On the Way to Social Investment? The Normative Recalibration of the German Welfare State

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1. Introduction

Comparative welfare state research has frequently characterized the German welfare state as being largely resistant to change. Germany used to be the textbook example for the "path dependency" of conservative-continental welfare states. According to many observers, virtually no relevant innovation at all was achieved in the 1990s due to a self-blockage of the political system. Surprisingly, by the beginning of the 2000s, a considerable number of reforms in all domains of the welfare state came up on the political agenda which decisively changed the face of the German welfare state. In its "long goodbye to Bismarck", Germany has been recombining its traditional "social insurance" approach with elements known to be typical of other regime types: on the one hand, lower social insurance contributions, reduced levels of income security through wage earner schemes, accompanied by demands for self-responsibility, and a stronger reliance on means-tested benefits point to a turn to a liberal welfare state; on the other hand, increasing tax financing and more spending on family-oriented benefits points to a move towards a more "Scandinavian" approach (Bleses and Seeleib-Kaiser 2004).

This trend of "welfare hybridisation" (Hemerijk 2006:18) seems to be common to many European

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welfare states, thus blurring the traditional differences of welfare regimes that have guided comparative welfare state research ever since Esping-Andersens (1990) seminal work. According to many scholars, we are witnessing a general re-orientation of European social policies towards a new "social investment" paradigm (Palier 2006), gradually replacing the "old" paradigm of social insurance in the continental, conservative welfare states. The basic idea of the Social Investment paradigm is to move from "consumptive" to "productive" social spending; the idea of "activating" and "investing in the future", rather than spending and protecting in the here-and now, involves cutbacks in "passive" benefits and a re-channelling of social expenditures towards those welfare programmes that are considered to be "social investments" (especially education, training and family policy).

This article will focus on the ideational dimension of this "recalibration" of the German welfare state. The main hypothesis of the article is that although the label "social investment" was not extensively used in Germany, the basic ideas that are incorporated in this political program did decisively shape the German discourse as well as the social policy reforms of the last years. It will be argued that a redefined idea of social justice lies at the core of the institutional restructuring of the German welfare state that we are witnessing. Within the "competitive solidarity" (Streeck 2000) of the new ideological mainstream, the main end of social policy has shifted from providing a considerable degree of equality and income security to the goal of raising the level of societal human capital and thereby increasing the international competitiveness of the German economy. This discoursively constructed shift of guiding regulatory principles has served as an ideational blueprint for many reforms of different social policy domains, including pensions, unemployment insurance, health insurance, and family policy. The gradual transformation from "protective" towards "productive" welfare, both on the ideational and on the institutional level, is pretty much in line with the “Social Investment” Paradigm as it was developed by Anthony Giddens (1998), Gøsta Esping-Andersen (2002) and others.

In that process of normative recalibration, the discoursive strategies of political actors have played a central role. The main argument of the “discourse” approach as presented by Schmidt (2000) and others is that in order to achieve substantial reforms, policy makers have to create an “interactive consensus” for change that enables them to overcome entrenched interests, institutional constraints and cultural impediments to reform. This consensus has to be constructed through discourses that seek to convince both citizens and elite groups to accept a potentially unpopular reform. Such a legitimatory discourse needs to include a *cognitive* dimension concerning the technical necessity as well as a *normative* dimension concerning the moral appropiateness of a proposed reform package. A successful discourse strategy must therefore demonstrate the relevance, applicability and coherence of a policy program, as well as its moral conformity with long-standing or newly - emerging national values such as equality, solidarity, freedom or social justice in general.

The aim of this article is to describe and analyze both the changed interpretation of social justice that has emerged in the German social policy discourse as well as the different discourse strategies used by political actors to promote this new approach. The article is structured as follows: section 2 presents a brief outline the general framework of the Social Investment paradigm, identifying some key principles that have been relevant for the German debate. Section 3 shows how these key elements of the Social Investment paradigm have gradually been introduced in the German social policy discourse of the last ten years. Due to space restrictions, the analysis will focus on the normative rather than the cognitive dimension of the new interpretative patterns. Section 4 will try a description of the current state of affairs and discuss whether Germany is still on the way to social investment. A brief conclusion summarizes the main findings (section 5).

2. The Social Investment paradigm

The term 'social investment state' was first used by Anthony Giddens in his articulation of the “Third Way” (Giddens 1998). In his famous publication, Giddens advocates for a transition of European welfare states from a “corrective” and “passive” welfare state to a more proactive strategy, with much greater attention being paid to prevention, “activation” and social servicing. The guideline for future welfare state reform, he argues, ‘is investment in human capital wherever possible, rather than direct provision of economic maintenance. In place of the welfare state we should put the s*ocial investment state*’ (1998: 117, emphasis in original). According to Anton Hemerijck, the Social Investment paradigm is “a new welfare repertoire based on consistent normative principles, coherent causal understanding, (re-)distributive concerns and institutional practices – a repertoire that is comparable in its generalities to that of the male-breadwinner Keynesian welfare state of the post-war decades” (Hemerijk 2006:1). Integrating the economic and social dimensions of public policy, the „social investment state“ is presented as a pragmatic response to the perceived economic and social challenges facing mature welfare states in the face of economic globalization.

On the European level, the increased focus on social policy as an investment, and a better integration of social and economic goals, was introduced in the Amsterdam Treaty in 1999 and then taken further in the Lisbon Strategy in 2000. According to the Lisbon Strategy, the general aim of modern public policy is to build a competitive *and* cohesive knowledge-based economy. Public policies should be redesigned in a way that economic, employment and social policies fit together and have a positive interplay. Within this general framework, investing in people and developing an active and dynamic welfare state is regarded as crucial both to Europe's place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty. Already in 2000, the Portuguese Presidency of European Union comissioned a team of researchers to produce a report on "The Future of Work and Welfare" (Ferrera/Hemerijk/Rhodes 2000). The authors argue for a multi-dimensional "recalibration" of European welfare states in order to adapt them to the changed economic and societal circumstances of the 21st century. In 2001, the Belgian Presidency of the European Union commissioned Gøsta Esping-Andersen and colleagues to draw up "a scientific report on the evolving architecture of the European welfare states". The revised version of this report, published in 2002, has become the single most influential publication of the Social Investment paradigm (Esping-Andersen et al. 2002).

In its attempt to reconcile economic efficiency with social justice, the Social Investment paradigm combines two general lines of reasoning. The first line is a purely economic one, concerned with the productivity and economic competitiveness of national economies; the second line is a social one, concerned with equality, social justice and social inclusion within these national economies.

