REFORMING THE GERMAN WELFARE STATE: WHY GERMANY IS SLOWER THAN ITS NEIGHBORS

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Abstract

Germany has been characterized as a country slow to reform its welfare system. Examining this popular conception, I find that the German efforts to cut welfare spending do not lag far behind its neighbors. The lag comes in the slower effort made in Germany to rethink the legitimizing principles of the social model and to change policies to promote the new idea of a welfare state. Combining a social constructivist with an institutionalist approach, I explain Germany's slow progress as a function of a welfare system whose legitimizing principle is income security rather than social citizenship.

For the past five years, Germany has been the villain in morality plays about welfare reform. Around the world, the popular press portrays Germany's economy as ossified and over-regulated. The result, if one believes the dire predictions, is a country doomed to lose in the stiff competition of the global economy.

There may be truth in this dire image, but it is certainly too strong. During the past two decades, Germany actually had a good record in trimming its welfare budget (Manow and Seils 2000). Especially compared to its high spending neighbors, Germany's record is not shabby. But, spending is not the best measure of welfare reform. Across western Europe, the state-of-the-art in welfare reform is measured by efforts to reward people for staying in, or returning to the labor force. Spending cuts alone have not achieved these goals. As Josef Schmid noted in the introduction to this volume, the real heart of

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welfare reform lies in the qualitative changes that serve to make pension systems more contributory, place work requirements on public assistance and unemployment benefits, and privatize risk.

The countries identified as best cases of dramatic welfare reform (Denmark, The Netherlands, New Zealand), earned their reputations not only because they have implemented new policies, but also because they have portrayed these policies as novel approaches to the challenges of globalization and welfare malaise. Catchy terms such as 'activation', 'flexicurity', or the 'polder model' invoke a new image of the role and purpose for these countries' welfare states. They replace the ideas that lent legitimacy to the postwar images of the welfare state, such as 'social rights', 'income maintenance', or 'universalism'.

Recently, scholars have begun to recognize the theoretical significance of these ideas in the reform of welfare states, devising a new 'constructivist' approach to explain the new developments (Blyth 1997, Checkel 1999, McNamara 1998). Constructivists make the audacious claim that ideas matter to policy outcomes and set out to challenge the tenets of conventional approaches to the study of welfare states that dominated throughout the 1980s and 1990s. Conventional approaches viewed welfare states as permanent, immutable fixtures of the political economy (Hicks 1999, Clayton and Ponthusson 1998). Each welfare state was unique in some way, but all had established a developmental trajectory that was defined by their structural characteristics (Esping-Anderson 1990). As this viewpoint affected early research on welfare reform, scholars agreed that welfare reform would be slow and incremental, if it happened at all, and that the institutional trajectories of each welfare state would determine its capacity for and direction of reform (Pierson 1996). Path-dependence was the term used to describe this structural constraint.

In challenging this conventional wisdom, constructivists take account of two observations. First, they observe that many welfare states have undergone dramatic transformation during the past ten years, and that this transformation does not fit within the logic of path-dependence. Second, they observe that the public discourse about welfare reform uses new concepts to legitimate the reform effort. Emphasis is placed on the abruptness of change. For example, reforms are described as "path-breaking" and new ideas are seen to mark 'paradigm shifts' in the way we think about welfare states (Cox 2001, Torfing 1999). To combine these observations into an explanation of welfare reform, constructivists argue that new ideas altered policy preferences and opened political space for dramatic reforms. Looking at Germany during 2000 and 2001, one could say that the revolution of ideas has finally penetrated that country and a similar dramatic transformation of the German social model is at hand.

Such a change might take awhile. In looking at the experiences of Denmark and the Netherlands, two countries with reputations as path-breaking leaders, a stronger case can be made for a more viscous impact of ideas. To be sure, ideas had a strong and decisive effect on the process of welfare reform in those countries, but the transformation did not take place overnight. Rather, a series of slow, incremental reforms were accompanied by a series of slow, incremental adjustments in the discourse. These two incremental processes mutually reinforced and encouraged each other. The result over time was a new welfare state and the development of a new philosophy to define its purpose, but the change was not sudden. Indeed, rapid reform and dramatically new ideas did not appear overnight precisely because the postwar idea of the welfare state was well known and popular. A general desire to maintain continuity with the past helped to regulate the discourse and the character of reforms. It was at the end of a long series of small steps that the Dutch and Danish welfare states began to look different, and that the Dutch and Danish populations began to accept the changes.

