibility to negotiate with sickness funds over new forms of integrated care (Interview representative DKG, 22.11.05). What becomes clear from these responses is that they are coloured by the organization the interviewees were affiliated with, and do not lead to a consistent answer.

Does applying the structural change criteria provide more clarity? First of all, the sector's finance structure, which the GSG had already adjusted somewhat (towards more private financing sources), was again affected by the NOGs. It experienced more adjustments, starting with the extension of co-payments through the Contribution Relief Act. However, this did not amount to a structural shift, as the principle of contribution financing was kept intact. The way in which co-payment increases were introduced (including provisions to exempt the socially weak and chronically ill), tapped into an additional financing resource, but left the existing financing scheme in place. The same applied to the provisions that "privatized" parts of the SHI catalogue, mostly

³⁰⁹ 'Ende des Drachentöters', *Der Spiegel* 11/1997, source: <http://www.spiegel.de/Spiegel/0,1518,380989,00.html>.

Chapter 7

with regard to dental care. However, it is true that the reforms contributed to a hollowing out of the principle of parity financing (shared health care costs between employers and employees), forcing patients to pay more out of their own pockets, on top of their payroll contributions (Interview policy expert 09.02.06).

Secondly, with regard to the care provision structure (corresponding to the benefit structure in other social policy sectors), the laws merely made a cautious attempt at overcoming the division of care provision into ambulant and stationary care by allowing for experiments with integrated care provision (Rosenbrock and Gerlinger 2004: 228). However, this hardly constitutes a structural shift, since its implementation depended on the will of care providers. Essentially, this structure thus remained the same.

Finally, with regard to the sector's regulation structure, the reforms contained some measures that could be characterized as potential structural shifts but only one of which materialized, bringing more delegation of tasks to self-governing bodies than was previously the case, i.e. a shift from state to more self-governance. The measure in question extended the competences of doctors and insurers in the Federal Committee of Physicians and Sickness Funds by them having to draw up guidelines for most areas of the health care system. Furthermore, corporatist bargaining was also extended to control matters such as medicine prices and guidelines for other practitioners (Giaimo 2002: 133-135). Similarly, the existing market-oriented and state-led control instruments were supplemented by corporatist steering instruments: state-prescribed expenditure controls (to be worked out in agreement between the sickness funds and the KVs), and new provisions for hospital remuneration (which required collective agreements between sickness funds and hospitals (Brandhorst 2003: 214).

In contrast, the other two salient provisions of the NOGs did not constitute shifts in the regulation structure, in the sense that the state gained more competences. The automatic link between contribution rate rises and increases of co-payments, essentially a cost-containment element, was never used. Indeed, many of the NOG provisions were short-lived and failed to make a long-term impact, since they were overturned by the new Red-Green coalition in 1998.³¹⁰ The other feature, a state-prescribed transformation of certain care services into voluntary items of insurers' statutory provision package was largely abandoned in the course of the legislative process: eventually sickness funds and care providers were encouraged to come to "rational" solutions on their own.

It is tempting to characterize the 1996/1997 laws as an exercise in pure cost containment, just as other social insurance reforms in the areas of pensions, unemployment insurance and social assistance adopted at the same time. By any means, the Contribution Relief Act and the NOGs surely did not continue on the path of structural reform, which seems to have opened up with the GSG, i.e. facilitating further competition among sickness funds. To summarize, it is fair to say that these reforms left the care provision structure relatively untouched. In the financing sphere, they introduced measures intended to contain contribution rates, continuing down the path of privatizing health care costs. While opening up an additional source of income of the SHI, however, health care contributions still dominated the financing structure of the SHI. Finally, the reforms did affect the regulation structure in the sense of transferring more competences from the state to self-governance bodies: therein lies a structural shift that may be compared with the GSG. The 1996/97 reforms reflect a change of approach towards regulation in the health sector,

³¹⁰ This applied to the increase of co-payments in the Contribution Relief Act, as well as the elements of private health insurance in the second NOG.

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

signalling a trend towards a more market-oriented SHI, via demand-side measures. Changes in the balance of power between sectoral actors and political parties contributed to a change in the debate, and eventually, in the contents of the reform, which put more burdens on patients and insurers and less on providers, in particular the medical profession (Giaimo 2003: 127).³¹¹ While the GSG had set the tone for a more market-oriented SHI, after 1996, this orientation was only pursued further for the demand-side, i.e. patients and sickness funds, and not the supply side, i.e. care providers (Brandhorst 2003: 214). In this sense, it may be argued that the structural shift in the regulation sphere associated with the GSG (towards more market competition), was perceived as more far-reaching, and therefore more important to observers of the sector, than the structural shift contained in the NOGs (towards more self-governance). Two reasons may account for this: first, the latter shift was much more “hidden” behind a bundle of unpopular and one-sided cost-containment measures, second, the laws also stood for a return to the pre-1992 situation (surely regarding the collective bargaining between KVs and sickness funds).

7.5 Conclusion

In this chapter, I have tried to shed light upon the possibilities for an ideational leader to effect structural reforms in the field of health care policy. On the basis of a short expert survey, which contained questions on key characteristics of IL among several Health Ministers and a criterion in order to gauge their initial policy ideas, my choice of presumed ideational leader fell on Minister Seehofer. Accordingly, this case study focused on the major reform projects during his term in office, the Structural Health Reform Act (GSG), adopted in 1992; and the Health Care Reorganization Acts (1. and 2.GKV-NOG), adopted in 1997. I have found clear differences between the two reform outcomes in terms of their structural character, the reform processes, and with regard to the role of the Minister: Seehofer’s behaviour in 1992 was clearly more in line with the criteria for an ideational leader than it was in 1996-1997.

Summarizing the first set of policy changes, the GSG consisted of a combination of measures for the controlling of care costs (introducing several budgeting instruments aimed at the various types of care providers); and an organizational reform that affected the regulation of sickness fund membership (freedom of choice for patients regardless of their occupational status), and relations among insurers by establishing a redistributive risk-adjustment scheme intended to spread insurance risks evenly between funds. I have argued that this law does qualify as a structural reform due to the changes it introduced in the regulation structure: firstly, the state reaffirmed its regulatory power vis-à-vis the self-administration bodies and interest groups; and secondly, sickness fund reform (the freedom to choose for patients and the risk-adjustment scheme between funds) introduced an element of market competition into a formerly static and state-regulated system.

Regarding Seehofer’s role in concluding the GSG, the rapid drafting and adoption of the reform owed much to the Minister’s approach of working out a reform concept together with the

³¹¹ These burdens were seen to provide eventually efficiency gains and therefore cost savings. The measures of the NOGs stood for a system of different incentives, which were to encourage both sickness funds and patients to act cost-consciously when financing and using health care services. On the other hand, some expenditure control for providers was maintained through budgets (which had been greatly reduced since 1996/97).

Chapter 7

SPD opposition. His new approach regarding the dealings with health care stakeholders, and his fast and determined way of acting, brought the reform project to a successful conclusion. Moreover, his distinctive political style, which relied on persuasion in legitimizing the GSG's aims of cost containment and structural reform, coupled with a display of determination, proved effective. Seehofer's dual goal of stabilizing the SHI and opening it up to competition, embedded in a reform concept that divided the burdens equally amongst all stakeholders, proved to be acceptable, and survived the protest of care providers, especially doctors. The resulting reform, in which Seehofer personally became involved, has received notable attention of health policy analysts due to its far-reaching character, compared to earlier or later reforms, although its precise significance remains debatable. In short, the GSG reflected the Minister's determination and commitment to carry out reforms that would end the existing policy situation, his ability to promote and legitimize a bold reform concept, and the will and skill to overcome reform resistance by engaging in political consensus-building with the opposition. All of these IL aspects may be attributed to Seehofer and confirmed his selection as presumed ideational leader. In the case of the GSG, Seehofer's IL manifested itself and the ensuing reform was structural, which provides evidence in favour of the IL hypothesis.

To summarize briefly the changes of the NOGs, its first part introduced measures to limit increases of contribution rates by linking them to increases of patients' co-payments, while making it easier for the insured to switch funds, in the case of contribution rate rises. Moreover, it considerably increased co-payments, strengthened the financial liability of sickness funds and extended the possibilities of self-governance bodies for the regulation of particular issues. The second law strengthened patients' rights vis-à-vis sickness funds; gave new competences to self-governing bodies for concluding agreements with providers; incorporated the hospital sector into financial stability provisions (allowing it to co-finance maintenance with patients' co-payments), and introduced new remuneration regulations for dentists.

The NOG laws were less far-reaching in scope than the GSG had been, and were perceived as one-sided as well as unpopular with the electorate and sickness funds, as their measures highlighted the personal responsibility of patients and the liability of insurers to contain costs. All in all, the reforms brought a change in the regulation structure of the SHI, but this concerned a backward shift, restoring some former responsibilities of self-governing bodies, and thus can hardly be seen as an innovative structural reform. The assessment of the NOGs showed that it may be problematic to evaluate a reform as structural or non-structural by looking simply at its features without taking policy legacies, especially previous reforms, into account. If a structural change is simply the reversal of an earlier reform or if it is known that a particular structural change was reversed by a later reform (as was the case with the NOG), can it still be called "structural"?

With regard to Seehofer's role, the contextual setting of the policy-making process in the run-up to the 1997 reforms was rather different compared to the one of the early 1990's. Seehofer had to operate in an unfavourable policy-making climate, which made the adoption of these two laws a conflict-ridden and lengthy process. After restoring closer relations with interest groups, and following a failed attempt to involve the opposition in his plans, the Minister tried to push the reform through, against the wishes of the SPD opposition and the *Länder*. Due to changed political circumstances and clear instructions by Chancellor Kohl to control health care costs and contribution rates, his leeway to continue with structural reforms was clearly more restricted, compared to four years earlier. In the end, Seehofer did not manage to organize the necessary support for a more far-reaching reform and did not succeed in selling the resulting reform proposal as a politically consistent and balanced plan.

All in all, can we confirm that the presumed ideational leader Seehofer indeed demonstrated IL during this second reform process? It is difficult to answer this question in a clear-cut way.

IL in the Area of Health Care Policy: Did It Lead to Structural Reforms?

Although Seehofer displayed some characteristics of IL during that process, its effects were rather limited. The contrast with his self-conscious appearance of earlier years disillusioned those who had to observe what, to them, seemed a complete turn-around in policy. Taken together, the reform outcome can hardly be defined in terms of a truly structural shift and it is difficult to discern effects of IL: therefore, there is no compelling evidence for either a structural reform or effective IL. This is not to say that signs of IL were completely absent, as Seehofer tried to defend his efforts at changing the status quo, legitimized the proposals and attempted to reach a consensus with the opposition. His initial and more ambitious reforms plans had been frustrated early on by the *Bundesrat* and the same can be said of his determination to carry on adjusting the status-quo: the Minister had to settle for the NOG reforms as a second-best solution. Seehofer's ability to promote and legitimize these reforms did just not come to fruition, as his message seemed to be cancelled out by the rather unbalanced design of the reform (i.e. putting relatively greater burdens on patients than on care providers). Moreover, his attempts at consensus-building ran aground and they were restricted in their scope, due to, amongst other things, the lack of political backing from the Chancellor.

The Minister's record as ideational leader therefore appears rather mixed: his legacy includes the success of an acclaimed and, using my evaluation criteria, structural reform at the beginning of his term and a rather controversial and ambiguous reform towards its end. Although the NOGs nevertheless contained an element of structural change, it also represented a reversal to earlier practices rather than an innovation. What do these findings tell us about the possibilities for linking structural reforms to IL? One lesson to be learnt from this case is that a policy-maker who acts according to the IL criteria may do so in one set of circumstances but not in another (at a later point in time), i.e. IL cannot be seen as a constant quality or ability of any one policy-maker, but is contingent on the circumstances of each reform. If this is correct, it is necessary to examine which circumstances are conducive to IL and which ones are not: this lesson has to be incorporated in the theoretical framework. Another lesson refers to the definition of structural reform: the comparison of the two reform processes indicated that a parsimonious definition of structural reform is difficult to apply to reforms in highly complex policy sectors such as health care, where structures are defined in different ways by policy actors and may even exist on sub-sector levels (e.g. sickness funds, hospitals).

Chapter 7

8. Conclusion

“Often research doesn’t solve a mystery but it provides a step forward in reaching this goal.”

*Russell J. Dalton*³¹²

8.1 Research

This study has explored if and how key policy-makers are able to break through the proverbial resilience of contemporary welfare states in order to engineer structural reforms. Such resilience is particularly found in Continental welfare states, of which Germany is a prime example. The guiding proposition was that ideational leadership of key policy-makers would explain unexpected structural reforms in welfare states.