2.1 The economic rationale: the returns of social investment

The Social Investment paradigm is based on the assumption that a social policy design that focuses on investment in human capital is economically more productive than a one-dimensional retrenchment of welfare state spending as advocated by market liberals and orthodox economists. Rather than a drain on the economy, investive social policy is a crucial productive factor and a necessary feature of a well-functioning modern economy that has to position itself well in a high-stakes knowledge economy. The political recognition of the value of investing in human capital is based on the conviction that the human capital of a nation is a primary determinant of its economic strength. In an encompassing international market, a productive and educated workforce is a nation's most important competitive asset and a prerequisite for long-term economic growth. As the productivity of a national economy increasingly depends on the effective development and use of the human capital of all its citizens, (re-)directing resources towards education, training and re-training seems to be indispensable to maintain and improve national competitiveness in the global marketplace. Thus, the "new economic role for social protection" (Palier 2006:108) is to contribute to the task of ensuring a well-trained, skilled, and flexible labor force.

The conceptual core of the social investment approach, the "rechanneling" of public expenditure to areas that promise high returns, is first of all a *fiscal* strategy. Investment implies returns: it is integral to the social investment concept that public expenditures produce outcomes beneficial to the economy and thus to society as a whole. The Social Investment approach thus adopts management-concepts and strategies from the business sector: the "social investment state" acts as an entrepreneur, who shapes his measures in an economically rational manner, and thus is oriented toward the pay-off of his investments. According to this logic, social expenditures can be divided into „consumptive" and „investive" (or "unproductive" and "productive") expenditures: while those expenditures that do not generate future economic gains are labeled "consumptive", those expenditures that do create economic returns are labeled "investive" **(Table 1).**

Table 1: consumptive spending vs. social investment

consumptive spending	**social investment**
– "Passive" labour market policies: cash transfers – Social assistance: cash transfers – Pensions: cash transfers – health: compensatory measures	– "Active" labour market policies: training, counselling, job placement – Education: especially early childhood education – family policy: parental leaves, family services (universal day care, pre-school attendance) – health: preventive measures

This focus on the productive character of state intervention, and the consequent adjustment of social expenditure patterns to this investment calculus, has far-reaching consequences for the prioritization of social policy sectors and target groups. As the assumed economic pay-off of public measures in some sectors is higher than in others, those areas of social expenditure that promise a high return on investment gain political priority, while those sectors who can not be framed in that way will come second.[1] On the one hand, "passive" social expenditures (basically cash transfers like

[1] As Palier puts it, the shift of social policy priorities advocated by the Social Investment paradigm basically means "putting less emphasis on the elderly (less expenditure on pensions) and more on investing in the future" (Palier 2006:114).

unemployment benefits and pensions) may serve to maintain a certain level of living for those who are outside the labor market, but they have no clear economic “added value” and therefore represent a cost factor that needs to be reduced. On the other hand, family policies and education belong to the most important areas of investment. Beyond any justice-related considerations, an efficient and inclusive education system is necessary for economic reasons: if a sizable group of the population exits school prematurely and therefore lacks necessary skills, collectively this translates into sub-optimal productivity and growth. Investment in young children thus takes on particular strategic importance, since it promises a very high economic return. As asset building is a long-term process, starting early will result in greater accumulations (Esping-Andersen et al. 2002). While these social investments imply some considerable initial costs, in the medium term the gains are expected to outweigh these costs. In increasing the volume and improving the quality of the workforce, social investments do not only support economic growth, but they also generate additional government revenue and thus contribute to the long-term sustainability of the welfare state (Hemerijk 2006: 18/19).

2.2 The social rationale: improving social cohesion through human capital formation

The Social Investment paradigm redefines social policy as “a societal investment, mobilising the developmental capabilities of citizens to achieve self-reliance under post-industrial conditions, rather than as income-replacing compensation for industrial market failures” (Hemerijck 2006: 12). This involves a shift of redistribution concepts from traditional transfer-based “ex post” redistribution of market outcomes to an “ex ante” redistribution of market chances. The role of the state would thus be not to redistribute incomes through “passive” transfers, but to improve and equalize the “marketability” and "employability" of individuals through “active” public investment in their human capital. This represents a general shift in the goal of social policy from achieving social equality (“equality of outcome”) to achieving social inclusion (“equality of opportunity”). Equality of opportunity is pursued through political intervention in the distribution of initial endowments, with the objective of broadly equalizing the individual capacities for successful market participation. Within this “supply-side egalitarianism”, universal labour market inclusion (as key to general social inclusion) becomes the most important “social” goal of social policy. This way, the labor market becomes “the main agent and locus of social inclusion” (Daly 2004:149).

When justifying the claim that investment in human capital fits the “real” needs of the citizens much better than a conventional transfer-based redistribution of income, advocates of the Social Investment paradigm often make reference to the Capability Approach of Amartya Sen (see Hemerijk 2006:13, Esping-Andersen 2001:180). Sen’s influential analysis of welfare in terms of capabilities rather than resources is used as a starting point for the claim that access to education and skill formation and access to the labour market are much more relevant for the life chances and the well-being of an individual than just financial resources. Since lack of access to knowledge and loss or absence of skills are the main social risks of the knowledge-based economy, the new form of security provided by the social investment state is the capacity to face these risks in the market. As the education and skill requirements of jobs are increasing rapidly, the acquisition of skills by workers is highly important in helping them move through a career and becomes the best way to protect their jobs and prevent long-term unemployment.

The necessary “re-commodification” and the creation of new low-paid jobs for unskilled workers involve agreeing to a higher earnings dispersion that will lead to a higher, but morally acceptable outcome inequality. The notion of “acceptable inequalities” is based on a specific re-interpretation of the distributional justice rule in the social justice theory of John Rawls (1971). The “classic” Rawlsian guiding principle says that deviations from the principle of equal distribution are admissible only if they are to the greatest benefits of the least advantaged. The “productivist” reinterpretation of this condition of fairness assumes that more inequality is justified when it enhances the collective welfare. Financial cut-backs and tightened eligibility rules in social protection are justified as necessary and appropriate means to a just end: since a retrenchment of social benefits and expenditure enhances the competitiveness and efficiency of the economy, in the mid-term more inequality improves the situation for all as economic progress and growth will increase overall welfare and reduce unemployment. Thus, according to the in the Social Investment paradigm, higher rates of inequality, low wages, poor jobs or temporary deprivation are not a serious problem in and of themselves: they are so only if individuals become trapped in those circumstances (Esping- Andersen 2001: 145).

If investment in people shall yield returns, this requires intensive cooperation from the people that are invested in. Investment imposes responsibility on individuals to transform and enhance their economic competitiveness. Labour market participation is not only a life-chance that should be secured by the community, but a key citizenship obligation. The emphasis on labour market integration comes along with a growing tendency to promote the individual’s involvement in his own integration and a growing emphasis on requiring benefit recipients to behave like “responsible” citizens. “No rights without responsibilities” (Giddens 1998:65) has become the watchword of this new approach to social policy whose function is “no longer to protect individuals from risk, but to change their behaviour” (Palier 2006:114). Rights and responsibilities are viewed as part of a reciprocal exchange between the individual and the community.