Still, Germany lagged behind, and the lag needs to be explained. Why did the tyranny of small steps not begin, or not have the same effect in Germany as in Denmark and the Netherlands? My argument is that the legitimizing principles of the German welfare state differed from those in the other two countries. This difference precluded the adoption of reforms in Germany that set the adjustment process in motion in the other countries. Specifically, the German welfare state's historic emphasis on income security as the fundamental principle prevented reforms of important programs such as pensions. In the other countries, a greater emphasis on social citizenship opened space for reforms that though undesirable, were easier to legitimate because reformers could claim that all citizens were being treated equally. In practical terms, the difference in legitimating principles meant that German policy makers were limited to reforms that tinkered with existing programs, while Dutch and Danish policy makers could experiment with reforms that had a transformative effect. The vigorous pursuit of tinkering reforms in Germany explains its success in curtailing budget growth, while the prevalence of transformative reforms in Denmark and the Netherlands explain their reputations as dramatic welfare reformers.

Ideas and the room for reform

Because welfare states differ, they offer greater or smaller political spaces within which actors must legitimate their reforms. In comparing Germany to its neighbors Denmark and the Netherlands, one immediately notices that they represent different types of welfare states. Germany is the prototypical example of the achievement-oriented model, Denmark a prototypical example of the solidaristic model, and the Netherlands represents a hybrid of the two (Titmuss 1974, Esping-Andersen 1990). This difference in type is significant for the process of reform because each type represents different ideas that lend legitimacy to welfare provision. These differences render some types of reforms legitimate in one welfare system but illegitimate in the other.

By drawing a simple distinction between reforms that tinker with the existing welfare system and those that transform its character, we can conceptualize the way a type of welfare state makes reform more or less possible. Tinkering reforms have relatively little effect on the basic structure of the welfare system. By leaving programs intact, they strive to reduce the level of budget expenditures or the number of people receiving benefits. They are easy to implement, as they usually require minor changes in staff or rules. When successful, the effects of tinkering reforms are likely to be seen in quantitative indicators, such as levels of welfare expenditure. For example, reducing the earnings-replacement ratio of a disability benefit, or increasing the co-payment for prescription medications are tinkering reforms. In the 1980s, tinkering reforms were a widely used means of cutting back on welfare budgets. Politicians sought to trim expenditures while leaving programs intact. Germany was comparatively successful in this effort.

Transformative reforms, by contrast, are more far reaching. Not only do they alter the financial scope of a program, but they also alter the basic principles, or ideas upon which the program is founded. In other words, they are qualitative changes in the character of assistance.

Consequently, they are usually controversial and may require fundamental administrative changes to implement. For example, many countries replaced universal with mean-tested child allowances. The transformative character of such a reform is that it replaces the idea that all children should receive the same level of support with the idea that only families with limited incomes need special assistance. The new work requirements in public assistance programs transform these programs from morally neutral benefit schemes into assistance programs that seek to modify people's behavior. Transformative reforms do not guarantee that program costs will be reduced. Enforcing work requirements often requires public funds to create training programs, subsidize employers, or provide day care assistance to working parents.

During the 1980s, most countries pursued tinkering reforms in an effort to cut costs. Because welfare programs were popular, fundamental reform was resisted. In the 1990s, however, transformative reforms have distinguished the Dutch and Danish successes from the German malaise. Because solidaristic welfare states are based on principles of equality, they are more accommodating of transformative reforms. For example, one of the central tenets of reform in both countries has been an emphasis on moving people back into the work force. The popular justification for this has been couched in terms of the responsibilities of citizens. Because a right to assistance is universal, meaning all citizens can claim it, promoters of reform have argued that rights carry responsibilities and that work requirements are merely another means to guarantee that citizens who enjoy their rights also fulfill their responsibilities. This articulation has been received as legitimate, even if not all citizens agree with the policy. The consequence, however, is that the welfare state has been transformed from a passive system of benefits into an agent in the pursuit of full employment.

Achievement welfare states, by contrast, do not allow the same degree of room for similar transformative reforms. Inspired by Christian democracy, income security rather than equality is the fundamental goal for social policy, and the family rather than the individual is the basic unit of the achievement welfare state (Kersbergen 1995). Because incomes are different, providing income security demands that the insurance schemes award larger benefits to those who leave the workforce with larger incomes. Preserving the family means protecting many members who are unable to participate in the workforce (children and often mothers). High wages and job security ensure that a single 'bread-winner' can earn enough to support this entire social unit (see also Fuhrmann in this volume).

