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Martin Seeleib-Kaiser

From Conservative to Liberal-Communitarian Welfare: Can the Reformed German Welfare State Survive?

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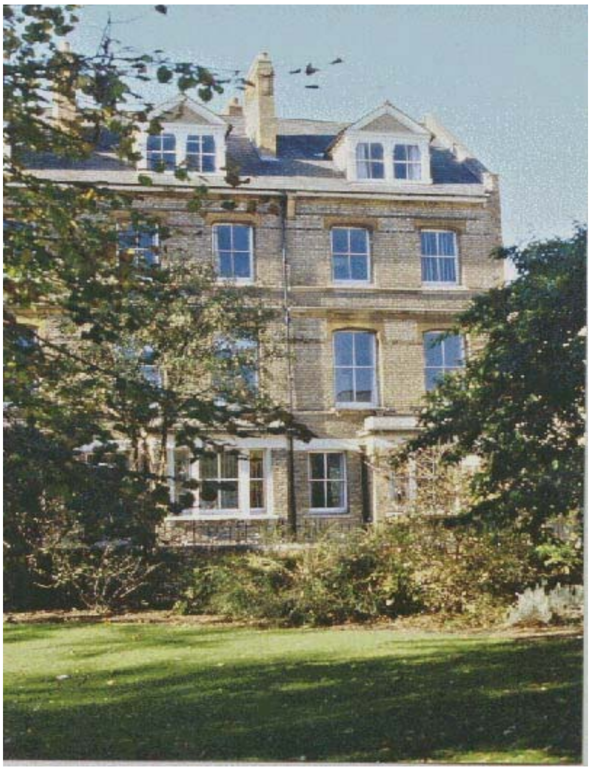

Editor:

Martin Seeleib- Kaiser

Department of Social Policy and Social Work
University of Oxford
Barnett House
32 Wellington Square
Oxford
OX1 2ER

martin.seeleib@socres.ox.ac.uk

Abstract:

This paper argues that we are witnessing a dual transformation of the German welfare state leading to a regime shift. Increasingly the state reduces its commitment to secure the achieved living standard of former wage earners, which has been the key normative principle of the German welfare state in the post-WW II era. At the same time the state is expanding its role in providing public support and services for families. Based on these changes we can no longer speak of a welfare state rooted in the principles of a conservative welfare state regime; moreover, the institutional design increasingly encompasses elements that reflect the principles of a liberal-communitarian approach to welfare. This transformation seems to have significant implications for the political and social sustainability of the German welfare state.

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1. Introduction

During the ‘golden’ era of post-WW II capitalism, social policy in Germany on the one hand was based on publicly guaranteeing the achieved living standard of workers through social insurance programs during old age, sickness, and unemployment. On the other hand, it relied on the unpaid work of women to provide social services within the family. This design mirrored the ideal category of a “conservative welfare state regime” (Esping-Andersen 1990) very closely. But, is this characterisation still valid 30 years after the golden post-war era has come to an end? If the architecture of social policy in Germany has changed, in which direction did it develop? Can we perhaps even speak of a regime change?

The typologies developed by regime theory still heavily influence welfare state research (cf. for an overview Gelissen/Arts 2002). Most comparative research as well as case studies on social policy development in Germany have remained focused on the work-welfare nexus. In general, these studies emphasize slow and very incremental changes, which are said to be the result of path dependence and the specific institutional makeup of the German polity, i.e. having two welfare state parties and a large number of veto players (cf. Pierson 2001a). In this paper I will argue contrary to the notion of a *société bloquée* that, we in fact are witnessing a *dual transformation* of the German welfare state (Seeleib-Kaiser 2002; Bleses/Seeleib-Kaiser 2004). This dual transformation is achieved through a withdrawal from publicly guaranteeing the achieved living standard of workers and an expansion of family-oriented social policies. Hence, Germany can no longer be characterized as a conservative welfare state, but increasingly should be categorized as a liberal-communitarian welfare state.

This paper will proceed in the following manner: First, I will present some theoretical and methodological remarks. Second, the norms and institutions guiding German social policy developments up to the 1970s will be presented. In the third part, I will proceed with an analysis of the social policy development since the mid-1970s. Finally, I will address the issue of welfare state sustainability.

2. Theoretical and Methodological Remarks

For some time welfare state research and the initial welfare state regime theory itself was largely limited to the work-welfare nexus. Although more recent studies have included the welfare-care dimension in addition to the work-welfare nexus, these analyses have remained rather static, i.e. comparing welfare state arrangements across countries, but not over time (Esping-Andersen 1999). Yet, in order to verify welfare state continuity or regime change, we have to choose a longitudinal approach. Following these arguments it is necessary as a first step to define a 'welfare state regime'. A welfare state regime can be defined as 'a complex of legal and organizational features [that] are systematically interwoven' (Esping-Andersen 1990: 2), based on specific norms and aims to insure against social risks. Hence, a regime shift can be identified if new institutional arrangements and processes are implemented that lead to a changed institutional logic.