This leads to an increasing demand that citizens recognize obligations when they demand their rights. Within the limits of a liberal-democratic state, a "new balance between individual and collective responsibilities" (Giddens 1998:37) is advocated: the line between state and individual responsibility for welfare is shifted towards the latter.

To summarize, we can define some key elements of the Social Investment paradigm that serve as guiding principles for welfare state reform **(Table 2)**. The next section will show how these principles gradually became central features of the German social policy discourse.

Table 2: Principles of social investment

- Competitiveness: social policy as human capital formation
- Investment vs. consumption: rechanneling of social expenditures
- Future-orientation of social policy: concern for future generations
- Inclusion vs. equality: emphasis on access to education and work rather than equality of outcome
- Reciprocity: new balance of rights and duties

3. Central Patterns of the German Discourse

3.1 Growth, Competitiveness and the "Common Good"

In the 1980s, the German welfare state was widely regarded as an integral part of a successful societal arrangement, the German social model ('Modell Deutschland'), contributing to economic growth, productivity and high employment, as well as comparatively low poverty and inequality. Twenty years later, this situation has changed considerably. The comparatively weak performance of the German economy in regards to economic growth and employment since the early 1990s has led to a general feeling of exhaustion of the German social model. In the first half of the 1990s, it became clear that the social and economic prospects for a united Germany launched shortly after the reunification had been overly optimistic. Starting from 1992/1993, after the end of the short boom period following German unification, many economists argued that the economic "crisis" of re-united Germany was not a temporal crisis following unification, but a structural crisis of the German social model as a whole. Business and employers associations raised the question whether Germany had lost or was about to lose its international competitiveness and expressed their worry that unresolved structural problems would erode Germany's competitive position. The name given to this discussion was "Standort Deutschland" ("Business Location Germany"), referring to the attractiveness of Germany as a location for production and investment.

In the following years, an increasing number of international rankings were presented to compare the attractivity of Germany as a business location to that of other, competing countries. EU, World Bank, OECD and any other available data was intensively used to show that Germany was in danger of falling behind in the new world economy. Growth rates, employment rates, fertility rates, innovation scores, gross national income per capita, education rankings- Germany seemed to lose ground almost everywhere. Inefficient, hopelessly blocked, largely incapable of reform, not innovative- a general rhetoric of crisis was very pervasive in the debates. This sense of crisis was fostered by many articles in newspapers and magazines, and by popular books written by politicians, journalists and scientists.[2]

The traditional system of job protection and social security was identified as the major obstacle to economic growth, competitiveness and employment. Since the late 1990s, the interpretative pattern that globalisation puts a limit to traditional social policy making became hegemonic (Bleses/Seeleib-Kaiser 2004:116 -117). There was a growing consensus among political elites that corporate taxes had to be reduced, labor market regulations had to become more flexible and social insurance contributions had to be lowered in order to preserve the international competitiveness of German firms.

International benchmarking, ranking and rating, as well as the presentation of "best practices" from abroad, have served as a discursive tool to establish the need for structural reforms of the German welfare state. While the comparative use of quantitative indicators was fostered by the Open Method of Coordination at the European level, the discussion on the national level is promoted, among many others, by neo-conservative and market-liberal think-tanks like the powerful Bertelsmann Foundation, one of the key players in public discourse (Fleckenstein 2008). The consequence of the use of crisis rhetoric and international comparisons was not only to establish the belief that the German welfare state was in urgent need for structural reforms; it also helped to establish growth and competitiveness as an integral part of the national

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2 Published titles include "The Blocked Society" (Heinze 1998), "The Deformed Society" (Miegel 2002), "Germany- the Fall of a Superstar"(Steingart 2004), "Can Germany still be Saved?"(Sinn 2005) and similar publications.

“common good” (“Gemeinwohl”). Enhancing the performance of the German economy and thus safeguarding the collective welfare of the national economic community was increasingly framed as a matter of social justice.

Growth and competitiveness attain an additional moral dimension when a future-oriented perspective comes in. Employers associations as well as politicians have repeatedly highlighted the moral duty to pass on societal wealth to future generations:

“The core question is whether the republic will be able to pass on to its children and grandchildren that wealth that it makes use of so naturally, whether the level of social welfare can be reasonably held, and whether Germany will economically and technologically still be able to play in the Champion´s League.” (Steinbrück 2003, m.t.)

With that construction of economic and welfare state reforms as an activity serving the “common good”, opponents to reforms (especially trade unions) could be labeled as short-viewed “reform deniers” defending their own interests regardless of the needs of the society as a whole. Successfully framing growth and productivity as a task of the entire society, the well-known calls of employers and market-liberal economists for a greater role for market mechanisms and market forces gained moral ground. This interpretative pattern was especially relevant for “modern” social democratic thinking.

3.2 Investment vs. Consumption

The Blair/Schröder paper of 1999 presents “a new supply-side agenda for the left” and places a high emphasis on the importance of a “robust and competitive market framework” in order to promote productivity growth. One of the central features of the Blair/Schröder paper is the contrasting of an “old” and “traditional” concept of social protection and a “new”, “modern” approach to social policy. On the one hand, many aspects of the traditional social democratic concepts of social justice are openly criticized and even explicitly rejected, like the “confusion” of social justice with equality of outcome and high levels of social spending. They are blamed for a “disproportionate” expansion of bureaucracy, a decline of individual responsibility and an excessive “cost burden” on work. On the other hand, investment in human capital is declared “the most important task of modernization”. This general distinction between an old and “outdated” concept of social justice and an “up-to-date”, future-oriented approach became one of the main commonplaces of the whole discourse on social justice and social policy in Germany.

The Blair/Schröder paper caused an intensive and still ongoing struggle between the “traditionalist” and the “modernist” wing within the social democratic party. According to Bonoli and Powell, the Blair/Schröder paper was “a clumsy attempt to introduce the political discourse of the third Way in the German context” (Bonoli/Powell 2004: 55) and had a very weak impact as the reactions within the SPD were mostly negative. Nevertheless, in spring 1999 the “modernizers” within the Social Democratic party took over and the Red-Green government changed its initial solidarity-driven course towards more self-responsibility. While the new direction of policy was heavily criticized by more “traditional” SPD members, the Schröder government largely stuck to the policy path and the interpretative patterns outlined in the document.

After its re-election in 2002, the red-green coalition government engaged in a major reform of the welfare state which was given the name “Agenda 2010”. Growth, competitiveness and employment were the main goals of this encompassing reform package. The main strategy for more economic growth was to cut back “consumptive” spending, increase the share of investment in public spending and at the same time achieve budget consolidation. Together with a significant reduction of the non-wage labour costs, this fiscal strategy lies at the core of the “Agenda 2010” reform program (Kanzleramt 2002).