8.1.1 A Puzzle and Preliminary Answer

The project has departed from the puzzling observation that far-reaching reforms did occur, despite theoretical expectations of major approaches to welfare state politics and regimes based on historical institutionalism. More specifically, my project took issue with the stability bias in the work of Esping-Andersen (’t Hart 2000; Goldfinch and ’t Hart 2003) and Pierson (Moon 1995; Luke 2000; Schmidt 2002a), who are the most important advocates of these approaches. I have argued that their theorizing fails to explain adequately the occurrence of major welfare state reforms, as it overstates the forces of continuity inherent in institutions, such as mechanisms of path-dependency, vested interests, and electoral hazards. However, despite the predictions of these theorists, advanced welfare states have experienced major reforms in recent years. I have proposed to refer to such changes as “structural reform” (as opposed to quantifiable retrenchment), drawing on earlier work on qualitative changes in welfare states (Burns 1978; Ross 2000a). Structural reform has been defined as legislative changes leading to a re-ordering of actors’ competences and responsibilities of main actors governing a social policy programme. Such shifts affect the financing, benefit, or regulation structure of a policy (or several of them).

The argument about theoretically unexpected, yet major reforms has been underscored by recent examples from advanced welfare states, including Germany. This country proved particularly suitable for my analysis for several reasons. Specifically, Germany offers an intriguing context for investigating structural reforms due to a peculiar combination of reform obstacles, tied to the country’s political and welfare institutions, and salient reform pressures from multiple sources (socioeconomic, fiscal and demographic characteristics). All of these factors combine in a perplexing contrast of institutional obstacles on the one hand and substantial incentives to tackle reforms on the other. From the 1990’s onwards, theoretically unexpected major reforms have occurred in Germany, and the question is how this was possible.

³¹² *Thoughts on Developing a Research Project*, undated, unpublished manuscript, University of California at Irvine, p.5

Chapter 8

Existing explanations of far-reaching policy change suggest that various types of factors (economic, institutional, party-political and ideational) can account for these reforms. However, none of these macro-level (regimes) and meso-level (policy programmes) explanations can satisfactorily explain major reforms in Germany. This study has argued that the solution to the puzzle lies in explanations found at the micro-level of analysis, considering individual policy makers. Therefore, combining the role of political agency, its linkages to policy ideas, and how these may influence far-reaching reform, has led to the concept of ideational leadership (IL), the independent variable in this study. IL has the advantage of relating to welfare institutions, as well as to political-institutional and party-political factors. Rather than considering these factors one by one, it is more productive to explore how political agency, in the form of IL, interacts with them.

8.1.2 The Ideational Leadership Framework

IL seeks to offer an answer to the puzzle introduced above. However, ideational approaches often neglect causal mechanisms that connect causes and effects of policy change, and draw insufficient attention to political agency, while leadership approaches underspecify how politicians achieve policy change and why they want to achieve it (Hecló 1974; Braun 1999; e.g. Ferrera and Gualmini 2004). In my view, IL compensates for these weaknesses by combining the strengths of these literatures in the field, and makes up for the incapacity of the dominant theories in being able to explain major policy change. The IL concept was devised after reviewing relevant concepts in the leadership and ideational literatures related to policy change (Krasner 1988; Pierson 1996; Pempel 1998; Boin and 't Hart 2000; Hay 2001; Pierson 2001; Kuipers 2004; Béland 2005; Streeck and Thelen 2005). From these concepts, leadership-related tasks that enable reform were selected, as well as relevant elements regarding the role ideas play in substantial policy change. The hypothesis on IL specifies that key politicians, by certain communicative and behavioural patterns, are linked to the adoption of structural reforms. These patterns or aspects are listed in the figure below.

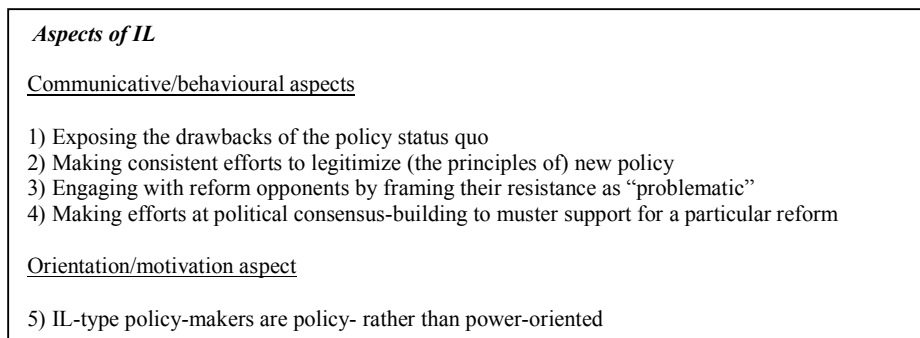


Figure 8.1: Conceptualization of IL

Two types of causal mechanisms link these aspects with the outcome of structural reform. The first mechanism operates at the level of beliefs (cognitive and normative) of opposing actors and the level of (ideal) interests. This “ideational” mechanism works through a change in cognitive and normative preferences, and relates to Hecló’s concept of “puzzling” (Hering 2004: 305-306). The second mechanism relates to interests and changes the perception of opposing actors’ interests, which is reminiscent of the notion of “powering within puzzling” (Hall 1993), that is, policy actors

Conclusion

who try to organise consensus around preferred policy solutions while at the same time taking political considerations into account. Finally, the framework assumes that IL-type actors are predominantly policy-oriented, which contrasts with the more power-seeking oriented type of conventional policy-makers. The combination of these mechanisms, that is, effecting changes in beliefs, norms, and ideal interests of stakeholders, produces favourable circumstances for an institutional break-out, a situation in which institutional lock-in is penetrated by policy alternatives, and allows structural reform to materialize

Ideational mechanisms

- 1) Policy failure or loss of effectiveness brings on the search for alternatives
- 2) Creating insights into the logics of appropriateness and necessity behind the innovation helps to reduce switching costs and re-define values underlying old policy and institutions

Interest-related mechanisms

- 3) Reform opponents are made to “face the facts” or redefine (the perception) of their interests, lowering switching costs
- 4) Forging consensus based on policy-seeking instead of power-seeking motives reduces switching costs

Figure 8.2: Four causal mechanisms linking IL with the outcome of structural reform

Essentially, IL breaks with traditional thinking about leadership as an essentially power-related concept, as it stresses that a reform-minded leader needs the will to innovate as well as persuasive skills, instead of formal sources of authority in order to achieve reforms. Thus, IL extends the meaning of leadership in the context of policy-making and caters for a demand in contemporary research, namely, in that it specifies how policy ideas, vested interests and political institutions interact during different stages of the policy process (Majone 1996: 15).

8.1.3 Research Design and Methodology

The IL hypothesis was evaluated in a multiple case study. This choice suited the main requirements of the research design: permitting an empirical exploration that would allow tracing the linkages between IL and reform outcomes and evaluating these linkages in a complex empirical context. The German polity formed the context of analysis, while the case studies focussed on single reform processes as objects of investigation. Within the cases, I applied the process-tracing technique, and used two (actor-centred) alternative explanations of overcoming reform obstacles as additional tools for evaluating the IL hypothesis.³¹³ The main empirical

³¹³ Alternative explanations imply that a certain outcome is the result of other influences than the one(s) hypothesized. By collecting information about those other influences, hypothesized explanations can become potentially stronger by excluding other plausible explanatory factors or alternative explanations. I specified two sorts of alternative explanations: the first one involves that they try to ignore or outmanoeuvre reform critics (both inside and outside parliament). In short, this strategy sees politicians at a minimum refusing to engage with reform criticism and at a maximum trying to adjust the institutional context in which they operate in order to push through their preferred policy adjustments. This explanation reflects the use of political power. The second alternative explanation states that key policy-makers make concessions in order to push through reforms. The promise of some form of pay-off, i.e. financial benefits or other compensation for societal groups and/or political veto players may be another way to calm opposition and get reforms adopted. Theoretically,

Chapter 8

question guiding the analyses was two-fold: to what extent is it possible to observe IL in the reform processes leading up to reform adoption, and in what ways did it relate to the adoption of structural reform?

Within the multiple case study design, each of the three cases carried a different emphasis. The first case study served primarily to check whether evidence of IL could be found at all. The second case served to see if the conclusions from the first case about the plausibility of IL would hold in another case, and to visualize its effects on structural reform. Both cases were selected on the dependent variable, structural reform. The third and final case, selected on the independent variable, IL, served to investigate whether there was also a reverse relationship between the two variables. That is, would a presumed ideational leader also manage to adopt structural reforms, and would his designation be confirmed by finding aspects of IL in the same way as done in the first two case studies? The main concepts structural reform and IL were operationalized so as to allow case selection in accordance with my theoretical criteria of far-reaching reform and to carry out systematic analyses of data sources aimed at detecting the presence, as well as, the effects of IL. The first case was originally designed as a pilot case study, resulting in some fine-tuning of the initial, theoretical framework, adding one additional aspect and refining the wording of others.

To gather empirical evidence, the case studies relied on a triangulation of sources, which consisted of policy-related documents; speeches and interviews of key policy-makers; thirty-five expert interviews; and daily and weekly quality press coverage. The process of data collection and interviews covering the three policy sectors took place between May 2004 and February 2006. Qualitative content analysis was performed on the written material collected as well as on interview transcripts. In these analyses, the operationalized indicators of IL were applied, as well as indicators for the occurrence of alternative explanations, all for the overall goal of gathering evidence for or against the presence and effectiveness of ideational leadership.

8.1.4 Case Study Findings

The empirical findings have provided backing for the IL hypothesis. Instances of IL were found in the first two cases on pension and unemployment reform. With regard to the assumed effectiveness of IL-type policy-makers, these cases also showed that these individuals had to resort to other strategies too, while the third case, selected on the basis of an IL-type policy-maker, demonstrated that he or she may be effective in one process, while running into difficulties in another. These curbs on the effects of IL point to a number of conditions which offer interesting prospects for further research (see Section 8.3 below).

Pensions

The first case study analyzed the process preceding the 2001 pension reform, named after Minister of Labour Walter Riester. This significant piece of legislation ended the *de facto* one-pillar structure of German pension arrangements, introduced a privately financed and state-subsidized element, and strengthened the company-based element of pension provision. I considered this reform to be structural in character due to the changes it introduced in financing, benefits, and the regulation of pension arrangements. In response to the Minister's initial reform proposal,

these two power- and exchange-related explanations can be distinguished from the IL hypothesis, which draws attention to processes of persuading critics and getting consensus for reforms.

Conclusion

considerable opposition, both parliamentary and societal, had gathered against it, and needed to be addressed by the reformist camp headed by the Minister. Despite repeated changes to the proposal, and various concessions on the part of the Ministry to its critics (including opponents within the Social Democrats, the opposition Christian Democrats, and major trade unions), Riester nevertheless preserved the core innovations of the reform until its final adoption in the spring of 2001. The combined analysis of documents, biographical material and interviews confirmed that the Minister acted in accordance with IL on the basis of the concept's three core aspects. These included "rejecting the policy status quo", "legitimizing new policy proposals" and "appealing to critics to rethink their resistance". In addition, the study of the Minister's attitude to political office and leadership showed that he was indeed predominantly policy-oriented. At the same time, Riester failed to pay due attention to consensus-building with *all* relevant critics, including the trade unions and his left-wing opponents within the SPD. Riester's shortcomings in this particular activity, comprehensive consensus-building, suggested a refinement to the IL concept, that is, adding the aspect "efforts at political consensus-building". From the Minister's perspective, his neglect to build stable bridges with important reform critics complicated the course of the reform process, but, essentially, could not stop it. Faced with compelling political-institutional obstacles, he also had to make concessions in order to accomplish a final breakthrough, even though he could count on the backing of Chancellor Schröder. Although Riester qualified as an IL-type policy-maker, he had to make substantial concessions to the critics of the proposed reform. Clearly, by ignoring their demands, the desired adoption of reform would not have materialized. Therefore, the IL of Minister Riester was but one of at least two factors in explaining this particular structural reform.

Unemployment insurance

The second case study focused on the process preceding the 2004 reform of unemployment and social assistance, known as Hartz IV. This structural reform broke with the status-quo of a *de facto* three-pillar system of German unemployment protection, and provoked substantial debate on how to deal effectively with mass unemployment. The evidence collected established that Minister of Economic Affairs and Labour Clement had acted in accordance with the criteria of IL during the reform process. In addition, his endeavour was aided by Chancellor Schröder and the Hartz-Commission, an *ad hoc* body of expert advisors. While Clement's performance was undoubtedly important, it was a combination of argumentation and concessions that allowed Hartz IV to materialise.