The achievement model has two consequences for the politics of reform. First, income security creates a predisposition against change because change usually entails risk. Proposals for cutbacks therefore induce a beggar-thy-neighbor response as working people seek to protect their jobs at the expense of those who need jobs. In Germany this is called the insider-outsider problem (Heinze, Schmid and Strünck 1999). And, those with higher incomes favor benefit formulas that replace earnings over those that would redistribute income. In the absence of a value for equality, it is hard to make the case that all should share equally the pain of budget cutbacks. Consequently, institutional position will help to determine who wins or loses in the fight to cut programs (Wijnbergen 1999). Second, the debate will not place a great emphasis on participation in the work force, since imbedded in the system is the assumption that people run serious risks of being unable to work. The welfare state is designed to protect people from risk, therefore proposals to introduce work requirements would face political opposition and lack legitimacy. For these reasons, the achievement welfare state offers a much more limited political space to policy reformers than does the solidaristic one, at least for the types of reforms that have been implemented in other countries in recent years.

Based on this assessment of the way established ideas create the space for policy reform, it is easy to see how welfare reform was transformative in Denmark and the Netherlands, but not in Germany. Table 1 provides a brief schematic of reforms that have been attempted in Germany and its two neighbors, distinguishing between the reforms that were transformative and those that merely tinkered. Clearly, the result is that the Dutch and Danes pursued both types of reforms, but Germany has only begun to succeed in fundamental reform. In Germany, reform is more difficult because existing policies place value on risk-aversion, and this sharply constrains the space reformers might use to justify policy change. Reforms of income taxes and pensions, however, suggest that the German government is trying to shape a new vision of the German welfare state that de-emphasizes risk-aversion and places more value on global competitiveness.

Table 1:
Differences in the Quality of Welfare Reform

	Germany	**Netherlands**	**Denmark**
Tinkering Reforms			
Longer qualifying period for full pension	Yes	No	N/A
Raising retirement age	Yes	Yes	Yes
Less generous indexation mechanism	Yes	Yes	Yes
Reducing income replacement rates	No	Yes	N/A
Reducing duration of unemployment	No	Yes	Yes
Reducing generosity of early retirement	Yes	Yes	Yes
Transformative Reforms			
Work requirements for public assistance	In some cities	Yes	Yes
Work requirements for unemployment	No	Yes	Yes
Tax advantages for private pensions	May 2001	Yes	Yes
Deregulation of part-time labor market	No	Yes	Yes

Transforming the Dutch and Danish Welfare States

The dramatic reforms in Denmark and the Netherlands have been the subject of much scholarly attention. Many of these studies credit the role of ideas in shaping a path for welfare reform. But, those who focus on ideas tend to place too much emphasis on the immediate and dramatic impact of new ideas. The reason for this is that the scholars who examine ideas are challenging two tenets of the institutionalist approach that has dominated study of welfare states in recent years. Institutionalists assume that most change is incremental and biased towards the status quo. The idea of path-dependency embodies these assumptions. A path-dependent development is one that allows little room for change and that discourages any change at all. To respond to this, constructivists identify situations where change appears to be abrupt, and ideas have been identified as the catalyst of these path-breaking situations.

Yet the cases of Denmark and the Netherlands demonstrate that ideas had a slower, more incremental effect. Many of the new ideas took a period of time to gain public acceptance. Indeed, most were met with initial skepticism. But, over time, many important opinion leaders were able to reframe policy issues in ways that facilitated broad acceptance of the new ideas. The way they did this was by framing the new ideas within the established terminology of the welfare state. By connecting the new idea to a set of ideas that was already well established in society, the advocates of the new idea were able to insinuate the new idea into the debate over welfare reform. This opened more room for policy measures as the new idea gained in acceptance.

To use one example, when Dutch pension reformers sought to expand the opportunities for private savings schemes, they framed their proposals as programs to achieve wage restraint. In the Dutch context, wage restraint was an idea that expressed the consensual nature of the social pact between employers and employees. By exercising wage restraint in the 1950s and 1960s, Dutch unions were rewarded by employers with 'deferred wages' in the form of pension benefits. As more than a pact between labor unions and employers, wage restraint was the idea that helped the welfare state grow in the postwar period. By a clever twist of the idea of wage restraint, Dutch policy makers in the 1990s were able to use the idea as a defense of initiatives to make the pension scheme more contributory.