The desire to “create room for investment in the future” through a reduction of public spending on “classic” social insurance programmes is now common to the German policy elite. The general distinction between “past-oriented” and “future-oriented” social spending has become hegemonic: according to the present minister of finance Peer Steinbrück, budget politics should aim to “achieve the structural change from financing the past to appropriate and permanent investment in the future” (Steinbrück 2006, m.t.). In an article for the weekly newspaper “Die Zeit” of 2003, he summarized his approach to social policy as follows:

“Today, social justice means: the state must invest more money in education and families. For health, old age and long-term care, citizens will increasingly have to make provisions themselves.” (Steinbrück 2003, m.t.)

In the same line of attack, the 2005 CDU/CSU government program calls for “the courage to redirect consumption expenditure towards investment, research, education and innovations.” (CDU/CSU 2005: 32). When trying to adapt the investment idea to the German context, the most frequent differentiation that is made in the discourse is centered on “prevention” vs. “reaction”, rather than explicitly using the terms “investment” and “consumption”. In 2006, the Social Democratic Party presented the “Preventive Welfare State” (“Vorsorgender Sozialstaat”) as a new, “positive” model for social policy (SPD 2006). Perfectly in line with the Social Investment paradigm, the “preventive welfare state” is a welfare state “which invests much more in people and their potential” (SPD 2006:11) and therefore is “no obstacle to growth but rather an economic force of production.” (SPD 2006:12).

In times of permanent austerity (Pierson 2001), there is an increased competition among different welfare programs about scarce public resources. This involves thinking in terms of trade-offs: more public spending on "investment" inevitably means less spending on other sectors. Adhering to this zero-sum logic, empirical evidence was presented that "redistributive" and "consumptive" social policy programmes like (especially) old-age pensions and "passive" labour market policies have grown (and are still growing) at the expense of necessary investments in education (Nikolai 2007). Pensions are the biggest item of "consumptive" social spending. Reducing public spending on pensions was therefore one of the most important cornerstones of the whole "Agenda 2010" strategy (Kanzleramt 2002:10). Many economists and (especially younger) politicians argued that financing the public PAYG system leads to a misallocation of public funds: state subsidies to the system that cover the increasing deficits would crowd out valuable public investments (education, research and development, infrastructure) and thus seriously compromise economic efficiency and dynamism (Sinn 2004). This "age bias" of the German welfare state was especially criticised with reference to the value of intergenerational equity.

3.3 Generational equity and Sustainability

Generational equity ("Generationengerechtigkeit") had not been present in the German social policy discourse until approximately 1997, when it first appeared in the explanatory statement to the draft law of the pension reform of the CDU/FDP coalition. Ever since then, the term was intensively used in public debates. Generational equity and its twin term "Sustainability" ("Nachhaltigkeit") were discussed on two levels: first, on a fiscal level, with the emphasis on growing state debt as an unacceptable burden on future generations, and second, on a social policy level, with regard to the financial and demographic "crisis" of the public pension system.

The term "Sustainability" that used to be linked to issues in the domain of ecology was taken from its initial ecologic context and put into a fiscal context. The general idea of keeping the world intact for future generations, readily accepted in the public, was used to add a moral dimension to the political goal of budget consolidation. The burdens for the future generation, which originally were conceptualized as *ecologic* burdens (pollution), were now increasingly framed as *financial* burdens (state debt). Based on the assumption that the financial burden of an ageing society can be considered as an ‘implicit’ public debt, it was argued that the future prospective entitlements to unfunded social insurance systems would result in severe financial strains for public finances because of the foreseeable demographic developments.

This interpretative frame led to the construction of a new cleavage between “young” and “old”: it was argued that the costs of maintaining the income of the current pensioners in spite of the foreseeable demographic development would be externalized on the younger part of the population and on future generations who have to face a higher state debt which limits their political options. The scenario of a soon-to-come “generational conflict” was advertised by neoliberal and conservative economists (Sinn/Übelmesser 2002, Sinn 2005) as well as the mass media.

The reference to the responsibility towards future generations was used to shift attention from present inequalities and distributive struggles and to discredit the hitherto existing focus on redistribution and status maintenance of the German welfare state. Traditional social policy was increasingly blamed for the growing budget deficits and framed as a misguided development in need of correction. Ronald Pofalla, Secretary-General of the CDU, argued:

“Old justice policy is limited to the present and to horizontal redistribution. It leads to an ever increasing burden on future generations. The new justice must distribute the burdens and benefits of today and tomorrow in a fair way between young and old. Therefore, it is appropriate that the CDU pushes for budget consolidation and thereby reduces the debt burden for our children, even if this leads to hard cuts for all today.” (Pofalla 2006, m.t.)

For a long time, fiscal consolidation has been a goal without a pronounced normative dimension, but rather had the character of a “technical” necessity. While economic and fiscal goals used to compete with “social” goals, the growing future-orientation of the social policy discourse has provided a specific *moral* character to budget consolidation:

“Sound finances are also the most important contribution to maintaining intergenerational fairness: it is a moral question whether we allow ourselves to finance consumption today with debts that our children will inherit. “ (CDU/CSU 2005:32).

This growing emphasis on budget consolidation reflects, among others the interests of the minister of finance, who is particularly interested in reducing the burden for public budgets and public debt in line with the Maastricht convergence criteria (Hering 2004). While “generational equity” and “sustainability” predominantly served as an overall justification for fiscal consolidation and the reduction of public spending on a general level, both terms were also intensively used in the debates that surrounded the pension reforms of 2001 and 2004. In these debates, the quite ambiguous concepts of “sustainability” and “generational equity” were increasingly narrowed down to a concept of “equal treatment” of different age cohorts, which means that the lifetime balance of welfare-related (fiscal) burdens and benefits should be the same for any preceding or succeeding birth cohort. With regards to the pension system, every age cohort should get the same rates of return for their contributions to the system (BMGS 2003:48, Sozialbeirat 2001: par. 22, SVR 2003: par. 337).

This justice criterion had not been relevant in the basic conception of the „generational compact“ as it was introduced in 1957. The term "generational compact" as the basic metaphor used to characterize the PAYGO financing method of the public pension system denotes the obligation to support the economically inactive elderly during employable age, thereby earning the right to be supported in the later life-cycle by the succeeding, economically active generation. Thus, the „generational compact“ metaphor basically served to illustrate a rather simple notion of intergenerational solidarity understood as a mutual moral obligation of „young“ and „old“ to care for each other (Leisering 1999). With the new emphasis on “equal treatment”, the generational compact was increasingly interpreted as a market-like exchange based on strict equivalence, thereby replacing the notion of generational solidarity with a notion of generational reciprocity (Nullmeier 2004).