The analysis of the effects of IL highlighted the importance of the Minister's leadership, showing that it was crucial to break with traditional ways of thinking in labour market policy and to move an ambitious reform plan closer to decision point. Yet, IL alone was not sufficient: Clement's relentless effort in combination with the government's willingness to achieve a compromise on implementation led to its adoption. The communication of this reform-minded and results-oriented Minister was essential for keeping the momentum in the reform process, and for pushing the parliamentary opposition towards acceptance of the reform. Despite the efforts by the reformist Clement to bring about a mentality change in tackling long-term unemployment, the reform was not concluded until the criticism of the parliamentary opposition, concerning the role of local governments and the *Länder* in the *Bundesrat*, was accommodated. Instead of adopting the Ministry's "centralistic" solution (with the Federal Employment Agency as responsible actor), the compromise foresaw a split of administrative competences between local consortia and a number of local authorities, and the division of financing responsibilities concerning the new benefit.

In his mission to move the reform plans towards completion, Clement could rely on Chancellor Schröder and his political commitment, which provided a general direction for social

Chapter 8

and economic policy reform. Moreover, he could draw upon the preparatory work carried out by the Hartz-Commission. Clement's willingness and ability to achieve a compromise proved crucial in ensuring that the core of the reform was adopted (even though the final result differed from the initial government concept), and it helped to uphold the government's image as being capable of adopting important reforms.

Health Care

The third case was to evaluate the skills of an IL-type policy-maker in the field of health care policy. The choice of presumed ideational leader was based on a short expert survey and an additional criterion that gauged the scope of initial policy ideas of several Health Ministers. Compared to the other candidates, Minister Seehofer appeared to have the most characteristics of IL. The study centred on two major reforms during his period in office, the 1992 Structural Health Reform Act (GSG) and the 1997 Health Care Reorganization Acts (1./2.GKV-NOG). The analysis found clear differences between reform outcomes, the processes, and the Minister's role: Seehofer came closer to the criteria for an ideational leader in 1992 than in 1996/1997.

The first reform aimed to control health care costs through the imposition of budgeting on various care providers; and introduced an organizational reform affecting sickness fund membership (free choice for patients of sickness fund) and relations between insurers (introduction redistributive risk-adjustment scheme to spread insurance risks). It was structural due to its changes in the sphere of regulation. The state reaffirmed its regulatory power vis-à-vis the self-administration bodies and interest groups and the market gained ground in a formerly static and state-regulated system through sickness fund reform. The rapid conclusion of the reform stemmed from Seehofer's attempt to strike a deal with the Social Democrats. His new approach in dealing with health care stakeholders and his fast and determined way of acting also speeded up the reform project. Moreover, his distinctive and determined style of legitimizing the aims of the GSG, cost containment and structural reform (of sickness funds), proved effective. The Minister's dual goal of stabilizing the SHI and opening it up to competition, in a concept that shared the burdens amongst all stakeholders, was convincing and withstood the protest of care providers. The resulting reform received considerable attention by analysts due to its far-reaching character, although its precise significance remains debatable. It reflected Seehofer's commitment to change the unfavourable state of health care, his ability to legitimize a bold reform concept, and the will and skill to overcome reform resistance. All ingredients of IL were there, confirming Seehofer's choice as presumed ideational leader.

The 1997 reform package aimed to limit contribution rates by linking them to increases in co-payments and increased sickness fund choice for those insured. Moreover, these laws considerably increased co-payments, strengthened the financial liability of sickness funds, and extended the competences of self-governing bodies. Moreover, patients' rights were strengthened, the hospital sector faced financial stability regulations, and dentists saw new remuneration rules. These reforms were less far-reaching in scope than the GSG. Critics perceived them as one-sided, overstating the personal responsibility of patients and the liability of insurers to contain costs. Although they did alter the regulation structure of the SHI, this concerned the reversal of former provisions on self-governance, which makes it difficult to compare them to a truly innovative structural reform as the GSG. With regard to Seehofer's role, the political context in the period leading up to the 1997 reforms differed considerably from that in 1992. The Minister had to operate in an unfavourable policy-making climate. Having restored closer relations with interest groups, and after a failed attempt at taking the opposition on board, he tried to push the reform through despite considerable resistance from the Social Democrats and the *Länder*. Due to clear

Conclusion

instructions by Chancellor Kohl to cut costs without alienating health care providers, the Minister's leeway to continue with structural reforms had considerably decreased. He failed to organize the necessary support for a more far-reaching reform, and was unable to sell the resulting reform proposal as a logically consistent and well-balanced plan. Although Seehofer *did* display some characteristics of IL during this process, its effects were surely limited. The reform outcome can hardly be described as a clear-cut, structural shift, while discerning effects of IL remain difficult. Seehofer's ability to promote and legitimize these reforms did not lead to visible results, as it seemed to be kept in check by the substantive content of the reform that put greater burdens on patients than on care providers. Moreover, his attempts at consensus-building ran aground and were restricted in their scope, due amongst other things to the lack of political backing by the Chancellor.

8.2 Findings

This section discusses the findings of the empirical investigation in terms of what has been learned about the IL hypothesis. Furthermore, as it is customary to conclude the cycle of empirical research by reconsidering the theories that stood at its beginning, it returns to historical institutionalist accounts and theories of policy change.

8.2.1 Relating the Findings to the Hypothesis: Revisiting IL

Revisiting the IL hypothesis implies a two-step assessment. Firstly, to what extent were IL-type policy-makers found, and, secondly, to what extent were they effective in getting structural reforms adopted? To be able to corroborate the proposition, IL had to be identified in the two cases selected on the outcome of structural reform (the dependent variable). In addition, the connection between IL and structural reform needed to be demonstrated, preferably along the lines of the causal mechanisms. Conversely, the hypothesis would be rejected if ministers did not meet the criteria of IL or if they met the criteria but could not be credibly linked to a structural reform outcome. In the analyses, both lines of evaluation were followed, firstly, establishing the characteristics of the key politicians under investigation, and, secondly, gathering evidence of their efforts to realize structural reform. Regarding my conclusions on structural reform, these will be covered by Section 8.2.3, which deals with policy change. There, I will sum up the contribution of the IL framework to the conceptualization of reform as policy change, and to explanations of such change compared to existing theories.

All in all, the evidence presented gives no reason to reject the hypothesis. In the first two cases, the presence of IL has been demonstrated. In the health care case (using a slightly different approach from the pension and unemployment cases), the presumed IL-type policy-maker was confirmed as having performed along the lines of IL.

More specifically, the first case delivered evidence for both IL and concession-making. Firstly, it underlined the plausibility of the IL hypothesis by demonstrating that IL-type leaders may indeed be found. Minister Riester proved successful in pushing through the innovation of an additional private pension pillar in order to save the traditional pay-as-you-go system. That innovation weakened the principle of securing former living standards without dismantling it completely. At the same time, Riester combined IL with concessions to reform opponents in order to realize his policy plan. This case also demonstrated that a successful re-definition of policy principles (under the condition of proximate elections) and verbal tackling of reform opponents

Chapter 8

may not be sufficient in getting a reform adopted; making material concessions also proved to be important. Echoing the findings of the pension case, the second case revealed that IL, in combination with concession-making (and to a lesser extent strategies that circumvent reform opposition), may lead to the adoption of structural reforms. The Hartz IV reform, merging unemployment assistance and social assistance, materialized due to Minister of Economics and Labour Clement's strong display of IL. Clement was aided in his effort by the preparatory work of the advisory Hartz-Commission and by Chancellor Schröder, which eventually resulted in a strengthened principle of activation ("*Fördern und Fordern*") in this policy area. At the same time, a complex mix of federal, regional and local competences during the process resulted in conflicting interests of reform stakeholders. That complexity forced the Minister to resort to concessions that enabled a compromise on how and where (federal or local level) the new policy instruments should be administered.

The final case on health care reform reversed the guiding question. It did not ask whether structural reforms were influenced by IL-type leaders, but whether a selected IL-type policy-maker managed to adopt structural reforms. The selected policy-maker, Minister Seehofer, clearly displayed IL in the run-up to the Health Restructuring Act in 1992, a clear-cut structural reform that re-ordered the financial regulation and insurance function of sickness funds. Conversely, IL played a less prominent (and effective) role concerning the second major and market-oriented reform plan in 1996/1997. The latter process ended in a controversial and short-lived reform, which reversed earlier provisions, although it still represented a structural shift in the regulation dimension of policy. The health care case indicated that the effects of IL are contingent, since leadership led to structural reform in one case, and to a less clear-cut outcome in another. It also pointed to restricting conditions weakening the effects of IL, which are to be discussed below. Moreover, the health care case underlines that sector-specific features may be consequential as to whether major reforms will be adopted: the presence of strong stakeholders and diametrically opposed preferences inevitably makes for strong opposition to comprehensive reforms from different sources. Under unfavourable circumstances, these may prove problematic for IL-type communicative and behavioural patterns.

While the evidence supports the IL hypothesis, a caveat is in place. IL did not shape the conditions for structural reforms all by itself. Instead, IL-type leaders also resorted to concessions, as the reforms initiated by Riester and Clement indicated.³¹⁴ Regarding Minister Seehofer, his IL-type behaviour was quite effective during the first reform process, while it mattered less during the second: the outcome was a reform that was admittedly structural but only reversed earlier changes. While the last case demonstrated that IL was followed by structural reform, it also raises two questions about the relationship between IL and structural reforms. Firstly, given that IL is not always followed up by structural reform, is that because some of its stipulated aspects were missing, or because of certain conditions that applied? Secondly, concerning the concept of structural reform, is it equally useful when applied to erratic reform patterns over time rather than to single reforms?³¹⁵

The bottom line of the three analyses is that there is empirical backing for the IL concept. *IL-type leaders do indeed exist in empirical reality and their actions do matter.* However, two

³¹⁴ These concessions were important in that they allowed the reform processes to continue and to be concluded, but they did not change the structural character of the reforms, as Chapters 5 and 6 explain in more detail.

³¹⁵ By erratic I mean reforms that are mere reversals of earlier ones or reforms that are only short-lived as the incoming government announces their reversal.

Conclusion

clarifying remarks are in order. IL was not found to preclude other actor-related strategies, but it matters alongside such strategies (see Cases 1 and 2). In addition, if politicians are found to possess IL-type characteristics, they are also capable of structural reforms (Case 3). That sort of knowledge matters for conceptualizing actor-centred explanations of policy change and for thinking about the limits of IL, both of which I will discuss below. Indeed, an important lesson from the health care case is that IL may be contingent in certain ways rather than a constant quality or ability of particular policy-makers: as such, it comes closer to a process-sensitive characteristic of policy actors rather than a personality trait.

8.2.2 Relating the Findings to Explanations of Welfare State Change

Given that the IL hypothesis has endured its first evaluation, what does this knowledge imply for historical institutionalist accounts of welfare state politics (Pierson) and regime theory (Esping-Andersen)? Are these theories in need of modification in order to accommodate what has been learned about the relevance of political agency and ideas for engineering major policy change? Or might the IL framework be seen as their complement, providing a framework for explaining those empirical instances they cannot elucidate? My answer is yes to both questions. These theories may still be useful to welfare state analysts for explaining why welfare state regimes tend to stay the same or change in incremental steps. Indeed, they are best suited to explain why (some) policy-makers tend to shy away from unpopular reforms. Undoubtedly, some of their motivations for doing so, whether related to electoral reasons or institutional characteristics, as Pierson originally contended, still hold in many instances, where reform has been absent.

At the same time, however, these theories need to supply explanations for far-reaching reform, if they aspire to explain more recent empirical welfare state developments, or need to be complemented by new theories of welfare state transformation. Firstly, Esping-Andersen's regime theory would explain more if it specified conditions under which reforms other than incremental ones may happen. For instance, this would include stating how and under what conditions reforms might transform welfare states by introducing features of other regimes over time (e.g. by shifting responsibilities and competences within policies, as implied by structural reforms). Secondly, Pierson's "new politics" account would benefit if it not only specified that politicians tend to shy away from potentially unpopular reforms and at best engage in patterns of blame-avoidance. It would also need to spell out how the same politicians might promote such reforms proactively, as the theoretical framework of IL does. Thus, IL is a valuable complement to the literature of welfare state politics, as it sheds light on such patterns of reform promotion. The case studies have also produced a number of conditions that impact upon the relationship between IL and structural reform (see also Section 8.3.2 below):

- proximity/distance of key election data
- financial/economic crisis perception imposed on reformists/used by reformists
- relative proximity/distance of party-political positions on reform
- lack of backing/backing by head of government
- absence/presence of catalytic effect by external actors
- low/high degree of fairness in spreading reform burdens

Figure 8.3: Additional restrictions on and/or opportunities for IL-type policy-makers

Chapter 8

These additional conditions, as suggested by the case studies, largely differ from Pierson's work on the politics of retrenchment (Lieberman 2002), whether one looks at his hypotheses on reform obstacles (electoral hazard, "status quo-ness", organized interests, path-dependent effects), or those on retrenchment opportunities (electoral slack, budgetary crisis, changing the rules of the game, potential for hiding reforms through blame-avoidance strategies). The only overlapping elements are the conditions with respect to elections and crisis (which I found to restrict the prospects for structural reform, but, in Pierson's opinion, facilitated retrenchment).³¹⁶ As for as the other points, restricting and enabling conditions on reformist politicians are quite different from past thinking on obstacles to and opportunities for retrenchment. The most striking observation is that both sorts of conditions define the context in which reformist politicians operate, better: this includes other actors (head of government, external advisors), the party-political environment (policy positions), the political institutional context (timing of elections) and the policy substance of a reform (degree of fair burden-sharing). As such, they go further than pointing to existing policy characteristics and related interests as forces that impede far-reaching reform. And instead of suggesting that policy-makers search for ways to avoid blame, they point out what factors might help or hinder their message of reform by innovation. Finally, the comparison indicates that a fair number of conditions may hinder, but also potentially help reformists to get reform proposals adopted. The plausibility of and ability to generalise these factors (are they found in other cases as well?), their relative importance (which of them matters most?), and linkages between them (do some of them tend to occur together?) certainly merit further investigation.