The reforms that did this were a number of small proposals to expand tax deductions for employees. In the 1980s, Dutch governments reduced a number of social insurance programs that benefited workers. For example, the number of sick days that employees had to take at their own expense was increased, supplementary insurance for widows and orphans was reduced, and the duration and amount of unemployment benefits was reduced (Veen and Trommel 1999). To patch these holes in the safety net, unions put the issues on the table during collective bargaining sessions. But the new demands for employers to fund the insurance schemes prevented unions from pressing hard on wage demands, effectively crowding wages off the table. To put a good face on a tough situation, unions referred to their new tactic as a policy of wage-restraint, and advertised the new insurance programs to their rank and file as the benefits of wage restraint. In the popular discussion, a continued practice of wage restraint had allowed Dutch unions to preserve the system of social provision. And, few people noticed that this new form of wage restraint actually was based on a wholesale privatization of many forms of social support.

As this new construction of wage restraint took hold in the public debate, other innovative reformers tried to capture the momentum. For example, Willem Vermeend and Theo Vreugdhil were members of parliament who wanted to expand the tax advantages for private savings schemes. When they drafted a bill for parliamentary consideration, they named it the Wage Restraint Act, arguing that if employees were able to place more of their income in a tax-advantaged private savings schemes, they would be able to accept more moderate wage increases. The proposal passed, and few people noticed that the consequence of the program is to make pension savings more contributory. This is because money is placed in the saving scheme before social security taxes are calculated. As these schemes grow in popularity, and as the government allows people to put more money into them, less money will be taxed to fund the social security system. Overtime this will reduce the amount of income that is replaced by the public system, and increase the amount that a worker is solely responsible for (Cox 2000). In short, wage restraint in the Netherlands is helping to turn the Dutch pension system into a contributory one.

But, the point about this example is that the process was not immediate or dramatic. Wage crowding began in the early 1980s. The Wage Restraint Act was passed in 1996. In between there was a gradual shift in attitude as people became accustomed to a new way of thinking about wage restraint. The reforms began by embracing a hallmark principle of the Dutch welfare state. Then, small programmatic adjustments helped move this change in attitude by constantly reinforcing the validity of the new interpretation of the idea of wage restraint. Over time the change has proven profound, but it was not immediate, and it was not a sharp break from the past.

In Denmark, the slow change in thinking stemmed from a growing perception that the welfare state was not longer doing what it was originally intended because of a few perverse incentives. Critics of the welfare state argued that its passive system of cash benefits destroyed personal responsibility by allowing people to engage in undesirable and irresponsible behavior (Andersen 1984, Einhorn and Logue 1989). The hallmark of the Danish welfare state, the extensive system of social services ranging from child care to elderly care, insured that the needs of every citizen were fully provided. But critics charged that this destroyed a sense of social responsibility as people discovered it was easier to let the state take care of their children and parents then to do so themselves. In the background loomed the growing costs of the welfare system and demographic projections that the system would become more expensive as the population aged.

In the 1990s the government established a special commission of policy experts to offer recommendations for welfare reform. The Social Commission, as it was called, focused the growing social critique into a set of recommendations designed to recapture the lost spirit of the welfare state (Socialkommissionen 1993). The first proposal was a strict work requirement for anyone receiving unemployment or public assistance. Noting that work requirements had always been elements of Danish social assistance, the Social Commission criticized welfare officials for not enforcing the requirements and allowing too many people to use the programs as a substitute for work. To further justify the work requirements, the Social Commission cited passages in the Danish Constitution that elaborated the rights of citizens, but also articulated their responsibilities. According to the Constitution, working is a responsibility of every able-bodied citizen.

The first result of the Social Commission's work was The Act on Municipal Activation, passed in 1992. It gave every municipality the right to cut assistance to people who did not accept an offer to work. At the time the law was passed it was extremely controversial. But, in the ensuing years its success in reducing public assistance roles has helped to make Danes believe that the welfare state is working again.

Another recommendation of the Social Commission was to make the pension system more contributory. Recognizing the burden a growing elderly population will have on the future solvency of the system, the Social Commission argued that individuals needed to take more responsibility for their own pension savings. As a result, the Commission argued that the public system needs to be a less central component of total pension income, and that the receding public scheme be replaced with more vigorous incentives for private pension savings. The first step in this direction was a decision to make benefits in the publicly-funded scheme (Folkepension) more selective. Second, legislation passed in 1997 turned the small superannuation scheme (ATP) into a contributory social insurance, which is to grow and eventually overshadow the Folkepension. By shifting from the generally-funded Folkepension to the contributory ATP, reformers hoped to place a natural brake on the growth of pension benefits, as the working population would resist raising contributions to fund rising benefits. Finally, opportunities for occupational pensions were approved in 1991, and since their introduction these schemes have mushroomed to cover virtually the entire skilled work force. As contributory schemes, they build a direct connection between a citizen's work history and pension income (Green-Pedersen 1999). Over time, Danish officials expect that the public will become accustomed to contributory pensions. It is an example of a small reform that reinforces a growing change in attitude.