Again, the assumed interests of younger and older parts of the population were played off against each other. In order to calculate the exact amount of intergenerational transfer flows, questionable concepts like “Generational Accounting” were pushed forward by economists close to the finance sector like Bernd Raffelhüschen, who has become one of the key “media experts” for intergenerational justice issues. In the course of calculating generational accounts, its proponents „uncovered“ large generational imbalances and „sustainability gaps“ which take the form of large increases in taxation for future generations in order to finance generous levels of social security for the present generations (Hagist et al. 2006). Often presented as a “descriptive” and “neutral” way of evaluating fiscal policy, generational accounting served to “objectively prove” that the current system of PAYGO financing imposes unfair burdens on future generations and therefore contradicts the principle of generational equity.

Although the concept od Generational Accounting was criticized by many well-known pension experts (see Schmähl 2005) and never „officially“ adopted by the government, the ideas that are incorporated in the concept had an important influence on the framing of the pension issue. The policy recommendations that were derived from this principle were to cut pension benefits in order to reduce the generational imbalances and redistribute resources towards the younger and the yet unborn generations (BMGS 2003:48) as well as to switch towards more capital funding. It was argued that a limitation of the contribution rates would give younger generations a financial leeway to engage in private pension plans that promise higher rates of return. In general, generational equity and sustainability were increasingly *equated* with a reduction of pension benefits and a shift towards more capital funding and private pension plans.

During the last years, the proponents of a stronger role for capital funding, especially employers´ organizations and the financial service industry, have made considerable efforts in reframing the public pension debate. Interest groups such as banks, life-insurance companies and investment funds have conquered an important voice in the pension policy arena and increasingly succeed in their efforts to influence the decision-making process in order to profit from the politically created necessity for private pensions. In addition to "traditional" interest group lobbying, a vast network of "independent" think tanks, many of them financed directly or indirectly by either employer´s organizations or the finance sector, has been intensively working on framing the German "pension crisis" and promoting the "necessary" solutions.[3] All

[3] Among the most important players in this field are the „Deutsches Institut for Altersvorsorge" (DIA), a think tank financed by the Deutsche Bank, the "Mannheim Research Institute for the Economics of Aging" (MEA), which is co-financed by the German Insurance Association (GDV), the "Forschungszentrum Generationenverträge" (FZG), which is sponsored by (amongst others) private life and health insurance companies, the "Institut für die Zukunft der Arbeit" (IZA) which draws financial support from the Deutsche Post Foundation, the "Initiative Neue Soziale Marktwirtschaft" (INSM) which is financed by the employer´s associations of the metal working and electrical sector, the Bertelsmann Foundation, as well as many other think tanks and foundations (IW, IWG, IFO, Stiftung Marktwirtschaft, Roman Herzog Institut, and so on).

together, these activities have had a considerable impact. The “fact” that a larger role for privately funded pensions is “necessary” and cuts in the level of public pensions are “unavoidable” has become widely accepted among German political elites (Marschallek 2004).

Why did intergenerational equity suddenly become so prominent in the German discourse? Nullmeier and Wrobel (2005:39) highlight the striking fact that it is especially market-liberal political forces, usually equipped with a high, “hayekian” scepticism about justice-related considerations, that now make a strong use of arguments based on generational equity, while those political forces committed to a more “traditional”, equality-based view on social justice remain sceptical about this term. While orthodox economists have always highlighted the efficiency and economic growth gains stemming from funding and individual accounts, the normative reasons put forward for this alternative used to be restricted to the “freedom of choice” argument, that is, the normative belief to give consumers a maximum degree of choice on how and how much to save for old age. The appeal of this “traditional” set of market-liberal values and arguments on the German public has always been limited, since individualism has never been a dominant value in German political culture. The previously existing normative repertoire was extended and complemented with a more nuanced and encompassing set of “new” arguments (generational equity and sustainability). Adding the normative argument of “intergenerational equity” to the already well-known cognitive arguments of demographic and financial necessities has decisively helped the advocates of a privatization of the public pension system to create a favourable ideological surrounding for reform.

3.4 “Participatory Justice”

In this context, we can identify one of the main discursive strategies within the normative recalibration of the German welfare state: the *construction of new cleavages*. In Germany as well as in most western welfare states, the historical “social question” to be solved was the class conflict. Giving workers some assurance of a stable life course, including retirement as a normal life phase funded through public pension systems, was one cornerstone of the pacification of the class conflict. In the last ten years, this traditional conflict *between* labor and capital has been discursively dissolved into new cleavages that basically relate to differences *within* labor. In a contribution to the SPD´s programmatic discussion of 2003, historian Jürgen Kocka argued:

„With regards to social justice, the circumstances of today do not give much reason anymore to over-emphasize the difference between employers and employees. Other social differences have to a greater extent become divisions of social injustice: on the one hand, the one between job owners and unemployed, and on the other hand, the one between different generations.“ (Kocka 2003: 12, m.t.).

In a similar way as the construction of a generational cleavage played an important role in the fiscal policy and in the pension policy discourse, the construction of a cleavage between job owners (“insiders”) and unemployed (“outsiders”) was central to the labour market policy as well as to the general social policy discourse. The construction of a new cleavage between „overprotected“ insiders and „excluded“ outsiders was used to establish a moral trade-off between the status and job protection of the employed and the social inclusion of the unemployed. (Over-)generous dismissal protection and income maintenance guarantees were framed as „privileges“ of the „insiders“ that go at the expense of the „outsiders“, since they block the labour market entry of unemployed and especially low-skilled persons. As a conclusion, many observers stated that for fairness reasons, labour market regulations and social security standards that (over-)protect the insiders should be deleted in case they prevent labour market entry and thus exclude the outsiders (Merkel 2001:142.)[4]

After several years of low growth and growing unemployment, structural unemployment was seen as Germany´s most important social problem by the majority of politicians and commentators. Many scholars highlighted the negative consequences of unemployment, especially long-term unemployment, for the unemployed individual: unemployment leads to loss of individual autonomy, self-determination and freedom of choice, causes long-term disadvantages through the loss of cognitive skills and motivation, psychic suffering through societal discrimination, leads to higher sickness rates and a shorter life expectancy as well as to the loss of personal relationships and cohesion in the family, and the loss of "social values" and self-responsibility. All together, unemployment was framed as an exclusion of an important part of the population from „full citizenship" (Merkel 2001:142/143) and thus as a social injustice.

The political priority for employment creation was shared by all major political parties as well as the mass media. The main slogan of the Christian democrats was: „Whatever creates jobs makes social sense." ("Sozial ist, was Arbeit schafft") (CDU 2005: 10). In 2005, state president Horst Köhler presented employment creation as a „categorical imperative":

„In view of the situation on the labour market, we now need a political priority rule for work. Whatever serves the creation and safeguarding of competitive jobs, must be done. Whatever conflicts with that, must be refrained from. Whatever serves other goals, no matter how desirable they might be, comes second." (Köhler 2005:3, m.t.)