In this sense, the findings of this study are less complementary, but much more an extension of the "new politics" argument. Its central claim was that the politics of retrenching welfare states differs fundamentally from the politics of extending them (Starke 2006). Surely, an important difference that comes to mind is that the conditions just described arose from reforms that differed from retrenchment-type reforms. Politicians were proactively engaged in promoting innovative proposals rather than pursuing defensive blame-avoidance strategies. This strongly suggests that contemporary processes of welfare state restructuring differ from those surrounding retrenchment. Spelling out how politicians might tackle major and potentially controversial reforms questions important assumptions of the "new politics" argument: specifically, the unpopularity of reforms and the character of policy-makers as office-seekers fearing electoral hazard. On the basis of German reform patterns, the argument may be made that reforms that involve restructuring and recalibration of policies are not unpopular *per se*, as the assumption went with "pure" retrenchment. Admittedly, restructuring may include unpopular measures (for instance, the merger of benefits implied by the Hartz IV reform also included substantial and potentially unpopular benefit cuts that were resented by important actors in the process), but the presence of IL-type actors who explain and defend the necessity of reforms may redress the popular appearance of reforms as painful cutbacks of social security provision. Moreover, it was not the case that policy-makers under scrutiny behaved as mere office-seekers, as Pierson assumed when specifying his strategies of blame-avoidance. On the contrary, they showed an active interest in the substance of policy and were not put off by potential electoral losses in the first place.

³¹⁶ Strictly speaking, the condition on crisis perception is close to the first aspect of IL, "rejecting the status quo". However, with the second health care reform, a general perception of economic crisis (not restricted to the status quo in the health care sector) became synonymous with the imperative to effect cost-savings and prevented Seehofer from continuing with structural reforms rather than helping him.

Conclusion

In a nutshell, the politics of transforming welfare states is different from the politics of retrenching welfare states, which could be observed during the 1990's. In order to explain welfare state reform in the early 21st century, analysts need to rethink their assumptions and analytical tools. Moreover, as Pierson has aptly recognised in his more recent work, welfare state restructuring occurs according to different political dynamics in different welfare state regimes (Hay 2001). To follow this reasoning, reforms in Social Democratic or Liberal regimes may follow a different logic compared to that in Continental regimes, such as Germany. The IL framework has made a step towards disclosing the reform logic of this pre-eminently resilient regime by stressing the role of individual actors in contrast to Pierson's "new middle coalition" (2001: 452). The question of how to conceptualize the "politics of welfare state transformation" naturally revolves around the variables that should be included (and under which conditions they apply). This is a non-trivial question: after the launch of the "new politics" argument, plenty of explanatory factors, whether socio-economic, party-political, political-institutional, welfare-institutional, and ideational explanations have competed for attention and recognition. But can they all be correct?

8.2.3 Relating the Findings to Theories of Policy Change

By raising the question of what has led to far-reaching reforms in the German welfare state, this project also has implications for broader questions of what constitutes policy change and how to assess it. By proposing an explanation for unexpected instances of social policy change, its findings add to theories of policy change, as they complement existing conceptualisations of dependent and independent variables in such theorizing.

Concerning dependent variables, we are interested in what exactly is meant by "change" and concerning independent variables, we are interested in what causes it. While the primary goal of this study has been to deepen the understanding of theoretically unexpected policy change in advanced welfare states (that is, explaining changes in the dependent variable), its secondary goal, to conceptualize significant change, is valuable in itself. Conceiving of such change as shifts in the structural dimensions of a policy provides an extra dimension to existing theories of policy change, which often rely on concepts of path-dependency and departure. Structural shifts in policy depend on the creation of conditions which facilitate a process in which policy alternatives replace the policy status quo.

Secondly, the results also contribute to the debate on the pace of significant change. They suggest that structural reforms are the result of gradually evolving and lengthy reform processes (even when studying the process of one particular reform), and are often accompanied by learning processes of (opposing) actors, encouraged by an IL-type policy-maker. In turn, this means that far-reaching reforms do not necessarily occur suddenly, being triggered by unforeseen events such as crises, but frequently require a certain period of "incubation". This observation contrasts with two important strands of the policy change literature, the first of which deals with "very major but abrupt and discontinuous change" (Hay 2004: 6) and "punctuated equilibrium" (Blyth 2002), interrupted from time to time by "radical shifts" (Blyth 2003). In addition, the literature on policy-making under conditions of crisis asserts that extreme circumstances can produce radical policy change, and views such change as being dependent on the construction of crises and their exploitation by political actors to achieve reforms (Campbell 1998; Lieberman 2002; Hering 2004). In contrast, the findings of the present study are closer to a second strand of accounts, which conceptualize institutional change as complex, sequential processes. For instance, institutional change may begin by a destabilization of the status quo, followed by "alternative replacement" and, eventually, institutional transformation (Hay 2006: 376). Although the present study focused on instances of single reforms implying structural shifts, these reforms may be

Chapter 8

comparable in their effects to transformations occurring as a result of sequential reforms over a longer time period: the two views on transformative change are compatible because structural reforms are not conceptualized as total system changes such as Hall's paradigmatic changes (Schmidt 2006), which tend to be very rare in the realm of social policy.

Thirdly, the concept of structural reform proved useful in empirically capturing far-reaching change. Structural reform lends itself to describe instances of policy change that are much closer to institutional change than to retrenchment. For three out of the four reforms studied, it has mapped out what were clearly more than routine changes in policy arrangements. With regard to the fourth reform (the 1996/97 health care reform), it was suggested that the structural reform concept might also take into account the timing of reforms and substantive policy legacies to allow for adequate classification of changes. In policy sectors that experience frequent policy change and/or reforms, the concept might be adjusted accordingly, by, for example, adding a component to take into account whether a reform is simply a reversal of earlier legislation. Likewise, one could distinguish "true" structural shifts from others that are simply reversals of earlier reforms and lack innovative elements or reforms that were reversed in due course, as they would not be likely to have a lasting impact.

As well as enhancing the dependent variable dimension of policy change, the study also provides fresh input for the conceptual debate on what causes policy change, by presenting IL as an actor-centred explanation beyond the specific debate in the literature about welfare state change. Notably, that debate revolves around the factors which are best suited to explain changes in public policy and political order: ideas, interests or - perhaps - both (Cheng and Novick 1991; Lieberman 2002; Stiller and Van Kersbergen 2005). While scholars with constructivist convictions tend to stress the power of ideas over interests (Jick 1979; Brannen 1992; Tashakkori and Teddlie 1998; Brannen 2005), a number of other authors insist on ideas and interests being seen as equally important or even as necessary complements in building more comprehensive explanations (Ragin 1987; Ragin 2000; Hahm, Jung et al. 2004). In the institutionalist school of thought, a diverse group of scholars pursues a similar debate, with some claiming that their field includes up to seven variants (cf. Ragin 2000), and stressing different explanatory factors of change within the general paradigm of "institutions matter" (Collier and Mahoney 1996).

My contribution to this more general debate is to bring IL in as an actor-centred explanation. In so doing, I depart from the customary focus on institutions in the literature and zoom in on a much-neglected, explanatory factor without losing sight of the richness of the empirical context surrounding political agency. Focussing on actors in conjunction with ideas contributes to a shift away from institutions, without having to subscribe to more radical, constructivist assumptions on the role of ideas. Although the IL framework does address institutions as the object to be changed (in a dual role, as a restraining factor of change as well as the object of change), much greater weight lies on the agents of change. This contributes to a greater focus on the "how" of change in a framework that incorporates ideas, interests and institutions.

One important note concerning any explanatory model of policy change is appropriate in this context. Any such model implies a theoretical balancing act due to the inescapable trade-off in theory-building between achieving parsimony and retaining empirical richness. While it makes analytic sense to specify separate, theoretical explanations of breaking reform resistance, empirical realities prove to be much more complex. The IL framework contributes towards theoretical parsimony while retaining a great deal of this complexity. It stresses the capacities of leaders and the potential of their ideas in providing input and guidance for the restructuring of social policy. At the same time, the results show that the capacity of IL is limited by certain conditions (related to political institutions and the factor "politics"), and that even effective IL-type actors have been found to use several strategies to overcome institutional resistance. All in all, actor-centred

Conclusion

explanations of reform processes appear to be a valuable complement to existing explanations of welfare state politics and to policy change more generally. My message to theorists of policy change is that ideas, institutions and interests all matter, but that political agency is the focal point of explanations of policy change, and not only in the realm of the welfare state. The IL explanation may also be relevant to other areas of public policy, as long as their institutions pose serious obstacles to far-reaching reform and policy stakeholders and/or other vested interests affected by that policy can be expected to resist such reform.

As a final note, any explanation of policy change implies certain meta-theoretical assumptions, and throughout this study my thinking about explanations of policy change has evolved in the following direction. While the IL framework stresses the importance of a single, explanatory factor, other models may include a number of different factors interacting in several ways to produce substantial policy change. However, in order to develop more such comprehensive and inclusive accounts of policy change, a configurative perspective on causality and patterns of change may be more suitable. In order to devise such comprehensive explanations of political change, outcomes should be seen in terms of configurations (or combinations) of several explanatory conditions. When applying this insight to prominent explanations in policy studies, that is, institutions and ideas, significant change may better be seen as a product of the interaction of these factors (and friction caused by overlapping ideational and institutional elements), than by focusing separately on ordered patterns of ideas or institutions (ibid: 709). This alternative perspective of causation of policy change may be usefully applied to the complex universe of welfare state reform and will be readdressed in Section 8.3.3.

8.3 Reflections: Lessons Learned and Further Research

8.3.1 Lesson I: Improving the Measurement of IL

The first lesson is about measuring the effects of leadership, and more specifically, IL. This effect has been conceptualized as causal mechanisms bridging the gap between IL as independent variable, the conditions that enable institutional break-out, and structural reform, the dependent variable. The case studies have revealed that it is difficult to demonstrate these mechanisms empirically, not least, because of a lack of adequate data to illustrate fully the working of the theorized causal mechanisms. The problem can be remedied by searching for evidence that indirectly reflects causal mechanisms (for instance, taking a trade union's change in policy preference indicative of a re-consideration of interests), before better data sources become available. Moreover, the effects of IL were demonstrated in a two-step procedure. After finding indications for its presence, its effects were traced by looking for signs of causal mechanisms and other actor-related strategies (alternative explanations). Future research might come up with ways of illustrating the four causal mechanisms more explicitly (e.g. by collecting more systematic data on how reform opponents reacted to the different aspects of IL). Likewise, it may be possible to show in more detail how politicians' actions and the adoption of theoretically unexpected reforms are interlinked. For the time being, it remains problematic for social scientists to establish one important assumption of the causal mechanisms of IL, preference changes, by "looking into people's heads". More sophisticated methods need to be developed to detect signs of preference change by looking at actors' actions, from verbal or written communication, or, to use theories from other social science disciplines to shed light on actors' preferences and motives underlying decision-making.

8.3.2 Lesson II: Explicating the Impact of Contingencies

The second lesson is about the contingency of IL. Through the case studies, it has become clear that certain “restricting” conditions can reduce the effectiveness of IL (or conversely, there are “enabling” conditions that can enhance it). In theories of causality, as well as in everyday social science terminology, one tends to distinguish “real causes” from “conditions”, which enable a cause to produce an effect . Without becoming embroiled in such epistemological debates, I propose a distinction that sees “causes” as factors, implying generative sources of outcomes or mechanisms (ibid: 118). In contrast, a restricting condition implies that a condition is present that hinders something or someone either ready or willing to take action.