How do we measure welfare state regime change or continuity? Whether we can identify change or continuity obviously rests on the operationalization of the dependent variable (cf. Clasen/Siegel 2007). It has to be stressed that socio-economic *outcome* variables, such as income inequality measures, labor force participation rates, or fertility rates, are not sufficient indicators to measure welfare state regime change or continuity. Moreover, we have to focus on policy *output*. Taylor-Gooby (2002) suggests that the method employed to analyze change might significantly influence our findings. According to him (Taylor-Gooby 2002: 597) quantitative analysis tends to "place greater emphasis on continuity and resilience",[1] whereas case study analysis is likely to provide "greater insight into shifts." An obvious solution to this dilemma is to combine quantitative data with qualitative analysis. Furthermore, we need to measure change along as many dimensions of the welfare state regime as possible. In the following empirical analysis I have chosen the dimensions of overall welfare state spending, the level of decommodification and status protection within the pension and unemployment insurance programs, as well as family policy.

1 As Clayton and Pontusson (1998) have emphasised, we should be especially careful in using expenditure data, since this can be affected by a number of variables independent of policy, such as the demographic composition of the population and economic growth.

The dimension of time is crucial in any analysis of change and continuity. Since changes usually occur in an incremental fashion, the sum of many incremental changes might stay unrecognized if the time span analyzed is too short. Theoretically, the sum of many seemingly incremental changes may constitute a significant policy shift or even a regime change. The theory of path dependence, so dominant in recent welfare state analysis, has neglected such a potential development. Moreover, it has emphasized processes of increasing returns that, without exogenous shocks, lead to institutional continuity (Pierson 2000). Based on such an approach, incremental policy changes might be interpreted as path dependent, although they may indeed constitute the beginning of a new path. Whether they do, or do not, we will only be able to find out, if we adopt a long-term perspective. The same holds true for arguments that amend the crude path dependence theory by introducing the concepts of “institutional layering” and “institutional displacement” (Streeck/Thelen 2005). For my research I have chosen the end of the ‘golden’ welfare state era in the mid-1970s as the reference point.

3. Norms and Institutions in Historical Perspective

The historical development of the German welfare state led, on the one hand, to a wage earner-centered social policy (applying de facto largely only to *male* bread-winners) and on the other hand, to a sphere of unpaid welfare work provided by married women. The wage earner-centered social policy was rooted in the general acceptance of specific normative preconditions. First, the worker must be accepted as an insurable individual; in other words, he is no longer seen as part of an anonymous proletariat. Secondly, the risks to be insured must, in principle, not be perceived as being attributed to any fault of the individual, despite the fact that the risks affect workers individually. Following on from these two preconditions is the *conditio sine qua non,* whereby an individual cannot freely choose between income from work and social income. Accordingly, persons of a working age must effectively demonstrate that they are willing to work in order to receive social benefits. Finally, the level of social income to which the individual is entitled is based on his prior wage earnings, thereby extending wage differentials – a result of market mechanisms – into the realm of social insurance benefits.[2] According to the logic of this social-insurance approach, only people unable to meet these criteria should have to rely on tax-financed social assistance benefits in times of need. This normative design of the German welfare state clearly emphasizes the historically-rooted differentiation between social policies for workers and social policies for the poor (Leibfried/Tennstedt 1985).

While most West-European and North American welfare states of the 1950s can be categorized as “patriarchal welfare states” (Pateman 1988), the division of labor between the sexes was most clearly institutionalized in the “strong male breadwinner model,” into which Germany squarely fit (Lewis/Ostner 1994). The normative view, which had its roots in the late 19th century, held that it was the ‘natural’ role of mothers to care for their children. This view still guided parliamentary deliberations on the equality of women in the workplace as well as the introduction of child allowances in the 1950s (Moeller 1993). Following on from these norms, the foremost aims of the German social insurance schemes were inter-temporal redistribution within the life course (not inter-personal redistribution), and the entitlement of derived social insurance benefits to family members.

The *leitmotiv* of post-war social policy expansion was to secure the ‘achieved living standard’ of the male breadwinner *and* his family during old age, disability, sickness, and unemployment. Accordingly, the pension reform of 1957 raised the old-age benefits on average by about 65 per cent and indexed them to future increases in gross wages. In this way, retirees would benefit from any future increases in living standards which unions had subsequently achieved through collective bargaining. In short, pensions were locked to the development of gross wages (cf. Schmähl 1999; Schmidt 1998: 81-84; Frerich/Frey 1996: 46-49). The central aim of the 1957 pension law was – in the words of Josef Schüttler, the CDU politician and responsible committee correspondent to the German Parliament – ‘to achieve a clear distinction between insurance and social assistance . . .. [The old-age insurance benefit] was to be transformed from a minimal allowance of the past into a benefit for the future which could maintain the living standard’ (Sten. Prot. 2/184: 10181).[3] By the mid-1970s, the net-income replacement ratio reached 70 per cent for a standard pensioner (*Eckrent-*

2 This section draws heavily on the theoretical concept developed by Vobruba (1990).
3 Between the late 1950s and early 1970s, annual pension increases oscillated between five and ten per cent (Alber 1989: 84).

ner), i.e. a person with a prior average income and a work history of 45 years (Schmähl 1999: 405). The decreasing proportion of senior citizens dependent on social assistance highlighted the overall success of the reformed pension insurance system (Leisering/Leibfried 1999).