In short, the new activation schemes and the reforms of the pension system are changing the face of the Danish welfare state. The trend can best be described as a movement toward a more achievement-oriented, rather than a solidaristic welfare state. The idea of collective responsibility is giving way to the view that pension income beyond a minimum floor is the responsibility of an individual, and that work is a citizen's duty. Policy experts, particularly the Social Commission, played a special role in bringing about these reforms. They were instrumental in framing the debate around traditional principles and portraying the more generous aspects of the Danish welfare state to be inconsistent with Danish tradition.

Retrenchment Without Reform: From Standort Deutschland to Neuer (Sozial)Markt

The explanation for the German case lies in the inability of German leaders to craft the right language. During the 1980s, Helmut Kohl proposed a turnabout (*Wende*) in the way the welfare state operated. But, despite the creative language, the actual reforms did not change the basic character of the welfare state (Schmid 1998). As Table 1 indicates, most of the reforms tinkered with the structure of existing programs in efforts to contain the growth of expenses. To be sure, these cutbacks were dramatic, and they caused a political backlash against

Kohl's government, especially for the severity of cutbacks in the area of health care (Borchert 1995).

On this point, the reforms in Germany were similar to the reforms begun in Denmark and the Netherlands at the same time. By the end of the decade, however, Germans pursued a strategy different from their neighbors, one that created a polarized political climate, rather than a consensus around a new interpretation of the welfare state. The culprit was an effort to tie welfare reform to a discourse about competitiveness in the new global economy. Known as the *Standortdebatte*, the dispute pitted unions against employers, and the political left against the right. It was a high profile public debate. Critics argued that the highly regulated labor market and high levels of social protection discouraged investment that was necessary to maintain business confidence and high levels of employment. Unions argued that unemployment in Germany was a consequence of an economic conjuncture and that the better trained German work force would always attract investment from businesses that need skilled workers.

The *Standortdebatte* marked an important misstep that set back the process of welfare reform because the basic premise of the debate was inconsistent with the guiding principles of the German welfare state. Protagonists who believed a frontal assault on the welfare state was needed to achieve the reform failed to recognize how deeply entrenched support for the German Social Model had become. Faced with a choice between the stability and continuity promised by the Social Model and its defenders, or the uncertainty and abruptness of change advocated by reformers, Germans opted to stay with the evil they knew. Their conservative tendencies can be seen in the increase in union militancy during the *Standortdebatte* and the sagging popularity of the Kohl government. If welfare reform is aided by savvy reformers who can persuade people of the legitimacy of making changes to a popular welfare state, the *Standortdebatte* demonstrates how attacking the founding principles of an institution that enjoys strong legitimacy and popularity can be counter productive. Rather than opening room for reform, the *Standortdebatte* produced polarization and a path dependent stalemate.

When Gerhard Schroeder took office, he confronted many of the same problems that plagued his predecessor, and they threatened to cast a shadow over the new Chancellor's honeymoon period. Some reasons for Schroeder's slow start were similar to those that plagued Helmut Kohl. A system of divided-party government prevented both Kohl's and Schroeder's governments from gaining parliamentary support. Also, strong opposition from the "social partners" prevented consensus in corporatist discussions. Moreover, Schroeder faced two additional problems. First, he lacked the clear support of his party. The Social Democratic party, was severely divided between the new and old left, and Schroeder was unable to unite his party before he came to office. Second, he came into office as the leader of an awkward coalition that included the left wing Greens party.

Yet recently Schroeder's government has booked some important success in welfare reform, facilitated by some creative discourse. In August of 2000 a major tax reform broke the impasse in the parliament. In May of 2001, a major pension reform was passed by parliament. Remarkable about both reforms is that when Helmut Kohl commanded a more unified party and more ideologically coherent government, he was unable to pass similar reforms. Schroeder, by contrast, has had the same institutional dilemma (divided party government) and a more problematic political situation (coalition government), yet has made important progress. Schroeder's successes lay in the ability of his government to articulate new values and principles for welfare state programs. It took some time for this new discourse to catch on, but it is now helping to alter the preferences of political actors, making them accepting of change, and shaping a political space within which reform can be achieved (See also Hülsmann et al in this volume).