The IL framework already includes such a condition, which relates to the limits imposed by political institutions (“institutionally informed conditions”). The underlying assumption was that it is unrealistic to expect a deterministic relationship between IL and structural reform. Instead, the framework specified that the political-institutional context limits the effectiveness of IL depending on the phases of the policy process. Accordingly, its influence was hypothesized to be ‘medium to strong’ in the agenda-setting and legislative phases, and ‘weak’ in the decision-making phase. These expectations were mostly confirmed, as Table 8.1 illustrates. The prior expectation of a ‘medium to strong’ effect before the final decision-making phase was indeed matched by the empirical evidence. In the agenda-setting phase, Riester and Seehofer were able to translate their policy ideas into policy proposals without much hindrance, while Clement was able to build on a reform agenda that had already been set by others (Hartz commission, Schröder). In addition, my prior expectation about the weakness of IL in the decision-making phase (when it needs to be complemented by other strategies) was corroborated. Minister Riester and Minister Clement indeed used concession-making strategies during the last phase of the process in order to adopt their pension and unemployment insurance reforms. However, some of the findings of Case 3 did not match prior assumptions, in that IL was also ‘strong’ during the decision-making phase (1992 reform), but ‘weak’ during the legislative phase (1996/97 reform), as table 8.1 indicates.

<i>Phase</i>	<i>Effects of IL</i>			
	Case 1	Case 2	Case 3: 1992	Case 3: 1996/1997
<i>Agenda-setting</i>	Medium to strong	Medium to strong	Medium to strong	Medium to strong
<i>Legislative</i>	Medium	Strong	Strong	Weak
<i>Decision-making</i>	Weak	Weak	Strong	Weak

Table 8.1: Empirical findings on institutionally informed conditions

Legend: Bold = finding diverges from theoretical expectation

As for the 1992 reform, IL had a strong influence until and including the decision-making phase, because Seehofer’s consensus-building efforts with the parliamentary opposition ensured a supportive vote in the *Bundesrat*, making additional strategies to adopt the reform redundant. As for the 1996/97 reform, the unexpected weakness of IL in the legislative phase can be explained by the fact that the substance of the reform frustrated Seehofer’s plans. Despite the Minister’s

Conclusion

legitimizing efforts, the redistributive implications of the reform were more favourable for health care providers than for patients. This, in turn, fostered a general sense of injustice, fuelling opposition against the reform and neutralizing Seehofer's legitimizing message.

Beyond the restricting impact of political institutions, the case studies also highlighted *additional* restricting (or conversely, enabling) conditions for IL, which are summarized in Table 8.2. Their effect is thought to be "restricting", as most of them arose from the third case study as obstacles to reform. Conversely, the absence of some of these conditions can give an extra impetus to IL-type actors, and thus have an "enabling" effect (for instance, no proximate elections; a small party-political gap on reform positions; backing by the head of government; fair burden-sharing implied by a reform proposal).

Case	Findings related to conditions	Conditions
pensions	<ul style="list-style-type: none"> - reform-promoting external actors (e.g. OECD, IMF) furthering debate about alternative pension arrangements - Riester's continuous support by the chancellor 	<ol style="list-style-type: none"> 1. presence/absence catalytic effect external actors (+/-) 2. presence/absence backing head of government (+/-)
unemployment insurance	<ul style="list-style-type: none"> - role of the advisory Hartz commission, paving the way for comprehensive labour market reforms before the Minister's start - Clement's backing by the chancellor 	<ol style="list-style-type: none"> 1. presence/absence catalytic effect external actors (+/-) 2. presence/absence backing head of government (+/-)
health care	<ul style="list-style-type: none"> - party-political constellation in 1996/97 (large differences between policy positions government - opposition) compared to more favourable conditions for a "grand coalition" in 1992 - proximity of federal elections thwarted NOG-reforms in 1996/1997 while prospect of key election year 1994 gave added urgency to plans in 1992 - Kohl's explicit backing (on Seehofer's initiative) for 1992 reform; no such backing for another compromise with SPD in 1997; - reformists' perception of crisis in health care, increasing urgency to intervene, along with high level of economic/financial pressure - degree of "fairness" regarding the distribution of reform burdens between different policy stakeholders (high: 1992, low: 1996/97) 	<ol style="list-style-type: none"> 3. relative closeness/distance of party-political positions on reform (+/-) 4. proximity of or distance to key election data (-/+) 2. presence/absence backing chancellor (+/-) 5. (lack of) crisis perception of reformists (+/-) 6. high/low degree of fairness in spreading reform burdens (+/-)

Table 8.2: Additional conditions on the effectiveness of IL as suggested by the case studies

Legend: + = enabling effect; - = restricting effect on relationship IL and structural reform

Chapter 8

Given that these additional conditions can impact on the relationship between IL and structural reforms, this relationship, is visualized in a stylized way in Figures 8.3 and 8.4:

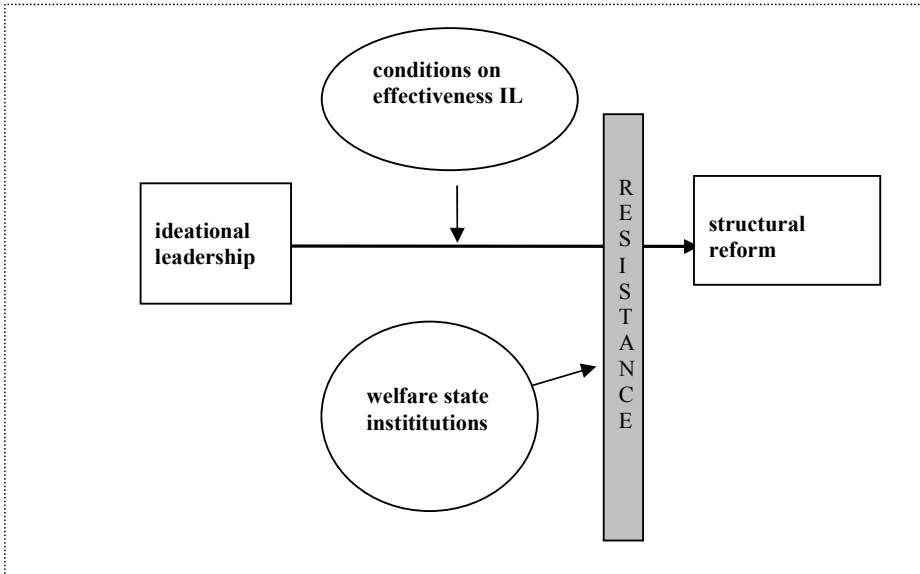


Figure 8.3: Relationship between IL and structural reforms,
Legend: grey rectangle represents obstacles posed to structural reform by welfare state institutions (path-dependent institutions and related interests)

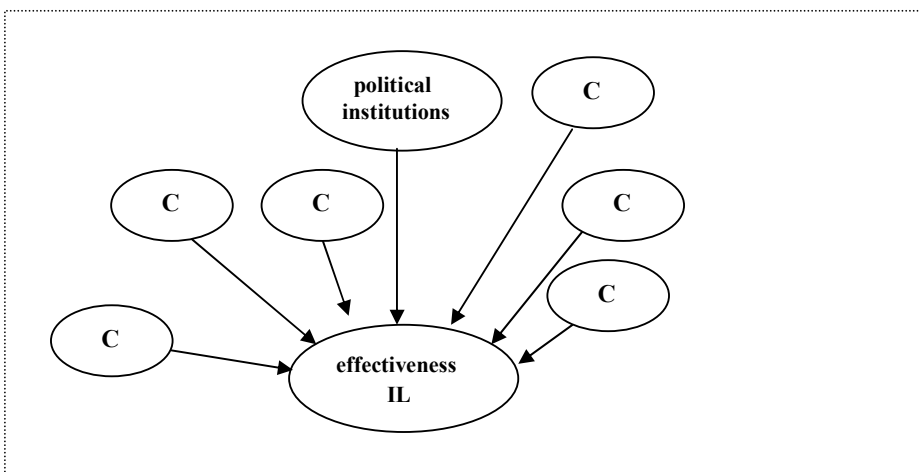


Figure 8.4: Conditions on the effectiveness of IL
Legend: oval “political institutions” represents ‘institutionally info med conditions’, small oval shapes represent additional restricting/enabling conditions

Conclusion

From the newly acquired knowledge on the contingencies of IL, two conclusions may be drawn. The case studies have corroborated the effects of political institutions as far as the German political-institutional context is concerned. However, as institutional restrictions are likely to vary in other countries, further research would have to look into other institutional contexts. Secondly, the list of additional conditions drawn up on the basis of three case studies strongly points to further contingencies, but is, necessarily, preliminary. Therefore, more work needs to be done in order to probe into the significance of these conditions, possible interactions between them, and implications for the effectiveness of IL.

8.3.3 How to Proceed with Research on IL? Alternative Research Designs

The conclusions stated in Section 8.3.2 directly translate into requirements for further research on the IL hypothesis. Follow-up studies should build upon the findings by designing tests of the IL hypothesis and thus strengthen its empirical base. In order to proceed accordingly, future research designs would certainly differ from the present one concerning their scope and depth of the research question. As a consequence of the goals and theoretical underpinnings of this study of significant welfare state reforms, the research design has included relatively time-consuming case study methods and has been small-n in character. Further corroboration of the IL hypothesis asks for comparative analysis, preferably across countries and/or policy areas and based on a larger number of reform observations. For instance, one follow-up study might investigate far-reaching reforms that have occurred in other Continental welfare states, such as France, Italy or Austria. Alternatively, it would be interesting to explore whether IL also plays a role in countries with other political-institutional (e.g. majoritarian democracies such as the UK) and welfare-institutional make-ups than in Germany. Consequently, subsequent hypotheses may state that such reform contexts do not require political agency to push through reforms (e.g. in Social Democratic welfare states), or do offer enough possibilities for the executive to effect far-reaching changes without making a particular effort (e.g. in Liberal welfare states).

Such approaches, in turn, require another sort of research design and methods of analysis, if they are to provide, in the terminology of quantitative research, more rigorous tests of hypotheses. To undertake work that includes more cases and observations of policy change, a combination of different methods would be advisable. Indeed, the awareness of this option has resulted in an increasing amount of literature with methods dedicated to method triangulation or “mixing methods”. To reduce the drawbacks of small-n research, especially its limited empirical range and time requirements, alternatives may be quantitative or qualitative comparative (QCA/fuzzy-set) techniques. The latter is especially useful for the investigation of more cases than case study research would be able to cover, but less than would be required for large-n quantitative methods.

Applying quantitative methods in order to evaluate the effects of IL on policy outcomes could complement the present small-n qualitative approach to measuring leadership and its effects. For example, a quantitative approach could employ different sources, such as surveys, to generate alternative insights into the views of policy process observers; a better picture of strategies associated with ideational leadership; and other complementary leadership styles or behavioural patterns.

QCA or fuzzy-set analysis would be another option. This methodology differs from conventional variable-oriented research in that it treats cases as configurations; sees populations as flexible, manipulable constructions; focuses on outcomes, and understands causation as conjunctural and heterogeneous. Under this assumption of causal heterogeneity, outcomes are explained in terms of (combinations of) necessary and/or sufficient conditions; while variable-oriented research probes the explanatory value of one or several causally important factor(s) under

Chapter 8

the assumption of causal homogeneity. The results of such analyses would specify, for instance, that certain combinations of ideational, leadership, and party-political factors produce a certain reform outcome. Conventional variable-oriented research, in contrast, would stress, for instance, the relative explanatory power of ideational and leadership variables over party-political variables.

However, using alternative methodologies, whether quantitative or QCA/fuzzy-sets, is no panacea for improving explanatory accounts. After all, analytical categories and measurements (e.g. ideational factors, aspects of leadership) need to be based on substantive theoretical claims and the presence of suitable data to illustrate the presence (or absence) of various conditions. Difficulties in meeting the latter requirement may nevertheless turn out to be advantageous: they induce analysts to devise better indicators for causal linkages, or, alternatively, to make use of theories from adjacent disciplines. In this sense, to return to the two lessons at the beginning of this section, future research would improve both theorizing and empirical illustration of the mechanisms linking leadership behaviour, additional explanatory factors, and policy outcomes. In turn, this helps to increase the quality of idea- and leadership-based explanations of welfare state reform and brings advancement to the field.

8.4 Final remarks

This chapter has recapitulated the theoretical and empirical contributions of this study. Its main finding was that the IL hypothesis agrees with the empirical reality of recent welfare state reforms in Germany. For welfare state theories, this means that to analyze a “politics of transforming welfare states”, they can no longer rely on the assumptions of stability and reform-averse policy makers but need to take account of political agency. In terms of theories of policy change, the structural reform concept, as a measure of qualitative change, as well as IL as an actor-centred explanation, make for valuable additions to existing theories. However, every study also offers possibilities for follow-up work. Two important lessons to be drawn have been the need to improve the measurement of leadership effects, and to explicate the multiple sources of contingencies that IL-type policy-makers face when operating in the midst of complex reform processes. To proceed with a more comprehensive, that is, cross-sectional or longitudinal, investigation of IL, I have proposed a triangulation approach, using quantitative analysis, and/or QCA/fuzzy-set methodology.