If we examine the institutional arrangements for insuring against the risk of unemployment, we uncover a similar design: the unemployment insurance system was normatively bound to insure the worker's standard of living should he lose his job. This normative view dominated the political debates as well as the various policy measures up until the mid-1970s. In the late 1960s, for example, even members of the Liberal Party (FDP) in Parliament supported substantial increases in the level of unemployment benefits. Once again, the unemployment benefit was intended to replace wage income and was supposed to be clearly separate from social assistance benefits (cf. Sten. Prot. 5/95: 4335 ff.). By the mid-1970s, the replacement income for those individuals receiving the regular unemployment insurance benefit reached 68 per cent of prior net earnings. This level was to ensure a relatively stable income for workers during spells of unemployment. 'Suitable work' was defined in such a way that an unemployed worker did not have to accept a job offer which either paid less or was in a different occupational field to his previous job (Sengenberger 1984: 334; Clasen 1994: 101).

In the 'golden' era of post-World War II capitalism, social policy experts were convinced that an improved social insurance system would eventually cover the standard social risks of workers to the point whereby social assistance in terms of providing a minimum existence would ultimately become residual (Giese 1986). Although the reformed social assistance law of 1961 entitled individuals to a minimum cash benefit, it was not designed to cover general risks, but primarily to focus on helping persons with individual problems living on the fringes of society.[4] This attitude towards social assistance clearly underscores the importance of insuring against standard social risks and using the various social insurance systems to guarantee the worker's standard of living. During the late 1960s and early 1970s, benefit levels were increased significantly, and eligibility restrictions as well as work rules for the 'employable poor' were liberalized (Adamy/Naegele 1985: 97-100).

4 Cf. Leibfried/Leisering et al., 1995: 216.

Since it was the responsibility of the 'non-working' mother to provide the necessary social services for family members,[5] – and thereby forgoing paid employment – the male breadwinner's wage had to be high enough, in principle, to support the whole family above the subsistence level. In the late 1940s and early 1950s, collective bargaining agreements in the manufacturing, mining, and public sectors included additional allowances for children. With a few regional exceptions, wages based on these contracts were sufficient to lift an unskilled male breadwinner and his family above the social assistance level as long as there were no more than two children in the family (Achinger et al. 1952, Tables 10, 15, 17).[6] Consequently, the state introduced a child allowance for families with three or more children in 1954, which was significantly modified in 1964. This modification also included the introduction of a means-tested child allowance benefit for the second child (Frerich/Frey 1996: 116-118).

For mothers with young children, employment outside the family or outside the family business was only considered legitimate, if additional income was required out of economic necessity. Public opinion analysis at the time suggests that the majority of women who pursued work outside the home did so out of economic necessity and would rather have stayed at home if they had had the option.[7] Based on these normative principles, the state largely refrained from providing social services, moreover, state childcare facilities were considered to be harmful to the personal development of children, especially pre-school children. They were even viewed as an attempt to "rob parents of their children while forcing women into wage labor. Any mention of group day care was also associated with the Nazis, who shared the communists' goal of transforming children into loyal servants of the state" (Moeller 1993: 176 f.). In the early 1970s less than one per cent of all children below the age of three and about 30 per cent of children between the ages of three and six had access to publicly financed childcare.[8]

5 For an overview of the family ideology and family policies until the 1970s see Neidhardt 1978.
6 It was feared that higher wage supplements by employers for workers with larger families would result in discrimination in hiring and dismissal of these workers (Achinger et al. 1952: 45).
7 For a critical assessment of these surveys cf. Sommerkorn 1988: 122 ff. and Kolbe 2002: 66 f.
8 Based on the principle of subsidiarity, most childcare was actually provided by religious and other non-state institutions.