4 Already in 2000, Ferrera et al. argued that "it is morally fair to reduce the protection of the insiders and allow for more flexibility and greater earnings dispersion if this delivers greater opportunities to the worst off" (Ferrera et al. 2000:74).

The notion of job creation as a central means to social cohesion was the basis of the newly introduced value term “participatory justice” (“Teilhabegerechtigkeit”) that became one of the main justifications for the recalibration of the German welfare state. Work and education were defined as the main elements of individual participation in society (Scholz 2003, Kocka 2003), thereby using a rather narrow, mainly *economic* concept of citizenship. Based on the hegemonic *cognitive* assumption of a “vicious circle” of growing social insurance contributions and growing unemployment, *participatory* justice was increasingly counterpoised to *distributive* justice. The claim that “nowadays, more participatory justice can only be achieved through a renouncement of more distributive justice“ (Kocka 2003:13) can be found in SPD (Scholz 2003) as well as in CDU party documents:

„Work for all must be the centerpiece of social justice. We must understand social justice much more as participatory justice than as distributive justice. The task will not be to organize or even provide a full-time job for everyone. Rather, the task will be to set the regulatory framework in a way that employment for all is made possible.“ (CDU 2001:15, m.t.)

This changed interpretative pattern was supported by a whole range of political actors as well as scientific studies. The official “second report on poverty and wealth” of the federal government (Bundesregierung 2005), one of the key documents and central point of reference for the German discussion on social exclusion, introduced the “capability approach” as the new conceptual framework for the measurement of inequality. The main function of using this changed approach to poverty was a *political* one, namely to shift the focus of attention away from the continuously increasing differences in income and wealth (as measured by the GINI coefficient and similar indicators) to differences in „opportunities for participation and (self-) realisation“ („Teilhabe- und Verwirklichungschancen“).

Just like the terms “generational equity” and especially “sustainability”, “participation” is a rather vague and ambiguous term that could be interpreted in many different ways. Again, this potentially multidimensional concept was narrowed down to a quite one-sided definition based on participation in the labor market and participation in education (which is a prerequisite for labour market participation). Based on this work-centered definition of participation and inclusion, the report argues:

„If unemployment is the main reason for poverty and social exclusion, then justice policy must be geared at the creation of employment and the integration of unemployed into the labour market. Justice policy does not disregard other problem situations and concerned persons. But the employment question takes center stage. This points to the central relevance of economic growth.“ (Bundesregierung 2005: XVII).

The equation that is made up here is quite simple: more growth equates more employment equates more „opportunities for participation and self-realisation“ equates more social justice. This is the way how the traditional trade-off between „efficiency“ and equality is discursively turned into a positive sum: as economic growth is declared the prerequisite for social justice, stimulating more growth becomes the first task of public justice policy. The implications for social and economic policy are quite obvious: in order to set a regulatory framework that stimulates more growth, corporate taxes and employer´s contribution rates have to be lowered (which means that benefits have to be cut) and labour markets must be made more „flexible“ (which means that job protection and solidaristic wage compression have to be reduced).

The connection between these rather “traditional” growth recipes of privatization, deregulation and flexibilization with the new value of “participatory justice" was made by all major political parties. In their defence of the Agenda 2010 concept, the Green Party highlighted the reduction of the non-wage labor costs as a central means to achieve „participatory justice" (Bündnis 90/Die Grünen 2003). In order to improve access to the labor market for the unemployed, the social security contributions of the employer should be lowered and dismissal protection should be deregulated. The same idea, namely to "create new opportunities for jobs by making protection against dismissal more flexible", is prominently featured in the CDU governance program of 2005. To summarize, the use of new normative vocabulary (participatory justice) and the construction of a new cleavage (insiders vs. outsiders) has helped to provide an additional *moral* dimension to the well-known efficiency-related claims of employers and business associations. Thereby, the reduction of non-wage labour costs was framed not only as an economic necessity, but also as a central matter of social justice.

3.5 Self-Responsibility and Solidarity

As already mentioned, "investment in people" requires cooperation and compliance by the individuals that are invested in. Based on the basic idea to "transform the safety net of entitlements into a springboard to personal responsibility" (Blair/Schröder 1999), the *right* to participate is always tied to the *obligation* of participating. The notion of work as a prerequisite for citizenship goes along with a moral understanding of work as a civil duty. In the debate on the Agenda 2010 reform, it was especially the Green Party that highlighted that connection:

"To give a chance means that everyone gets involved and everyone gets an offer: placement, support and personal coaching by the Job-Center. This offer is an offer to move. It provides a possibility to make headway. It gives a chance to lead a self-determined life. At the same time, it is an offer from the individual to society: I participate, I move, I develop with and for the whole, because everyone who is able to do so shall make a contribution to society. An offer for everyone is a chance and at the same time a duty to take over responsibility for one´s own life and for society." (Bündnis 90/ Die Grünen 2003: 20, m.t.)

The notion of self-responsibility as an obligation of the rights-bearer towards the solidarity community has always been a basic principle of social insurance systems and a part of the German social insurance legislation. Nearly every social insurance system (except old-age pensions) has legally incorporated the obligation of the individual to make efforts to avoid the risks that are covered by the insurance, to limit their scope and the duration of the situation of neediness in order to keep the financial burden for the system (and thus, for the "solidarity community") as low as possible. [5] The question is, however, how much emphasis is given to this principle, and depending on that, how restrictively this obligation is implemented and controlled. In the German discourse, the traditional understanding of solidarity as a collective responsibility towards the individual was increasingly redefined and reversed, thus turning solidarity into a concept of individual responsibility towards the community (Brettschneider 2007b). The Catchphrase "Solidarity is not a one-way street" can be found in SPD (Schröder 1999) as well as in CDU (2003) and employers association´s documents.

"The cause of excessive public spending, high taxation and duties is basically a one- sided interpretation of solidarity. For the fact that all who are in need can rely on assistance is only one side of the coin; the other is that all are obliged to do everything in their power to avoid burdening the solidarity community by requiring its assistance." (BDI 2004:8)

[5] See, for example, the very first amendment of the law on health insurance (SGB V §1), entitled "solidarity and self-responsibility".

In that perspective, self- responsibility as *individual solidarity* means avoiding to burden the solidarity community. The dialectic of individualism and collectivism in the concept of the „social investment state“ demands a new form of moralism: since the individual is seen as responsible for its own situation, individuals in need of support from the state have the moral obligation to change their behaviour and their mindsets in order to minimize the financial and social burden for the society. The notion of self-responsibility as a social duty and a behaviour that citizens owe to the community has been highlighted by many of the leading neo-conservative/communitarian intellectuals (Nolte 2004, Di Fabio 2005).