Finally, I would like to return to Dalton’s statement at the beginning of this chapter. Has this study illuminated the “mystery”, which stood at its beginning, the seemingly inexplicable major changes occurring in the German welfare state? The answer is that it has indeed unravelled an important part of how Germany, the former prototype of incrementalism, was capable of some major social policy reforms. As a matter of fact, the “lateness” of those reforms has led many to rethink the pros and cons of the formerly admired “German Model” which, by the late 1990’s, had been increasingly called into question. But rather than searching the reasons for reform in the sphere of the German political economy, this study focussed on another plausible explanation: key political actors. By reconsidering the role of agency in combination with political ideas in reform processes often hampered by institutional obstacles, a new facet has been added to existing explanations of major policy change. Agency is not subordinated to structure at all times, on the contrary. Besides making a theoretical case for political agents and their ideas, this study has found evidence for the crucial role that these key actors may play, and for the strength of their policy ideas, even when they operate in complex reform processes. The bottom line is that key policy makers can make a difference and, in the German context, have made a difference in three important policy areas that were thought to be immune to far-reaching reform. These insights

Conclusion

provide fresh input for the literature on policy and political leadership on the one hand, and on the influence of policy ideas, on the other. Illustrating the role that key political actors can play has successfully solved one part of the puzzle. At the same time, it is too early to lean back comfortably and call it a day. Other pieces of the same puzzle are still out there and have to be found before obtaining the full picture.

Chapter 8

Epilogue: More Structural Reforms Under the Merkel Government?

Chapter 4 of this book has surveyed developments in German social policy from the 1970's until the second Schröder Government. The survey has revealed an array of incremental reforms, but, notably also a number of important structural reforms that defy the resilience arguments about the German welfare state. Schröder's Red-Green coalition did not complete its second term in office due to the Chancellor's risky decision to call early elections for September 2005, which it lost by a narrow margin. Since the formation of a "Grand Coalition" (*Grosse Koalition*) government in autumn 2005, consisting of CDU/CSU and SPD, expectations have run high. This has to do with the fact that observers expected the coalition's comfortable majority in both chambers of parliament to translate into a number of important reforms, which were not tackled by past governments, when typically one of the main parties led the opposition, frequently obstructing or even blocking reform attempts by the government. In the following, I will assess the first year of the Merkel Government in terms of its social policy record and outline developments and look ahead to the immediate future. Covering the three main social policy areas that were central to this study (pensions, unemployment insurance and health care policy), the question is whether the Merkel Government has already enacted or is going to enact more structural welfare state reforms?

The record of Merkel and her cabinet members responsible for welfare state issues, Minister Müntefering (Labour and Social Affairs) and Minister Schmidt (Health care) has been mixed. In *labour market policy*, the Government started to act upon the first comprehensive evaluations of the 2002 and 2003 Hartz reforms, and, in reaction, announced legislative adjustments of those instruments which had proved to be either problematic or ineffective, to be tackled in 2007. Considering the most controversial of these reforms, Hartz IV, a first review was undertaken during spring 2006, leading to legislation that introduced stricter eligibility rules for the Hartz IV benefit, ALG II (*Arbeitslosengeld II*); new benefit regulations for those under 25 of age; and equal benefit levels for all *Länder*. Yet another law revising the Hartz IV provisions was passed in June 2006, and included stricter controls on benefit abuse; the facilitation of information exchange between authorities; and tougher sanctions for those refusing job offers.³¹⁷ These corrections, which reflect the Governments' reaction to a larger number of claims on the Hartz IV budget than expected, as well as accusations of large-scale abuse, strengthened the element of activation in unemployment insurance policy and tried to combat benefit abuse. The latest correction of Hartz IV, adopted by the *Bundesrat* in December 2006, has slightly changed the division of financing living expenditures attached to Hartz IV benefits (*Wohngeld*), giving some more responsibility to the federal government and easing the financial burden of the *Länder*.³¹⁸

In the wake of these changes, and despite a general sense of economic recovery accompanied by a durable reduction in unemployment compared to 2005, the debate on how to handle unemployed persons, especially those in long-term unemployment, has somewhat abated but not ebbed away. In the autumn of 2006, it was revived by a study from the SPD-affiliated Friedrich Ebert Foundation (FES) on poverty in Germany, which revealed a growing class of socially excluded persons in German society (titled "*Prekariat*" by the authors). Given the growing awareness of the side effects of Hartz IV and other social policy reforms that stress the personal

³¹⁷ 'Bundestag verschärft Hartz IV', *Süddeutsche Zeitung* 02.06.06, p.5

³¹⁸ 'Bund hilft bei Wohngeld', *Süddeutsche Zeitung*, 16.17.12.06, p.10

Epilogue

responsibility of beneficiaries, the CDU seems to be split between strengthening the requirements on long-term unemployment and easing them. On the one hand, some prominent CDU politicians kept pleading for a more comprehensive revision in the autumn of 2006 that would increase the incentives to take up work even more (but which has not translated into concrete proposals so far).³¹⁹ On the other hand, some prominent left-wing politicians within the party, for instance, Minister-President Rüttgers of North Rhine-Westphalia, pleaded for a more gradual transition to the lower Hartz IV benefit for older long-term unemployed persons, giving them credit for the length of the period they paid contributions for. The latter issue has figured high in the debate on a more social profile of the Christian Democrats, which according to some has been too neo-liberal. However, the SPD, which under Schröder had adopted substantial restrictions on the duration of unemployment benefits, has so far refused to re-open the discussion. Thus, so far these considerations have not led to any new legislative initiatives by the coalition.

In short, in the area of unemployment insurance, we have observed a host of incremental and corrective corrections of an earlier structural reform, Hartz IV, rather than a new one. At the time of writing (December 2006), a working commission (consisting of ministry officials, CDU and SPD labour market specialists and other) set up by Minister Müntefering in August, is still busy working out a blueprint for a “comprehensive reform” of the Hartz laws. If any of the new instruments under discussion materialize, such as a minimum salary (*Minimumlohn*), or a model of state subsidies on top of unemployment benefits or ALG II (*Kombilohn*),³²⁰ new structural reforms could ensue.

With regard to another continuously discussed policy area, *old-age pensions*, the agenda of the “Grand Coalition” has largely centred on the proposal to increase the legal pension age to 67 years. That idea had first appeared in public debate in 2003 under the second Schröder Government, was then quickly dismissed and did not re-appear until the new government of CDU/CSU and SPD was formed in late 2005. Its resurgence was probably due to the fact that the introduction of the “sustainability factor” (in 2004) defused the debate on whether statutory pensions were sufficiently equipped to meet the demographic challenge in the short to medium term. Therefore, the necessity for an additional measure to relieve pension budgets through a deferral of the legal pension age (which has already been discussed and/or implemented in several European countries), took more time to find its way to the policy-making agenda. The coalition agreement contained the intention to implement a very gradual increase of the legal pension age from 65 to 67, starting in 2012 until 2035 (for those age cohorts first affected by the change).³²¹ In February 2006, Minister of Labour Müntefering took up the issue and proposed to phase in this change earlier than planned (completing the phase-in by 2029), which was approved promptly by the Cabinet. In addition, automatic pension indexation was set to be postponed until 2009 in order to keep contributions stable. In December 2006, the *Bundestag* first discussed the corresponding bill with regard to the question, coupled with measures to help the creation of job for employees over the age of 50.³²² Another measure to stabilize the budgets of the statutory pensions, the

³¹⁹ ‘Wer Hartz IV erhält, darf nicht nur herumgammeln’, *Süddeutsche Zeitung*, 31.05.06, p. 8

³²⁰ Instead of a substantial revision of Hartz IV, Müntefering favours adding other labour market instruments. See BMAS, ‘Herausforderung Arbeitsmarkt - Vorhaben und Fahrplan’, 29.08.06, source: <http://www.arbeitsmarktreform.de/AMR/Navigation/Service/nachrichtenarchiv.did=159270.html>.

³²¹ ‘Gemeinsam für Deutschland mit Mut und Menschlichkeit’, Koalitionsvertrag CDU/CSU, SPD, 11.11.05, p.82, source: www.bundesregierung.de/Anlage920135/Koalitionsvertrag.pdf

³²² *Hib-Meldung* ‘Bundestag berät Rente mit 67 und “Initiative 50 plus”’, source: http://www.bundestag.de/aktuell/hib/2006/2006_385/01.html, accessed 18.12.06.

More Structural Reforms Under the Merkel Government?

increase of the pension contribution rate from 19.5 to 19.9 percent for 2007, was approved by the *Bundesrat*.³²³

In short, the developments in pension policy under the Merkel Government show that change has so far taken the shape of incremental measures – in entitlement rules, contribution financing and automatic benefit adjustments – with the common goal of securing the main pillar of provision, statutory pensions. Although they seem small-scale, they can be expected to have substantial effects in the long run, as they strengthen the financing base and reduce the level, and, indirectly, the average duration of benefits. As such, these changes continue the line of policy initiated with the introduction of the sustainability factor in 2004, complementing the more radical change introduced in Minister Riester’s structural reform (2001) that set German pensions firmly on a path to multi-pillar footing. While the Merkel Government does not seem to envisage another far-reaching restructuring of pensions, it surely continues the way towards lower pension levels that was chosen around the turn of the century.

In *health care policy*, the Merkel Government has put a major reform of health care policy on the agenda, which it “inherited” by the Schröder Government, which had no more time to tackle the issue after the call for early elections. The reform’s declared goal was to put the financing of statutory health care insurance (SHI) on a new and more solid footing, although the coalition agreement of November 2005 did not yet specify the exact approach to be followed. Instead, the coalition agreement stated:

The coalition sees as one of its challenges to secure the effectiveness of the health care system through stable financing structures. In this respect, the parties have developed different concepts, the “solidaristic health care premium” (CDU/CSU) and the “citizens’ insurance”, which are not readily combined. We are going to develop a common solution to this question in the course of 2006.³²⁴

As the quote illustrates, the coalition parties were deeply split on the issue, each favouring different concepts, either citizens’ insurance (SPD), or a variant of the health premium model (CDU/CSU). That gap between policy ideas implied that a combination of the two models had to be found that could strengthen the revenue base of the SHI as well as make it less dependent on wage-based contributions. In early 2006, SPD-parliamentary party leader Struck optimistically announced that the coalition hoped to present a bill for health care reform before the parliamentary summer break in July and to adopt it later this year to enable implementation by early 2007.³²⁵ With much difficulty, and accompanied by close media attention, the coalition reached an agreement on core elements of the reform in early July, followed by its adoption in the Cabinet. However, due to the considerable need for intra-coalition discussion, Merkel declared that the introduction of the reform should be deferred to April instead of January 2007. Necessarily compromising their own positions, both parties agreed on measures for more flexibility, transparency and stronger competition in the relations between patients, sickness funds and care providers; the establishment of a new health fund (*Gesundheitsfonds*) to redistributive contributions among sickness funds; more extensive tax financing of health care (for children) and more competition between sickness funds and private insurers.³²⁶

³²³ ‘Die Beschlüsse des Bundesrats – Rentenbeiträge steigen’, *Süddeutsche Zeitung*, 16./17.12.06, p. 10

³²⁴ Koalitionsvertrag CDU, CSU, SPD, 11.11.05, p. 87

³²⁵ ‘Struck: Es gibt nichts mehr aufzuklären’. *Deutschlandfunk Interview der Woche*, 22.01.06, source: www.dradio.de/dlf/sendungen/idw_dlf/461027/

³²⁶ ‘Kabinett beschließt Eckpunkte der Gesundheitsreform’, *Pressemitteilung BMGS*, 12.07.06.

Epilogue

The plans met with fierce criticism from both experts and the media, as they frustrated the expectation of a truly major reform that would radically change the current strictly contribution-based financing mode. Sickness funds, supported by some trade unions, promptly announced a protest campaign directed against the new health fund, despite warnings of Minister of Health Schmidt not to react prematurely.³²⁷ Physicians and pharmacists joined in with a day of public protest in November, highlighting the supposed negative consequences of the reform for their practices and business. Currently, the government plans are still subject to change, as they are still being processed by the *Bundestag* and still need to gain approval by both chambers of parliament (to be expected by February 2007) to become effective in April 2007. Rapid approval by the *Bundesrat* has become questionable, since three CDU/CSU-governed *Länder* have announced to vote against the bill because of allegedly higher financial implications for their budgets than those envisaged by the Minister, thereby revoking their earlier agreement on the key provisions (*Eckpunkte*) of the reform.³²⁸ Minister Schmidt has countered this threat by announcing another independent study by the government advisers Rürup and Wille to be presented in January 2007. It is hoped that this move will clarify the reform's financial implications and take away the *Länder*'s objections. In addition, Chancellor Merkel has been backing her Minister's stance as she has reasserted her determination to keep the earlier compromise on the key provisions intact.³²⁹

In a nutshell, it remains to be seen, whether the essence of the reform, which in its current form clearly implies structural shifts, for instance, in the financing of the SHI, will remain unaltered until the legislative process is completed. Despite the bad reputation the proposal has with public opinion and a great part of the media, another factor comes to Schmidt's resort: the symbolic value of this reform project for the viability of the "Grand Coalition" makes its complete derailment unlikely.