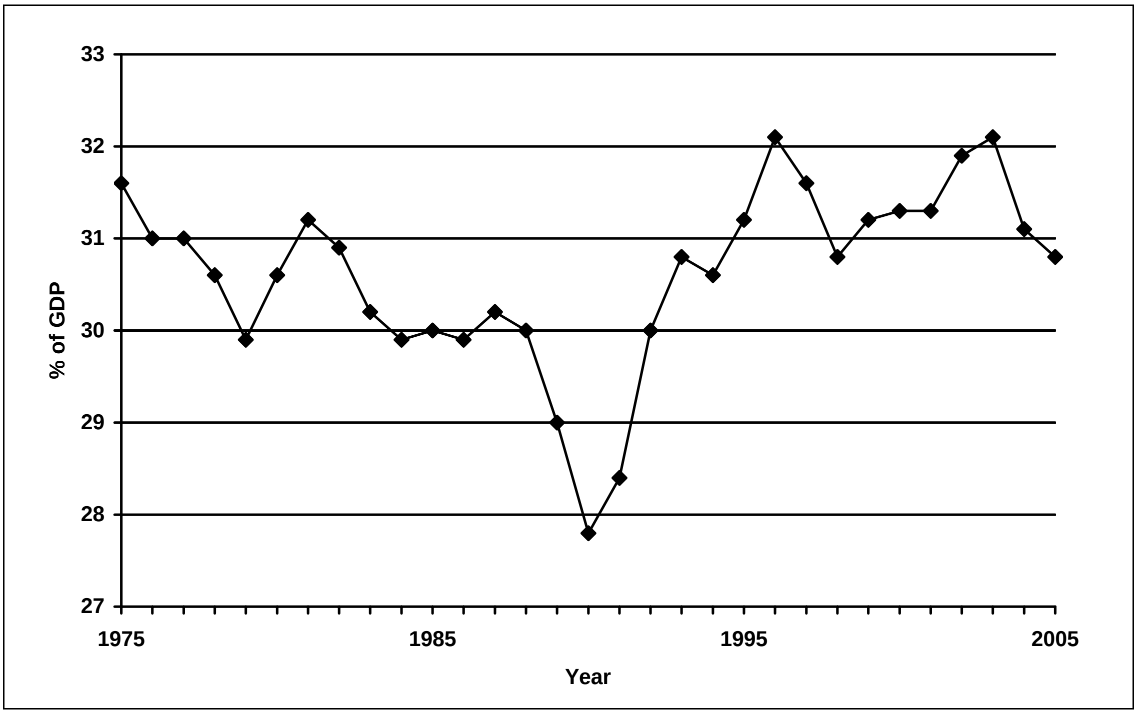
To summarize: During the 'golden' era, social policy intervention by the state was characterized mainly by statutory insurance schemes, which aimed to allow the worker and his family to enjoy their former standard of living during the worker's retirement and during spells of unemployment and sickness. The insurance schemes also aimed to grant derived social benefits to the worker's family members. The decommodifying potential of the social insurance system depended largely on the status of the individual worker in the employment system and on his achievements. The family played an important role as the primary provider of social services, which meant that the role of married women was largely limited to that of housewife and mother, the party responsible for providing unpaid welfare work and for bearing and rearing children. Hence, the 'public' sphere of the social insurance system was heavily dependent on the hidden 'private' sphere of unpaid housework and childrearing duties. The extent of de-familialization was very low. Finally, the German welfare state was based on the principles of social integration and cohesion, not on redistribution between classes, or the alleviation of poverty (Goodin et al. 1999).

4. Policy Change and Continuity since the Mid-1970s

Whereas most welfare states are commonly perceived as having actively responded to socio-economic challenges, comparative welfare state research has characterized the German welfare state as having been largely resistant to change. If this were indeed the case, we would find the features of an ideal conservative welfare state still guiding German social policy today. However, I will argue to the contrary that we have in fact been witnessing substantial institutional changes. The many seemingly incremental policy changes within the various realms of social policy culminated to an overall policy transformation, which constitutes a regime change. Such a regime change, however, does not necessarily imply that Germany is moving toward either a liberal welfare regime or social democratic welfare regime. Moreover, this transformation seems to be leading to the establishment of an entirely new model, one that does not fit the 'old' typologies developed by Esping-Andersen (1990, 1996, 1999). The regime change is characterized by a dual transformation, i.e. a decreasing emphasis on the guarantee of the achieved living standard of workers through wage earner-centered social policies and by an expansion of family-oriented policies (Seeleib-Kaiser 2002; Bleses/Seeleib-Kaiser 2004).

An analysis of spending in Germany shows that about one third of GDP is spent for social policy purposes, similar to the level reached in the mid-1970s. Such a perspective however conceals major efforts towards limiting social expenditures in the 1980s, which were reversed by the process of unification (see Fig. 1).