Labor Market Reform and Corporatism as Usual

When he first entered office, the area that received the most attention was Schroeder's initiative to promote job growth by changing labor market regulations. Following corporatist practice, he enlisted the cooperation of labor and business leaders. Know as the Alliance for Jobs (*Bündnis für Arbeit*), it marked the revival of a plan developed in 1995 by the President of the Metal Workers Union (Sylvia 1999). Though the idea received the backing of the Kohl government, it fell apart in 1996 when business and labor leaders disagreed who should make the first sacrifice. The initiative was picked up by Gerhard Schroeder during the 1998 election campaign. When he won the election and attempted to make good on his campaign promise, he found unions and employers still far from consensus. The topics that were set aside as taboos offer a good indication of the degree of polarization: employers objected to setting job-creation targets, and unions refused to accept wage restraint, even if it came with the promise of new jobs.

In a broad sense, the Alliance for Jobs was modeled on the Dutch polder model. In the Netherlands, close cooperation between labor and business produced economic growth and improved employment, pundits argued, because unions accepted wage moderation as a cost of job growth. Dutch unions and employers also agreed on new rules for flexible employment, in the form of part time contracts. Flexibility became a dramatic success in creating opportunities for low-wage job growth, and for the movement of large numbers of women into the Dutch work force.

Unlike the Dutch, German officials were unable to use the new forum for building a new industrial consensus. In large part, this was because employers and unions remained intractable in their disagreements. Unions resisted wage restraint, and were especially skeptical of any deregulation of the labor market that would promote more flexibility. In short, the structure of the welfare state was to blame. A welfare system predicated upon the principles of job tenure and income security is difficult to reform when those proposals for reform carry even the slightest association with employment insecurity. Both Kohl and Schroeder found that the structure of consensus was more conducive to preserving the status quo than to implementing reform.

Another example of failed labor market reform is the effort to expand the so-called 630 DM jobs. These jobs represent a sector of the job market where, despite the characterization of the German labor market as inflexible, a number of part time, low-wage jobs provided employment to workers with minimum skills and allowed employers to avoid most of the country's labor market regulations. These jobs were a typical pattern of employment in low-skill service industries, such as food service, and provided employment to students and workers with incomplete work histories. The advantage of these jobs to employers was that they allowed the employer to create part time contracts, and they came without the added costs of social insurance contributions.

Shortly after coming to office, Schroeder's government proposed to expand the 630 DM jobs, and promote them as a means to boost youth employment. But, almost as soon as it was introduced, the proposal came under fire from unions and their supporters within the Social Democratic party. The result was that the government not only dropped the initiative, it proposed to expand the social insurance system to encompass 630 DM workers. This change now requires employers to pay social insurance contributions for these low-wage workers. Not only did this represent a failure of the government's goal of creating a more flexible work force, it also marked a reversal from the government's stated desire to create more jobs. In its efforts to achieve labor market reform, therefore, the conservative bias of a system that protects jobs and favors security inhibited the ability of the government to implement transformative reforms.

Work Requirements and Income Tax Reform

As in many countries, there has been discussion in Germany about creating work requirements for people who receive public assistance benefits. In Germany, a reform program called *Hilfe zur Arbeit* (Help to a Job) began as a promise made by Helmut Kohl in the 1994 election campaign. The program would have required states, which administer the public assistance program, to develop employment plans for people who receive benefits. But, states were concerned about the growing number of mandates they had been given without resources to fulfill the new tasks and they blocked the legislation in the upper house of parliament. It was an embarrassing political defeat for Kohl's government, especially because many states actually endorsed the idea of work requirements. Indeed, some states and cities went ahead with implementing their own work requirements using discretion they were allowed under the law. These initiatives are relatively modest compared to the British reforms, but they indicate that the differences between the states and the national government were more political than ideological (Fink 1997, Gebhardt and Jacobs 1997).

Germany's bicameral federal structure also has been implicated in the slow progress on tax reform. Tax reform is not directly related to the reform of the welfare state, but Gerhard Schroeder's government has used it to help legitimate the idea that reforms should be pursued when they promise to make the German economy more competitive.

Competitiveness is a term that produced polarization in labor market reforms, and the introduction of this idea through the tax reform has given the government more political space for legitimating welfare reforms.