In contrast to the topical developments in health care, a comprehensive reform to address the deficit problems of long-term care insurance (which is also contained in the coalition agreement) has not figured prominently in political debate that far.³³⁰ Again, the CDU/CSU-SPD Government has taken up this project in the coalition agreement, stating, that 'the concept for a law for the sustainable and just financing of the long-term care scheme will be presented in the summer of 2006'.³³¹ However, due to the coalition's preoccupation with other more pressing reform projects, notably health care, long-term insurance will not be tackled until 2007. That being said, the potential for a structural reform in this area can be considered high as it is widely accepted that it is unsustainable in its present form.

³²⁷ 'Schmidt und Söder drohen Kassenchefs', *Spiegel Online*, 29.07.06, source:

<http://www.spiegel.de/wirtschaft/0,1518,429169,00.html>

³²⁸ 'Unionsländer stellen Gesundheitsreform in Frage', *Süddeutsche Zeitung*, 18.12.06, p.1

³²⁹ 'Streit um Gesundheitsreform: Gutachten gegen Gutachten', *tagesschau.de*, 19.12.06, source: http://www.tagesschau.de/aktuell/meldungen/0,1185,OID6213740_TYP6_THE_NAV_REF1_BAB,00.html

³³⁰ A comprehensive reform plan has so far been wanting, although Minister Schmidt, under the second Schröder Government, had been working to concretize plans to raise contribution rates and to implement a judgement of the Federal Constitutional Court to decrease contributions for parents after the reception of the Rürup report. As a consequence of the adoption of other pressing reforms in the wake of his reform package Agenda 2010, chancellor Schröder had called for a stop on reform plans early in 2004 out of fear of yet more unpopular burdens on citizens. However, any comprehensive reform plans that would possibly consider the Rürup proposals had been postponed until after the 2005 federal elections. See: 'Pflegesatz rauf, Arbeitslosenbeitrag runter', *Süddeutsche Zeitung Online*, 17.01.2005, source: <http://www.sueddeutsche.de>.

³³¹ Koalitionsvertrag CDU/CSU-SPD, 11.11.05, p.92

More Structural Reforms Under the Merkel Government?

In sum, the Merkel Government's record on social policy so far has been noteworthy, surely given the extent of substantial party-political disagreements between CDU/CSU and SPD that are more intense than those of the Red-Green coalition. However, despite the quarrelling, a number of initiatives that add to and complement past reforms have been passed, and others, with a potential for substantial change, are still in the making. This short survey gives plenty of reason to think that the image of Germany as "frozen welfare state" is no longer appropriate: the structural reforms analysed in this book will surely not be the last ones as Germany, at its own pace, proceeds down the path of welfare state transformation.

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Appendix - List of Interviewees

Case 1: Pension Policy under Minister Riester (1998-2002)

- 1) IAB pension policy expert, Nürnberg, April 22, 2004.
- 2) DGB official, Department of Labour, Social and Co-Determination Law, Berlin, June 14, 2004.
- 3) Member of the SPD federal board and former Member of Parliament, Berlin, June, 15, 2004.
- 4) BMGS senior official, Berlin, June 16, 2004.
- 5) CDU Member of Parliament and speaker for unemployment policy and social assistance issues, Berlin, June 17, 2004.
- 6) BfA official, formerly DGB, Berlin, June 28, 2004.
- 7) SPD parliamentary party official, Berlin, June 28, 2004.
- 8) B90/Greens parliamentary party official, Berlin, June 29, 2004.
- 9) B90/Greens Member of Parliament, via email, July 16, 2004.

Case 2: Unemployment Insurance Policy under Minister Clement (2002-2005)

- 1) Ministry of Labour Affairs of North-Rhine-Westphalia senior official, Düsseldorf, January 21, 2005.
- 2) SPD Member of Parliament, Berlin, January 26, 2005.
- 3) BMWA official, Berlin, January 28, 2005.
- 4) FDP Member of Parliament, via email, January 31, 2005.
- 5) SPD mayor and member of the Hartz commission, Leipzig, January 31, 2005.
- 6) CDU/CSU parliamentary party official, Berlin, February 1, 2005.
- 7) DGB official, Department of Labour Market Policy and International Social Policy, Berlin, February 2, 2005.
- 8) Journalist *Der Spiegel*, Berlin, February 3, 2005.
- 9) B90/Greens parliamentary party official, Berlin, February 3, 2005.
- 10) VerDi senior official and member of the Hartz commission, Berlin, February 8, 2005.
- 11) IAB labour market policy expert, via phone, March 8, 2005.
- 12) Professor of Political Science and labor market policy expert, via phone, March 21, 2005.
- 13) Assistant to the BMWA Parliamentary State Secretary, Berlin, August 19, 2005.
- 14) BA board member, Nürnberg, October 4, 2005.
- 15) Former BMWA State Secretary, Berlin, January 23, 2006.

Case 3: Health Care Policy under Minister Seehofer (1992-1998)

- 1) Assistant professor of Political Science and health care policy expert, Bochum, November 10, 2005.
- 2) Assistant professor of Political Science/Public Policy and health care policy expert, Hannover, November 11, 2005.
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- 4) VfA representative, Berlin, November 15, 2005.
- 5) DKG representative and editor of “Das Krankenhaus”, Düsseldorf, November 22, 2005.
- 6) Director, WIdO (research institute of AOK sickness fund), November 22, 2005.
- 7) Professor of Medical Sociology and health care policy expert, Frankfurt, November 23, 2005.
- 8) Former SPD Member of Parliament and speaker for health care policy, Berlin, January 24, 2006.
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Samenvatting

In deze studie is onderzocht hoe en op welke manier vooraanstaande beleidsmakers de weerstand tegen verandering van hedendaagse welvaartsstaten kunnen doorbreken, teneinde structurele hervormingen te bewerkstelligen. Deze weerstand is vooral aanwezig in continentale welvaartsstaten, waarvan Duitsland een uitstekend voorbeeld vormt. De hypothese van deze studie is dat ideeëngericht leiderschap (IL) theoretisch onverwachte structurele hervormingen in welvaartsstaten kan verklaren.

De aanleiding voor deze studie is de observatie dat zich verregaande welvaartsstaathervormingen hebben voorgedaan, ondanks de verwachting van de afwezigheid van zulke veranderingen in de dominante theorieën over de politiek van de verzorgingsstaat en verzorgingsstaatreghimes in het historisch institutionalisme (hoofdstuk 1). Meer specifiek heeft deze studie het werk van Esping-Andersen en Pierson behandeld en gewezen op het gevaar van “stability bias”, de sterke neiging om mechanismen te benadrukken die de bestaande verzorgingsstaat in stand houden. Hiertoe behoren padafhankelijkheid, gevestigde belangen en electorale risico’s. Door deze krachten te benadrukken, blijven de mechanismen die wel kunnen zorgen voor veranderingen buiten beschouwing. Mijn voorstel is om aan verregaande hervormingen te refereren als structurele hervormingen, dit in contrast met hervormingen die kwantificeerbaar zijn en vaak als “retrenchment” worden aangeduid. Uit literatuur over kwalitatieve veranderingen in welvaartsstaten is afgeleid dat zich structurele hervormingen zich als volgt kenmerken: het zijn *veranderingen als gevolg van wetgeving, die een herschikking van competenties en verantwoordelijkheden van belangrijke actoren die zijn betrokken bij het beheren van een programma van sociaal beleid teweegbrengen*. Dit soort veranderingen of verschuivingen hebben betrekking op de financierings-, de uitkerings- of de reguleringsstructuur van het beleid (of meerdere van deze tegelijkertijd).

Theoretisch onverwachte, vergaande hervormingen hebben zich voorgedaan in verschillende Europese verzorgingsstaten waaronder Duitsland. Dit land leent zich om meerdere redenen voor een diepgaande analyse van structurele hervormingen. Hierbij valt te denken aan de bijzondere combinatie van obstakels tegen hervormingen (politieke en verzorgingsstaatsinstituties) en een opvallende druk uit verschillende bronnen om hervormingen door te voeren (socio-economisch, financieel en demografisch). De bestaande theorieën die deze beleidsverandering zouden kunnen verklaren, suggereren dat factoren van economische, institutionele, partijpolitieke en ideële aard hierin een rol kunnen spelen. Deze factoren kunnen de structurele hervormingen in Duitsland nauwelijks verklaren. In deze studie wordt betoogd dat, in plaats van verklaringen te zoeken op het macro- (regime) of meso-niveau (beleidsprogramma’s), het micro-niveau van analyse (individuele beleidsmakers) uitkomst biedt. Preciezer introduceert deze studie het concept van *ideeëngericht leiderschap* (IL), als een combinatie van politieke actoren (“political agency”), hun relatie met politieke ideeën en hoe deze de totstandkoming van hervormingen kunnen beïnvloeden.

Hoofdstuk 2 geeft aan hoe het concept van IL is ontwikkeld. Dit gebeurde door na te gaan welke elementen uit de literatuur over leiderschap en uit de literatuur over ideeën nodig zijn om het totstandkomen van structurele hervormingen te verklaren. De combinatie van elementen uit beide literaturen wordt als noodzakelijk gezien om hun relatieve zwaktes te compenseren. Ten aanzien van leiderschapsconcepten betreft dit een tekort aan aandacht waarom en hoe precies politici verregaande hervormingen willen doorzetten en wat betreft de ideeënliteratuur een tekort aan aandacht voor causale mechanismen die ideeën als oorzaak van veranderingen verbinden met het realiseren van concrete hervormingen. Het uiteindelijke concept van IL draagt zowel elementen van bestaande leiderschapsconcepten alsook elementen betreffende de rol van ideeën bij verregaande beleidsveranderingen in zich. Dit levert uiteindelijk vijf aspecten op die zowel

communicatief als gedragsgerelateerd zijn (1 t/m 4) en inspelen op de oriëntatie van een politicus van het type ideeëngericht leider (5). IL behelst dat de betreffende politicus 1) de nadelen van de status quo beleidssituatie aan het licht brengt, 2) op een consistente manier nieuwe beleidsprincipes onder de aandacht brengt (zowel wat hun probleemoplossend vermogen betreft, alsook hun normatieve kant oftewel hoe deze passen bij bestaande normen in de samenleving), 3) ingaat op tegenstanders van de beoogde hervormingen door hun weerstand als “problematisch” te kenmerken, 4) pogingen onderneemt om politieke consensus te bereiken door steun voor een beoogde hervorming te zoeken. Tenslotte wordt aangenomen dat politicus van het soort IL in zijn motivatie eerder (of overwegend) beleids- dan machtsgeoriënteerd is en daardoor oprecht geïnteresseerd in de inhoud van het beleid.

Deze aspecten worden door twee causale mechanismen verbonden met het totstandkomen van beleid. Het eerste en ideeëngericht mechanisme (verbonden aan aspecten 1 en 2) werkt op het niveau van overtuigingen en ideële belangen van tegenstanders en bewerkstelligt veranderingen in cognitieve en normatieve preferenties. Het tweede en belangengerelateerde mechanisme (verbonden aan aspecten 3 en 4) beïnvloedt de perceptie van eigenbelangen bij tegenstanders op een manier waardoor deze de beoogde hervormingen toch kunnen accepteren. Als de desbetreffende persoon overwegend beleidsgeoriënteerd is, versterkt dit het effect van de twee mechanismen. De combinatie van het voorgaande schept de condities voor een institutionele “break-out”. Dit wil zeggen dat beleidsalternatieven de padafhankelijke status quo binnendringen, een ommekeer van de eerdere “lock-in” van instituties plaatsvindt, zodat een structurele hervorming (in de vorm van een wetsvoorstel) kan worden aangenomen.