Fig. 1: Social Spending in Germany as a Percentage of GDP: 1975-2005

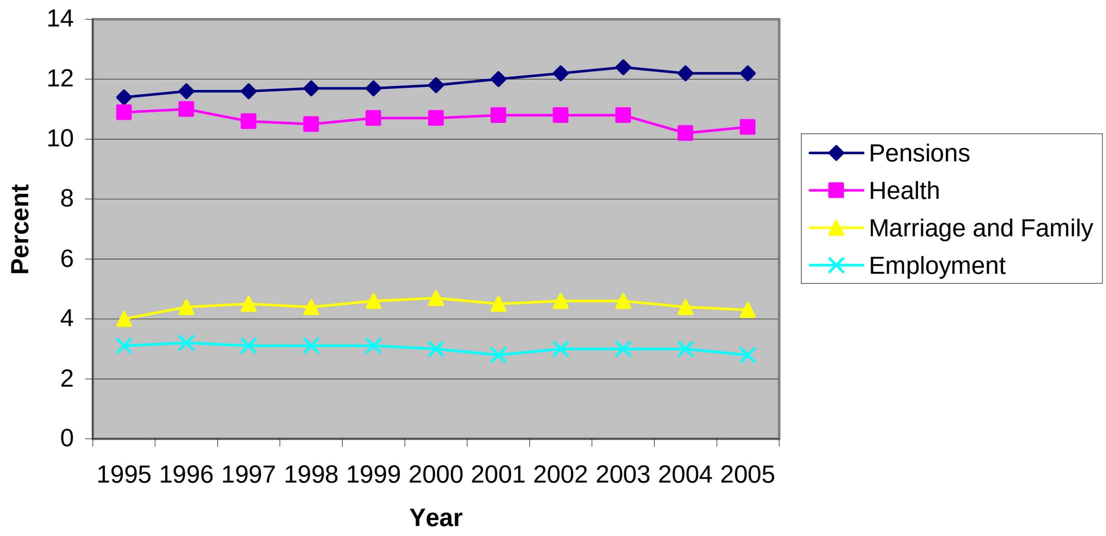


Starting 1991 data for unified Germany. Data for 2004 preliminary, 2005 projections.
Source: BMAS 2006: Tab. 7.2.

It is important to reiterate that macro-spending data can not properly gauge possible transformations of the institutional welfare state framework. Transformations do not necessarily lead to a dismantlement of the welfare state (cf. Gilbert 2002). In fact continued high spending may conceal significant institutional changes. A more detailed analysis of the various social-spending categories since the 1990s reveals an increase in spending on pensions, a slight increase in spending for family policies, while spending for employment-related efforts have declined moderately (see Fig. 2).

However, these shifts in spending per se would not justify speaking of a dual transformation.

Fig. 2: Social Spending by Category as a Percentage of GDP



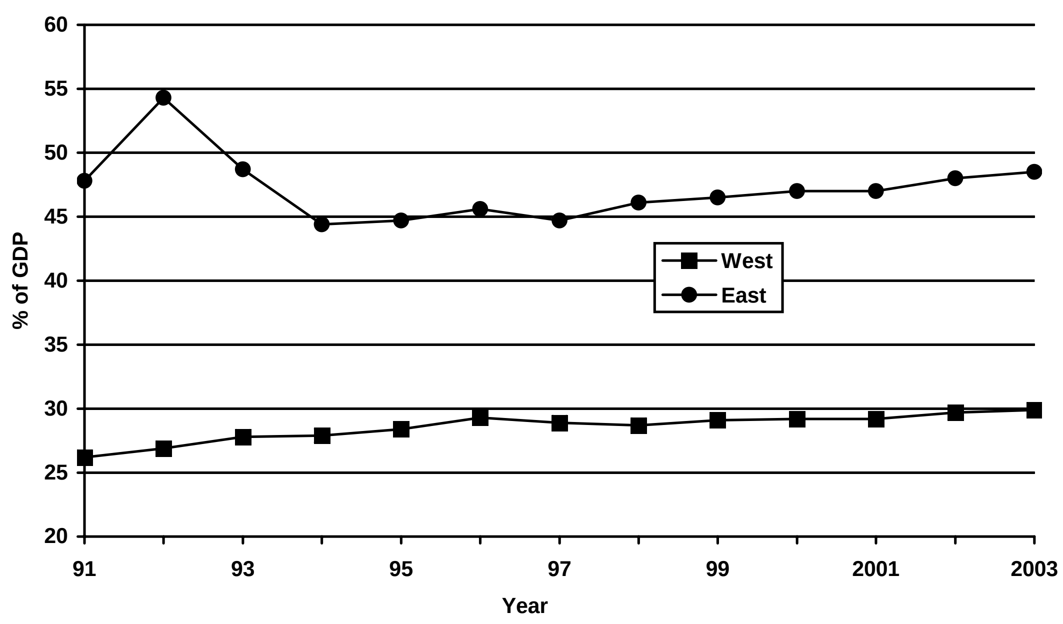
Note: Data for 2004 preliminary, 2005 projections.

Source: BMAS 2006: 7.2.

If we control spending by region for the time period from 1991 to 2003, we witness continuously high and increasing spending in the East, while in the West spending stayed more or less stable since the mid-1990s. The high level of social spending in the East is financed through West-East transfers – constituting a high level of regional redistribution. These West-East transfers are largely channeled to the East through transfers from the "Western" unemployment and old-age insurance funds, which in sum totaled 25.8 billion EURO in 2001 (BMAS 2002: Tab. III; Tab. III, 112; Tab. III, 16).[9] This is to a large extent the result of the heavy reliance on social insurance contributions in financing the German welfare state.

9 Accordingly, without these West-East transfers either the social insurance contributions or the tax-financed subsidies for these systems in the West could have been reduced.