This emphasis on individual responsibility and a redefined concept of solidarity were used to provide a moral justification to the federal government´s attempts to contain costs in the fields of health and unemployment insurance. Enforcing the principle that "only the truly needy should exercise their rights", the existing implicit assumptions about the moral character of social rights were discursively changed. The emphasis was placed on discouraging frivolous use of program benefits, trying to lead individuals to be judicious in claiming their rights. Politicians, scientist and media commentators repeatedly complained that the "moral threshold" to claim a benefit even when it is not really needed had dropped in the population. In his government declaration on the Agenda 2010 reform, Chancellor Schröder asserted:

"The feeling of a common responsibility has nearly disappeared in the health system. Many act according to a principle of a fast, thoughtless access. A mentality of self-service has crowded out the feeling of solidarity." (Schröder 2003, m.t.)

Many economists argued that this undesirable behaviour is a perverse effect of the incentive structure of the welfare state. The "moral hazard" problem was widely discussed, especially in the fields of health insurance. With that changed *cognitive* and *normative* view, some of the basic implicit assumptions that underlie the “culture of solidarity” (Hinrichs 2003) incorporated in the German health insurance were discursively challenged. The basic assumption that underlies “risk solidarity” is that generally, all people are basically at the same risk of getting sick. In the last years, rational choice based explanations have gained ground in health economics and have led to an increased focus on the relevance of individual behaviour for the occurrence of sickness. The assumption of an instrumental rationality on part of the insured in combination with the assumption of an increasing individual ability to avoid certain sicknesses, thus making sickness and recovery a matter of own decision, has led to a declining plausibility of the “risk equality” assumption (Ullrich 2006). Based on these cognitive changes, “self-responsibility” was used to justify the introduction and extension of co-payments, user fees and control mechanisms (Brettschneider 2007a).

In the reform of unemployment insurance, the “need” to combat benefit abuse was central to the governments discourse strategy (Oschmiansky 2003). As the “Hartz” reforms failed to achieve the initially intended cost savings, the “benefit abuse” argument was again used to increase the pressure on the unemployed by further tightening eligibility rules and enforcing control mechanisms of the welfare bureaucracy. Highly exaggerated estimates of the benefit abuse rate were presented, among others, by the social democratic minister of work and economy, Wolfgang Clement, in 2005 (see also a report by the BMWA 2005). The argument that it is in the interest of all insured workers to tackle benefit abuse served as a justification for the transition to a “workfare”-based labor market policy regime.

Again, we can observe the importance of a coherent connection of cognitive assumptions and normative judgements in order to create a persuasive re-interpretation of social policy. While on the cognitive level, the rise of rational-choice based explanations of individual behaviour shifted the focus of attention away from potentially problematic structural and societal circumstances, a gradual redefinition of solidarity led to a stronger normative emphasis on individual responsibility.

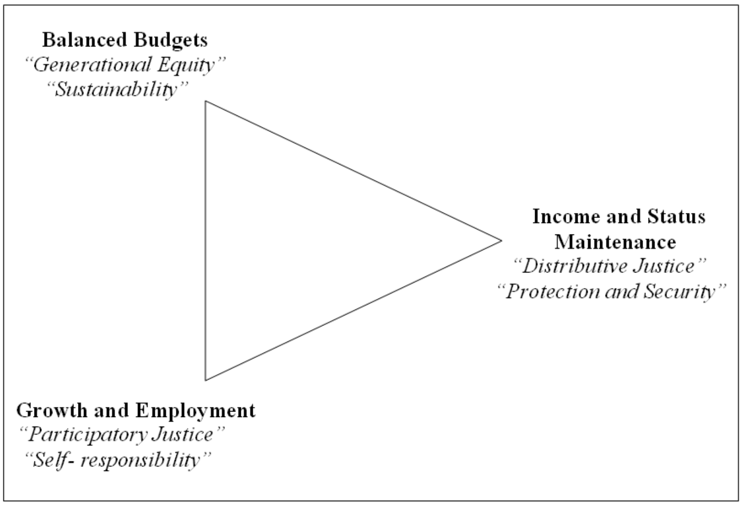
3.6 Summarizing the developments

While mostly not explicitly labeled a “social investment” framework, a new approach to social policy, reflecting many of the Social Investment topics, has been visible in Germany since the late 1990s. The new policy principles and practices associated with this welfare philosophy have reshaped the social policy discourse as well as the social policy landscape in Germany. Altogether, we can speak of a political success of the Social Investment paradigm: nowadays all major parties endorse the basic principles of the Social Investment approach.

The discursive mechanism was twofold: On the *cognitive* level, many assumptions and axioms of a supply-side economic paradigm have been successfully established as “objective truths” and therefore have become quasi- hegemonic. Some of these “facts” include the general need to strengthen market mechanisms, the trade-off between income maintenance and job creation, the non-sustainability of a PAYGO pension scheme as well as the “perverse” incentive structure of many welfare programs, only to name a few. On the *normative* level, a re-interpretation of social justice has successfully been established. One the one hand, long-standing values that have been central to the German welfare state (solidarity, equality) have been re-interpreted, shifting from income equality to equality of opportunity and from collective to individual responsibility. On the other hand, new future-oriented aspects of social justice (intergenerational justice and sustainability) have been introduced. These new future-oriented semantics and principles of social justice and the new, inclusion- and equal opportunity- based principles for the present (participatory justice) fit together quite well, whereas they are both opposite to the traditional, security- and redistribution-based concepts.

With the promotion of these new dimensions of justice, a strong rationale for benefit cuts in the social insurance system was provided. The goal of guaranteeing the achieved living standard to workers was faced with a new "trilemma of social justice" (Figure1):

Figure 1: The new "trilemma" of social justice



On the one hand, any demand for additional federal subsidies to the statutory pension system (and for active and passive labor market policies) is at odds with the attempt to contain the federal budget deficit, which is necessary to achieve "generational equity" and "sustainability". On the other hand, any demand for higher revenues out of contributions is at odds with the attempt to relieve employers from non-wage labor costs, which is necessary to achieve "participatory justice". As a result, the traditional equality- and protection-based "social insurance paradigm" has been discursively exhausted and has lost much of its binding power among political elites.

4. Still on the way to social investment?

If we take a look at the major welfare state reforms of the last ten years, it is hardly surprising that the German welfare state has moved faster in reducing "passive" benefits than in expanding "active" spending. While we can see decisive cutbacks on "passive" and "consumptive" income-transfer programs, combined with a sharp increase in conditionality, so far we can not see a consequent expansion of public spending on social investment areas. Thus, we can speak of an *incomplete transition of the German welfare state*: the "enabling" and "investing" part of the transformation of the German welfare state has been rather modest and does in no way compensate for the significant losses in job and income security (Aust/Bönker 2004, Streeck 2007).