Tax reform was initiated during the last years of Helmut Kohl's government and was one of the two major issues left unresolved by the time he left office. His goal had been to cut rates of income tax and level the progressiveness of the tax system. The idea of tax reform was popular but the opposition, who controlled the upper house of parliament, denied him the chance to claim credit for this issue. Some type of tax reform was favored by virtually everyone, and the politics of credit claiming allowed institutional veto points to halt reform.

Indeed, the general agreement on the desirability of tax reform explains why the issue was one of the first ones picked up by Schroeder's government after coming to office. After a series of defeats, tax reform was to be the first major legislative breakthrough for Schroeder's government, and it was to showcase his ability to pursue centrist politics. The tax reform proved to be a thorny issue. Despite the widespread desire for reform, there was sharp disagreement over the specific content of reform. Moreover, the opposition, which controlled the Bundesrat sought to use its power to frustrate the reform. Yet Schroeder was able to do what even Helmut Kohl had failed to achieve. He won an agreement that reduced tax rates, broadened the tax base, and was generally popular (see Bundesregierung 2000).

Two factors made the tax reform possible. First, Schroeder's government pursued a publicity campaign advertising the reform. In this campaign they trumpeted the central role tax reform would play in making the German economy more internationally competitive. In addition, they played power politics with the opposition-controlled state legislatures. At the eleventh hour in the legislative deliberations, the government offered the states a package of subsidies and other concessions that bought their support for the reform (Economist 2000). By the time the dust had settled, tax reform gave everyone something, and completely satisfied no one. Yet it was a remarkable change in the structure of the tax system. More importantly, in marked the first time that a major policy reform had been justified on the grounds of global competitiveness. Until August of 2000, competitiveness was an idea that generated ideological feuds. Employers and the political right invoked the idea, but unions and the left saw it as a threat to the welfare state. Tax reform attached the idea to a popular issue and has helped to lend it legitimacy. The importance of this new idea is evident in the recent debate over pension reform, where competitiveness has been used to help build a new vision of the basic purpose of social policy in Germany. Indeed, Schroeder himself made the linkage between tax and pension reform as measures to improve German competitiveness in an interview held shortly after the tax reform passed (Der Spiegel 2000).

Divided party government in Germany inhibits reform, but it is not an insurmountable obstacle. The two issues where it has mattered have been primarily political in nature. In the area of work requirements and tax reform, reforming the system is an objective shared by almost all political actors. Where they differ is on the question who should claim credit for the result. Such political differences are easier to overcome with discursive tactics than are distributional struggles. But even in the tax reform, ideas can help to link specific measures into larger strategies of reform.

Pension Reform

Pension reform is the other important idea Schroeder's government has pursued, and again, it is one of the issues that stalled Helmut Kohl's reform initiative. The basic dilemma with the pension system, most observers agree, is that high contributory taxes and high rates of income-replacement discourage full employment. This is because high wage costs make employers cautious about expanding their work force, and high benefits make it easy for older workers to exit early from the labor market. The result is a poor record of youth employment and a high rate of early retirement. Moreover, these pressures are compounded by the fact the German pension system is unfunded, which leaves the government responsible for a greater share of the cost of the system.

Many countries with similar pressures are moving from defined-benefit to defined-contribution schemes. In most cases, governments try to make the transition painless by slowly reducing the rates of income replacement, while simultaneously introducing tax incentives for workers who develop their own private pension funds. Paul Pierson has argued that the most successful reforms are those that make small changes and those that involve technical details that most people do not understand (Pierson 1996). The shift to private pensions is just such a reform. Though it will start small, over time contribution rates can be raised and the level of compensation under the defined-benefit scheme can be reduced. By slowly curtailing one plan and phasing in the other, cost savings will not be immediate, but clashes with those who resist dramatic change can be avoided. At the same time, when the reform is complete, the state will play a smaller role in the pension business, and workers will have more responsibility for their own pensions.

Germany has been later than most countries to embark upon the transition from defined-benefit to defined-contributory pensions. Helmut Kohl's efforts died in the Bundesrat. The issue was so contentious that it took Schroeder's government a year to develop a proposal. But, in 1999, Labor Minister Walter Riester floated a proposal for a private pension scheme (Daniels 1999; see also Hülsmann et al in this volume). The proposal would have required all employees to set aside 2.5% of their income into a pension scheme that would be managed by the unions. Union control was designed to make the program palatable to the unions because controlling pensions would help them to attract members. Because unions had opposed previous efforts at pension reform, this was a move to gain their support.