In hoofdstuk 3 wordt ingegaan op de keuzes van het onderzoeksontwerp en de methodologie en worden de centrale begrippen IL en structurele hervormingen geoperationaliseerd. De IL hypothese wordt geëvalueerd door middel van een meervoudige case study binnen de context van de Duitse verzorgingsstaat, waarin de casussen worden gedefinieerd als beleids- en politieke processen omtrent een specifiek hervormingsvoorstel. Bij elke casus is “process-tracing” uitgevoerd en, naast de IL hypothese, twee alternatieve verklaringen (doen van concessies en omzeilen van tegenstanders) om obstakels van hervormingen te overwinnen, geëvalueerd. De empirische vraag die in elke casus centraal staat, is: in hoeverre is het mogelijk om IL in het proces van hervorming te ontdekken, en op welke manier is IL gerelateerd aan de realisatie van een structurele hervorming? De focus van de in totaal drie casussen verschilt. De eerste casus (oorspronkelijk opgezet als pilot en resulterend in een verfijning van het IL concept) moest uitwijzen of er überhaupt bewijs voor IL gevonden kan worden. De tweede casus moest uitwijzen of de bevindingen van casus 1 ook in een tweede hervormingsproces opgaan en om de effecten van IL op de uitkomst van het proces beter te belichten. Deze twee casussen zijn geselecteerd op de afhankelijke variabele, structurele hervorming. De derde casus, geselecteerd op de onafhankelijke variabele (IL), is bedoeld om te onderzoeken of een ideeëngericht leider ook in staat is om tijdens zijn ambstermijn structurele hervormingen te bewerkstelligen. Bij het bestuderen van de casus is gebruikgemaakt van bronnentriangulatie. Hiervoor zijn documenten (beleidsdocumenten, toespraken en interviews van de betrokkene beleidsmakers, persberichten uit dag- en weekbladen) en de verslagen van 35 expert interviews gebruikt. Dit materiaal is met behulp van kwalitatieve inhoudsanalyse bestudeerd, waarin zowel indicatoren voor IL alsook alternatieve verklaringen zijn gebruikt om zowel de mate van aanwezigheid alsook de uiteindelijke rol (en dus effectiviteit) van IL vast te stellen en te beoordelen.

Hoofdstuk 4 gaat nader in op de institutionele kenmerken van de Duitse welvaartsstaat (zowel op macro- oftewel regime niveau alsook op meso- of programma niveau), de bijbehorende politiek-institutionele context en de soorten van druk voor verandering. Een terugblik op de ontwikkeling van de belangrijkste beleidsterreinen van de verzorgingsstaat (pensioenen,

werkloosheidsverzekering, gezondheidszorg) onder de verschillende regeringen sinds de jaren zeventig laat zien dat het merendeel van de hervormingen stapsgewijs van aard was en dat pas meer recentelijk, sinds de jaren negentig, een aantal verregaande en dus structurele hervormingen is gerealiseerd.

De empirische hoofdstukken 5, 6, en 7 bevatten gedetailleerde analyses van processen die tot een aantal hervormingen hebben geleid. De eerste case study behandelt de pensioenshervormingen uit 2001 genoemd naar Minister van Werkgelegenheid Walter Riester. Deze wetgeving beëindigde in feite de op één zuil berustende structuur van het Duitse pensioenstelsel door er een particulier gefinancierde en publiekelijk gesubsidieerde tweede zuil aan toe te voegen. Daarnaast werd ook de derde zuil, pensioensvoorzieningen via de werkgevers, versterkt. Deze hervorming was structureel omdat zij verschuivingen in de financiering, uitkeringen en regulering van pensioensvoorzieningen met zich meebracht. Minister Riester kreeg met forse oppositie tegen het oorspronkelijke voorstel te maken, zowel binnen het parlement als daarbuiten, waarop hij een antwoord poogde te vinden. Ondanks het herhaaldelijke aanbrenge van veranderingen in het voorstel, waarmee het ministerie concessies deed aan de critici, wist Riester de kern van de innovaties van de hervorming te bewaren tot het wetsvoorstel werd aangenomen in 2001. De analyse betoogt dat Riester in overeenstemming met de drie kernelementen van IL heeft gehandeld. Daarnaast wordt aangetoond dat zijn attitude ten aanzien van zijn ambt en politiek leiderschap inderdaad als beleidsgeoriënteerd kan worden omschreven. Tegelijkertijd was Riester nalatend wat betreft het werken aan een consensus met alle relevante critici inclusief de vakbonden en de linksgeoriënteerde tegenstanders binnen de Sociaal-democratische partij. Deze laatste observatie heeft geleid tot het toevoegen van een aanvullend kenmerk aan IL, “het ondernemen van pogingen om tot politieke consensus te komen”. Hoewel Riester IL toonde, was hij ook gedwongen om concessies te doen teneinde politiek-institutionele obstakels te overwinnen en zodoende een compromis te sluiten die het uiteindelijke vaststellen van de hervormingen mogelijk maakte. Daarmee zijn twee factoren aan te wijzen die de realisatie van de Riester hervorming hebben geholpen: IL door de Minister en daarnaast het doen van concessies aan critici.

De tweede case study handelt over het proces omtrent de hervorming in 2004 van de werkloosheidsuitkeringen en bijstandsuitkeringen, bekend als “Hartz IV”. Deze structurele hervorming maakte een eind aan het Duitse uit drie zuilen bestaande systeem van werkloosheidsbescherming en lokte een debat uit over een effectieve aanpak van de massawerkloosheid. Het verzamelde materiaal wijst erop dat de betrokken Minister van Economische Zaken en Werkgelegenheid Wolfgang Clement door zijn optreden tijdens het hervormingsproces aan de vijf criteria van IL voldeed. Daarnaast werd hij in zijn streven bijgestaan door de Kanselier en de Hartz-Commissie, een ad hoc groep van beleidsexperts. Terwijl Minister Clement’s energieke optreden voor de hervorming uitermate belangrijk bleek, was het de combinatie van IL en concessies waardoor de Hartz IV hervorming gerealiseerd kon worden. De analyse laat zien dat het leiderschap van de Minister essentieel was om met de gangbare manier van denken over arbeidsmarktbeleid te breken en om dit ambitieuze hervormingsvoorstel dichterbij een beslissing te brengen. Wat in deze casus echter ook bleek, was dat enkel IL niet doorslaggevend was. Ook Clement’s niet aflatende inzet om een compromis over de invoering van de wetgeving te bereiken, waren onontbeerlijk. In plaats van de centralistische oplossing, die werd geopperd door het Ministerie, betekende dit compromis een splitsing van administratieve bevoegdheden (tussen nieuw te scheppen “consortia” en een aantal gemeentes) en financiële verantwoordelijkheden betreffende de nieuwe uitkering. Minister Clement kon in zijn streven om Hartz IV te realiseren rekenen op de steun van Schröder en terugvallen op het voorwerk van de Hartz-Commissie. De Minister’s bereidheid en vermogen om tot een compromis te komen was

echter cruciaal in het behouden van de kern van de hervorming en hielp om het imago van de regering als in staat zijnde om belangrijke hervormingen door te voeren, hoog te houden.

De derde en laatste casus was bedoeld om het vermogen van een IL tonende beleidsmaker op het gebied van de gezondheidszorg te evalueren. De keuze voor een beleidsmaker, Minister van Gezondheidszorg Horst Seehofer, is gebaseerd op een korte enquête onder experts alsook een criterium dat de aanwezigheid van beleidsideeën bij verschillende ministers in kaart bracht. De casus behelsde twee opvallende hervormingen tijdens de ambtsperiode van Seehofer, uit 1992 (GSG) en 1997 (1./2.GKV-NOG). De analyse van beide hervormingen bracht verschillen tussen uitkomsten, processen en de rol van Seehofer aan het licht: Seehofer vervulde de criteria voor een ideeëngericht leider in 1992, maar minder in 1997. De eerste hervorming behelsde kostenbeheersing (invoeren van budgetten voor zorgaanbieders) en een organisatiehervorming met consequenties voor de deelname aan ziekenfondsen en de relaties tussen fondsen. Zij was structureel door verschuivingen in de regulatiesfeer. De resulterende hervorming kwam snel tot stand, ook doordat de Minister de oppositionele Sociaal-democraten wist te winnen voor een gezamenlijke aanpak. Daarnaast wist Seehofer effectief om te gaan met belangen in de zorgsector; bewees hij doorzettingsvermogen door de moeilijke situatie in de zorg niet te laten voor wat ze was; toonde hij een groot vermogen om zijn ambitieuze voorstel te legitimeren en de wil om weerstanden te overwinnen. Dit alles bevestigde de keuze voor Seehofer als ideeëngericht leider.

De hervormingen uit 1997 omvatten een pakket maatregelen, waaronder beperkingen op stijgingen van ziekenfondscontributies (vooral ten laste van verzekerden), meer concurrentie, meer financiële verantwoordelijkheid voor verzekeraars en meer vrijheden voor zelfregulerende instanties binnen de sector. Het karakter van deze wijzigingen, die vooral in de regulatiesfeer lagen, is slechts beperkt structureel te noemen, des te meer omdat de weinige structurele veranderingen of van korte duur bleken te zijn of een terugkeer van eerder beleid betekenden. De analyse van de rol van de Minister in dit proces laat zien dat hij slechts beperkt kenmerken van IL vertoonde en dat deze in ieder geval weinig effect sorteerden. Gegeven de minder gunstige politieke context had Seehofer moeite de noodzakelijke steun voor meer verregaande hervormingen te verwerven en het resulterende voorstel als consistent en afgewogen voor alle betrokken belangen te presenteren. Ook was een herhaling van zijn strategie uit 1992 voor samenwerking met de oppositie nagenoeg uitgesloten doordat zijn ruimte door Kanselier Kohl werd beperkt.

Concluderend wordt vastgesteld dat er empirisch bewijs voor het concept van IL is gevonden: de empirische analyses vormen geen aanleiding om de IL hypothese te verwerpen. Vooraanstaande beleidsmakers met kenmerken van IL bestaan en hun handelen maakt een verschil. In de eerste twee casus is de aanwezigheid van IL aangetoond. Wat betreft de rol van IL, werd in de analyse van de Riester hervorming duidelijk dat zowel IL alsook het doen van concessies belangrijk waren om de hervorming te realiseren. Hetzelfde geldt voor de Hartz IV hervorming, waar een combinatie van IL en concessies tot het eindresultaat leidde. In de casus over de gezondheidszorg werd gevonden dat de vooraf gekozen beleidsmaker met kenmerken van IL, Seehofer, zich deels volgens de patronen van IL gedroeg. Tegelijkertijd liet deze casus zien dat de effecten van IL niet altijd optreden omdat het in slechts in een van de twee hervormingen tot een eenduidige structurele hervorming kwam. Daarnaast is ook op een aantal beperkende en/of versterkende (“enabling”) condities van IL gewezen.

Deze bevindingen zijn belangrijk voor theorieën over welvaartsstaatveranderingen. Hoewel deze theorieën nog steeds van waarde zijn voor het verklaren van stabiliteit of stapsgewijze veranderingen, moeten zij worden aangevuld met andere theorieën, zoals het hier ontwikkelde theoretisch kader van IL, om de hedendaagse “politiek van transformatie van welvaartsstaten” (in contrast tot de eerdere “politiek van de terugdringing”) te kunnen analyseren en verklaren.

Daarnaast gelden er in de verschillende verzorgingsstaatregimes waarschijnlijk verschillende logica's voor hervormingen en heeft het kader van IL een bijdrage geleverd aan het ontcijferen van de logica van het continentale regime.

Ook zijn de ontwikkelde concepten en uitkomsten van belang voor theorieën van beleidsverandering in meer algemene zin. Door een verklaring te bieden voor onverwachte hervormingen op een ander dan de gebruikelijk niveau's van analyse en een definitie voor verregaande hervormingen voor te stellen, draagt dit onderzoek bij aan het spectrum van afhankelijke en onafhankelijke variabelen binnen de discipline van beleidsanalyse.

Tenslotte wordt een aantal lessen geformuleerd die voortvloeien uit deze studie, met name hoe de meting van IL kan worden verbeterd; hoe IL onderhevig is aan beïnvloeding door institutionele en andere condities; en hoe vervolgonderzoek naar de IL hypothese vormgegeven kan worden.

Curriculum Vitae

Sabina Johanna Stiller was born on 2 June 1972 in Buchloe, Germany. After secondary school, she trained as a bank employee and subsequently received her *Abitur* at the *Berufsoberschule* in Augsburg in 1994. From 1994 to 1998 she studied at the University of Essex, United Kingdom, and the Universidad Autónoma Madrid, Spain, for a BA degree in European Studies and Spanish. After moving to the Netherlands, she obtained a MA degree in International Relations from the University of Amsterdam, where she graduated in 1999. After holding several commercial job positions, she started as a PhD researcher at the Centre for German Studies and the Faculty of Management Sciences, Radboud University Nijmegen, in 2002. She held the post of PhD representative for the Department of Political Science within the Faculty from 2003-2005. Since 2004, she repeatedly travelled to Germany for fieldwork, which included interviews and complementary research at the *Parlamentsarchiv* in Berlin. From January to March 2006, she spent two months as a visiting scholar at the University of Bremen's *Zentrum für Sozialpolitik*. Since 2003, she has worked as a junior lecturer, co-teaching various courses in the Political Science programme with a focus on Comparative Politics and methodology, and supervising BA theses. Currently, she works as a lecturer in Comparative Politics at the Department of Political Science.