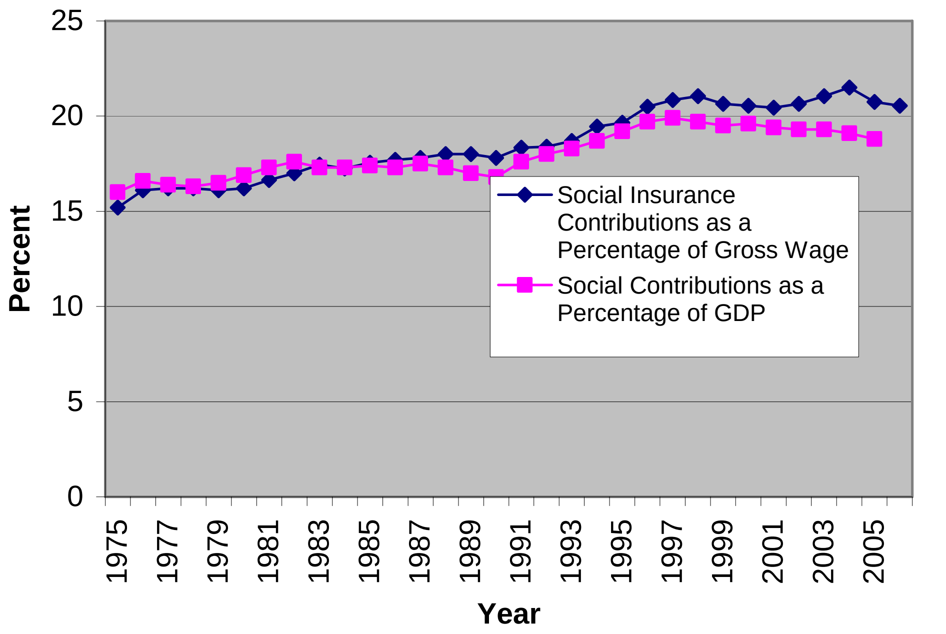
Fig. 3:Social Spending in East and West as a Percentage of GDP: 1991–2003



Note: Data for 2002 preliminary, 2003 projections.

Source: BMGS 2005: 193.

Fig. 4: Social Insurance Contributions



Note: Not included in the social insurance contributions as a percentage of gross wage are the premiums for the accident insurance. Due to small differences between East and West, the data presented here is based on the premiums in the West.

Source: BMAS 2006: Tab. 7.6, 7.7.

Although as a percentage of GDP, social insurance contributions ‘only’ increased by 2.8 percentage points between 1975 and 2005, the percentage of employers’ contributions relative to the gross wage of individual employees rose by more than five percentage points, increasing the cost of employment. In order to limit the increasing costs for employers, the government has implemented a variety of measures to shift back part of the financing from social contributions to general revenues, one example being the introduction of an ecological tax.[10] Subsequently, financing through general taxation has increased from a low of 31.6 percent in 1990 to 38.9 percent of the overall outlays in 2003, while the percentage of social insurance contributions has dropped from a high of 66.7 percent to 59.9 percent (BMGS 2005: 197).

4.1. Withdrawing from the Publicly Guaranteed Achieved Living Standard

Major institutional changes have surfaced in the qualitative analysis of the pension and (un)employment policies, which constitute the core of the wage earner-centered approach. The sum of the numerous incremental policy changes in both programs has amounted to a withdrawal from the principle of guaranteeing an achieved living standard. Within the field of unemployment insurance, the policy changes have included not only reductions in the wage replacement ratio, but much more importantly, re-definitions of the reference wage, contribution periods, and suitability requirements. In addition to these explicit measures, implicit disentitlement has led unemployed workers to being increasingly dependent on tax-financed, means-tested benefits instead of on contribution-based benefits designed to guarantee the previously achieved living standard (Seeleib-Kaiser 1996; Heinelt/Weck 1998).[11]

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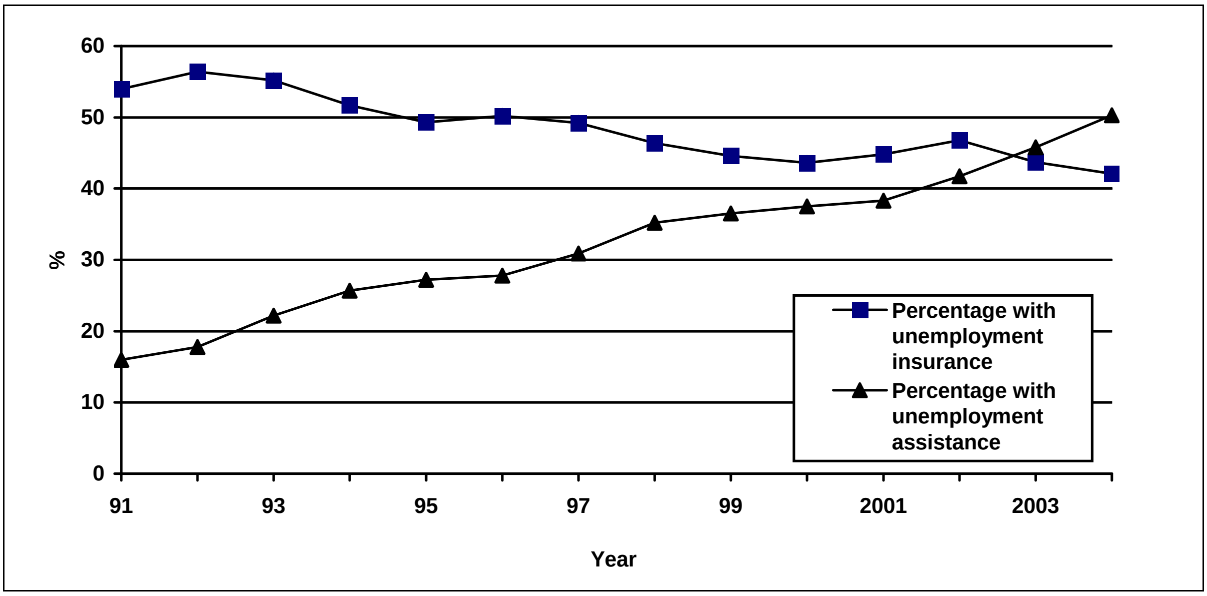
10 The revenues from this tax were estimated to amount to 57 billion EURO in the years 1999–2003 and are ear-marked by statute for the old-age insurance fund. Without the revenues from the ecological tax the employers’ contributions to the old-age insurance fund would have been 0.75 percentage points higher in 2002 (Truger 2001; BMF 2002: 10).