The German reform experience shows that "recalibration" can sometimes be hard to distinguish from mere retrenchment. In fact, the restructuring of the German welfare state left the majority of citizens with less protection for the standard risks of life. The partial privatization of social protection will have serious redistributive effects among the protected ones, often leaving them with the choice between higher expenses or less protection than they had within the traditional welfare-state schemes[6]. As many hopes and promises associated with "social investment" have not been fulfilled so far, the whole project seems to have lost some of its credibility (Hillebrand 2007)[7]. The dominance of the 'new' interpretative patterns is still

[6] For pension policy, see Schmähl (2007), Hinrichs (2005); for labour market policy, see Dingeldey (2007), Fleckenstein (2008); for health care, see Hinrichs (2003).

[7] According to the "ARD Deutschlandtrend", a monthly survey on public opinion, almost two thirds of the German population (80% in former East Germany) identify an important „justice gap" in the current state of affairs (ARD-Deutschlandtrend, April 2008, www.infratest-dimap.com).

mainly restricted to the political elites (policymakers, party elites, media opinion makers, scientists- especially epistemic communities organized by the EU), while the party bases (especially of social democracy) and the population have never really adopted this new worldview.

Two surveys edited by the Bertelsmann Foundation, the first one among members of the German parliament (Bertelsmann Stiftung 2007a), the second one among the German population (Bertelsmann Stiftung 2007b), allow to compare the social justice attitudes of elites and population. The results reveal a growing gap between the mental models of political elites and those of the population:

While 60% of the German parliamentarians still think that the current distribution of income and wealth is fair (November 2006), only 15% of the population (Summer 2007) do so (see Bertelsmann 2007a: 6; 2007b: 6).

While distributive justice ranks very low among the priorities of the parliamentarians (only about 15% of parliamentarians give top priority to distributive justice), two thirds of the population advocate a greater role for the traditional, redistributive welfare state (see Bertelsmann Stiftung 2007a: 28; Bertelsmann Stiftung 2007b: 21).

New worldviews need a long phasing-in period. In addition to the desire for state protection, the principle of income maintenance and especially the principle of status maintenance based on individual achievement have proven to be deeply rooted in the population. This “ideational path dependency” of the German public has led to a partial revision of the reforms enacted in the last years, especially in the field of labour market policy. Since the traditional unemployment benefit (ALG I) had been reduced to 12 months and the long-term unemployment benefit (ALG II) is paid on a flat-rate basis, an unemployed person that had worked for many years would get the same benefit after 12 months of unemployment than a person who has never entered the workforce. The argument presented by CDU as well as SPD politicians was that those who have worked longer and paid more contributions should in any case get more in return from the systems of social security than those who have contributed less or not even contributed at all. This argument is very much in line with the moral intuition and convictions of a vast majority in the population. As a consequence, the "grand coalition" has recently decided to raise the benefit duration of ALG I for older workers again.

Another moral intuition that will be very hard to change is the conviction that a full-time job (40 hours a week) should deliver enough money to make a living or even to support a whole family. Currently, a lively public debate on minimum wages is ongoing in Germany. Although so far no agreement has been reached within the coalition government on whether or not to introduce a statutory national minimum wage, first steps in that direction have already been made and further steps on a sectoral basis are foreseeable for the future. Although business associations fiercely oppose statutory minimum wages and many economists highlight the negative consequences for low-skill employment, the call for a stronger protective state intervention in the labour market in order to prevent wage dumping seems to meet the expectations of considerable parts of the German public.

Politicians seem to be increasingly aware of the growing discontent[8] of the population. At the moment, the mechanisms of party competition and internal party consolidation prevail. Both major parties, the Social Democrats as well as the Christian Democrats, have presented their renewed party manifestos at the end of 2007. Especially in the social democratic manifesto, a

8 According to a still unpublished survey of the Allensbach Institute of June 2008, the concept of the Social Market Economy (Soziale Marktwirtschaft) is rapidly losing support among the German population: while only 31% of the respondents expressed a positive general view on social market economy, a 38% expressed a negative view (see http://www.wiwo.de/politik/soziale-marktwirtschaft-verliert-rasant-an-zustimmung-295620)

desire to reconciliate “traditionalist” and “modernizing” positions can be asserted. Rather than to *substitute* the traditional equality-based concept, “participatory justice” is now sought to *complement* distributive justice:

“Participation of all people in economic, cultural, social and political development is the aim of the Social Democrats’ policy. Good education, reliable work and health, *but also fair distribution of wealth* are of central importance to this end.” (SPD 2007: 32, m.t., emphasis not in original).

The new CDU party manifesto follows the same trend: the “sharp” market-liberal rhetoric of the opposition years has been partially abandoned to present a more “socially balanced” approach. The current rhetoric of reconciliation, balancing and compromise indicates that both parties are very careful to avoid losing the electoral support of the working middle classes. All together, it seems that Germany will move slower on the road to social investment in the remaining time of the current government period than it did in the last years.

5. Conclusion

Institutional solutions are not directly determined by the „true“ nature of the challenges that a welfare state „objectively“ faces. The perceptions of problems and the interpretation of the nature and the urgency of challenges depend on underlying cause-relation explanations, knowledge about available options and the assessment of possible consequences. In the political process of German welfare reform, the “strategic framing” (Hemerijk 2006:19) of policy problems and solutions by political actors and interests has played a central role. The discursive construction of new cleavages (the generational cleavage and the insider-outsider cleavage) have served as an ideological ploy of those groups interested in a privatization of public welfare. These attempts to mask the continued existence of the cleavage between capital and labor have been rather successful. The introduction of new value terms like "generational equity", "sustainability" and "participatory justice" as well as the redefinition of long-standing values like "equality" and "solidarity" have served to exhaust the traditional, insurance-based approach to social policy that was central to the German social model.

This normative recalibration of the German welfare state involves a new understanding of citizenship that sets the focus on the economic aspects rather than the political or social ones. As "full citizenship" is increasingly narrowed down to labour market participation, new normative priorities for social policy have been established. The development of the German social policy discourse reflects the general tendency of "gradually replacing *protective* and *redistributive* with *competitive* and *productive* solidarity" that Wolfgang Streeck (2000:252) has predicted a few years ago. In the face of increased economic competition, social policy has been subordinated to fiscal, economic and labour market requirements.

While the general logic of social investment has become dominant in the discourse of political elites, the institutional shift towards a social investment state has remained incomplete. On the one hand, a policy aiming at distributive justice has definitely been abandoned; on the other hand, a progress in achieving "equal opportunities" can not be asserted. So far, financial constraints have impeded a more pronounced transformation of the German "social insurance state" into a women-children- employment- and family-friendly "social investment state". It is hard to deny that the welfare state reforms of the last ten years have not been a "good deal" for the ordinary German citizen. In the face of continuously increasing social inequalities, we are witnessing a gradual decline of the legitimacy of the political system. Although the current situation in spring 2008 seems to indicate a partial return to more equality- and protection- based notions of social justice in the German social policy discourse, the underlying cognitive assumptions and normative convictions of the Social Investment paradigm have become hegemonic in the political class and will most probably continue to shape welfare reforms in the future.

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