But legislative action was slow, partly due to disagreement between the governing parties on how to handle pension reform. Finally, in November 2000, the government unveiled a reform package that had the support of the governing coalition. The plan was to reduce the income-replacement by six percent over a twelve year period, while raising the tax incentive for private pension savings. With this plan, current pensioners would feel no pain, and workers would ease from a state pension to a mixed pension scheme without a harsh adjustment. When it made the agreement public, the government presented the package as one that will ensure the long term stability of the German pension scheme. As such, it will continue to provide German workers security against lost income, but will also pose less of a strain on the level of employment. The public presentation is that the security of the German worker depends on the international competitiveness of the German economy.

As a political maneuver to gain agreement, the act of linking tax and pension reform is a frequent practice that demands theoretical attention. Bernhard Ebbinghaus and Anke Hassel (2000), have recently argued that creating such political links across policy fields is a strategy of welfare reform pursued in a number of countries. They call the strategy policy concertation. Governments attempt to strike deals between business and labor in areas where agreement is easy to reach, and attempt to carry the agreement into areas where the preferences of the political actors are further apart. My argument in this article is that ideas are central to the success of such strategies of policy concertation. In this case, the German government used the tax reform to build consensus around the idea of competitiveness, and it is now carrying the language of competitiveness into the discussions of pension reform, hoping thereby to break the impasse between the social partners.

Thus, the early experiences of the Schroeder government appear to represent the start of a new discourse about the purpose of the welfare state. The types of reforms introduced by the government are moderate, centrist ideas to keep the economy globally competitive. The ideas used to justify them make careful reference to stability and continuity. In contrast to the combative language of welfare reform in the 1980s, this new discourse gently nudges people into accepting change. Small reforms reinforce the notion that change can be made without being disruptive, and this feedback helps to open more space for reform.

Conclusions

In the introduction to this volume, Josef Schmid pointed to the important role of “best practices” as an engine for welfare reform. As countries face difficult problems in reforming social programs, they look to each other for ideas. This topic has formed the theme for this contribution to the volume. Assuming that ideas are important to the process of welfare reform, this article asked the questions which ideas work and how do policy leaders present them. The assumption is that the way problems are framed and ideas are presented have a big impact on the amount of welfare reform that a country achieves. Success, measured in the cases of the Netherlands and Denmark, is greater when policy makers use ideas to conjure a new vision of the goals and purpose of the welfare state. But new ideas alone do not ensure success. For both Dutch and Danish reformers, the ideas were presented as modifications on the existing programs. For example, Danish officials embraced the idea of social rights embedded in the welfare state, and subtly added the idea of reciprocal responsibilities to open space for reforms that would require people to work. This was possible because the welfare state was built on the idea of social rights.

A second lesson from the Dutch and Danish cases is that policy makers must be patient. Because the welfare state is a popular institution, the public is initially skeptical of reform proposals. Danish officials proposed small, tinkering reforms at the same time they promoted their new ideas. Because they were small, the reforms were perceived to be benign. This fostered acceptance of the new ideas, and as the ideas became established they were used to justify more transformative reforms. Rather than a dramatic overhaul of the welfare system, a tyranny of small steps allowed Dutch and Danish leaders simultaneously to preserve the welfare state's popularity and embark on a process of reform.

But, as the German case demonstrates, the new ideas need to be accepted by the public before they will be useful as a justification for welfare reform. If ideas lack legitimacy, they will cause the public to reject the idea and the reforms they represent. German officials erred in using the idea of global competition as the justification for a frontal assault on the welfare state. The German public was unwilling to accept that an institution with such a positive public image could be so fundamentally in need of reform. Rather than opening space for reform, the discourse elicited a defensive reaction against reform. Opponents of reform benefited from this misstep and began to treat every reform effort as another major assault. Throughout Helmut Kohl's tenure in office, even tinkering reforms were met with hostility.

It has taken German reformers a long time to recover from this early setback. But, the Schroeder government appears to have learned the lesson. Not only has it stepped away from the confrontational language, it has learned the lessons of its neighbors. It is now pursuing small, incremental reforms and is calling them measures to preserve the welfare state. As these new preservative measures accumulate, they will help the public to accept larger reforms. Through a clever use of tax reform, Schroeder has now made global competitiveness an acceptable idea in policy debates. If there is a political will for fundamental reform in Germany, at least the groundwork is now being laid.

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