11 For a brief summary see Seeleib-Kaiser/Fleckenstein (forthcoming).

Fig. 5: Percentages of registered unemployed receiving unemployment insurance and unemployment assistance benefits: 1991-2004



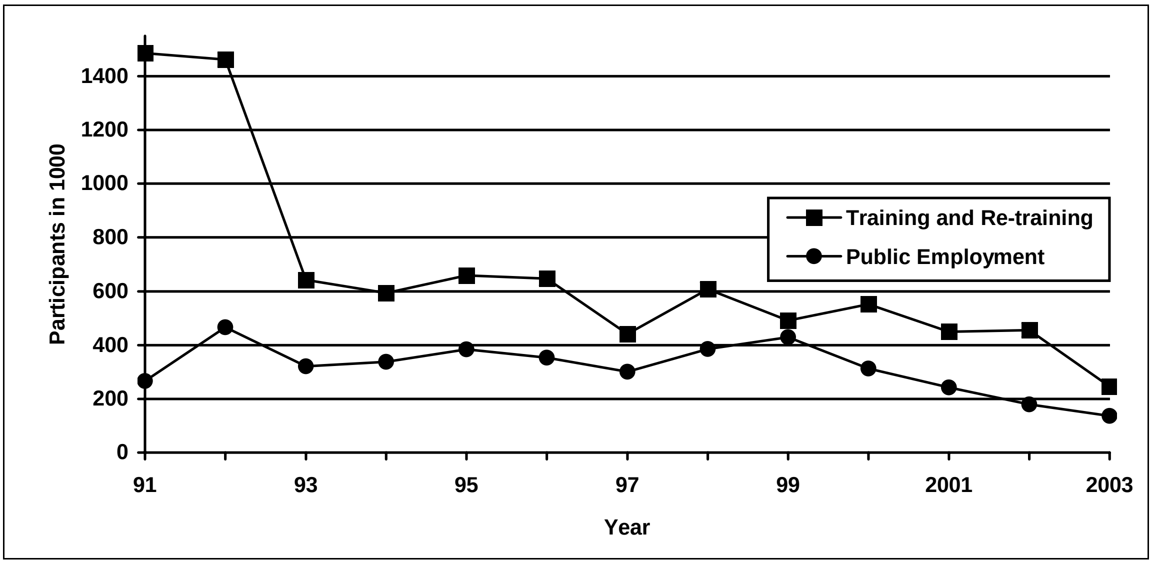
Note: Own calculations based on annual averages.

Source: BMAS 2005a: Tab. 2.10+8.14.

Finally, late in 2003 the federal government enacted a comprehensive reform of unemployment compensation payments. According to the new rules, the regular 'Unemployment Compensation Payment I', i.e. the earnings-related unemployment insurance benefit, was limited to a maximum of 12 months. The extended benefit duration for unemployed workers 55 years and older was reduced to 18 months from the previous 32 months (Bleses/Seeleib-Kaiser 2004: 63). Workers who have exhausted their unemployment insurance benefit and are needy as well as all other needy unemployed workers – namely, persons between the ages of 15 and 64 who are able to work for a minimum of three hours daily – are entitled to the 'Unemployment Compensation Payment II'. Unlike the 'old' unemployment assistance benefit, which was based on a mix of means testing and social insurance principles, this new payment constitutes a flat and fully means-tested benefit. In principle, its level is set at the monthly social assistance level. Consequently, this reform resulted in substantial benefit reductions for those unemployed workers, who had previously commanded a comparatively high income and had been eligible for unemployment assistance payments after their regular unemployment insurance benefit expired. Furthermore, the suitability requirements have been considerably tightened for those receiving the Unemployment Compensation II benefit, in effect defining any job offer as suitable (cf. Seeleib-Kaiser/Fleckenstein forthcoming).

A similar shift in policy design characterized the active labor market policy (ALMP). Whereas in the past, (re)training and public employment measures were primarily aimed at status-equivalent re-employment of unemployed workers, now ALMP is increasingly geared towards a much more market-oriented policy dominated by 'activation measures'.

Figure 6: Participants in Measures of ALMP, 1991–2003



Source: BMAS 2005: Tab. 8.14A.

These measures include subsidized re-employment in non-standard employment relationships and subsidized self-employment (BMWA 2003). Workfare measures for unemployed individuals who receive social assistance benefits already had been intensified since the 1980s (Seeleib-Kaiser 2004). Comparatively speaking, active labor market policies in Germany at the beginning of the 21st century have been changing in a way similar to those implemented in other West European welfare states a few years earlier (cf. Clasen 2000; Clasen/Clegg 2003). These developments in active and passive labor market policies fundamentally contradict the key principle of an ideal-type conservative welfare state, namely preserving the socio-economic status. Institutionally we can initially identify a process of layering, which eventually lead to the institutional displacement of the social insurance arrangements for the long-term unemployed.

Significant changes within the pension policies will primarily affect future retirees. This is not to say that the current standard (male) pensioner has not also been affected by a number of benefit curtailments, enacted since the mid-1970s. Without these changes the net replacement rate for a standard pensioner[12] would have risen from about 70 to about 90 percent (Alber 2001).[13] However, substantial changes for *future* pensioners have been implemented since the late-1990s. The Pension Reform Act of 1999, enacted in 1997, included significant benefit reductions for future retirees, which would have lead to a replacement ratio of 64 percent for a standard pensioner in 2030. Although, the implementation of this law was suspended after the Red-Green coalition government came to power in 1998, a major reform was enacted in 2001. This reform included a partial privatization of the public pay-as-you-go system[14] and the abolishment of the special occupational disability benefit.[15] These measures will lead to an increased reliance of future pensioners on means-tested transfers, private or occupational pension benefits, as well as other sources of income. Future pensioners are no longer given the 'guarantee' to a public old-age or disability benefit that will maintain their achieved living standard (Seeleib-Kaiser 2002); for many future senior citizens the pension benefit will not be significantly higher than the social assistance benefit. Based on the 2001 reforms, the replacement ratio for a standard pensioner will decline from 70 to 64 percent by 2030. The introduction of an additional sustainability factor in 2003, will lead to further substantial benefit reductions. According to the pension expert and former government adviser Winfried Schmähl (2003), the net replacement ratio for a standard pensioner will decline to about 54 percent in 2030, forcing once again an increasing number of pensioners to

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12 A standard pensioner is defined as a person who has contributed to the old-age insurance system for 45 years based on average earnings.

13 Both the highly respected principle of legal certainty within the German judicial system and the contribution-based pension benefits, which are considered to be legally endowed property rights, preclude significant systematic benefit retrenchment for current old-age benefit claimants.

14 For a more elaborated analysis of this reform see Hering 2002 and Lamping/Rüb 2001.

15 Workers unable to continue to work in 'their' occupation were entitled to receive this special disability benefit. Now workers have to be fully disabled to receive a disability benefit.

have to rely on means-tested old-age benefits.[16] In order to minimize old-age poverty, the state introduced tax-financed subsidies for workers who voluntarily enroll in certified private or occupational pension systems (Nullmeier 2003) and a tax-financed, basic old-age assistance. Although means-testing is still applied in determining the eligibility to this benefit, the state liberalized the principle of subsidiarity by disregarding the income of children, with the exception of those earning more than € 100.000 annually, in assessing the need (Buhr 2003).[17] In early 2006, the coalition government agreed to increase the retirement age from 65 to 67 years by 2029 (Bundesregierung 2006: 61).[18] Further substantial changes in the pension system have been introduced for caregivers, which will be discussed in the section on family policy below.

The withdrawal of a publicly guaranteed achieved living standard, the introduction of a tax-financed basic pension benefit, as well as the partial privatization of the pension system, have substantially transformed the German pension system. The pension system, once the core element of the conservative German welfare state, increasingly incorporates ‘liberal’ features. From an institutional perspective we can speak of a layering process that over the next two decades will most likely lead to an institutional displacement of the current pension system for a large part of the population.

To summarize: In both core transfer programs the extent of the social insurance principle was reduced and means-tested, tax-financed provisions expanded. Occupational status protection was also significantly reduced for the unemployed and disabled. Increasingly, pensioners, unemployed as well as disabled workers will have to rely on market income or means-tested transfer benefits. We can thus speak of a clear trend towards a liberal approach in regards to these social programs.

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16 In a press release accompanying the most recent OECD (2007a) report, the organization highlights that Germany should keep the development of pensions for low-income workers under close scrutiny and possibly implement policies to prevent an increase in old-age poverty (OECD 2007b).

17 Based on this program elderly and disabled in need are entitled to a benefit 17 percent higher than the regular social assistance benefit and support for reasonable housing and heating costs. In 2003, approximately 250.000 persons received this benefit (Lampert/Althammer 2004: 329).

18 The measure was formally enacted in March 2007 (FAZ, March 9, 2007)

4.2. Expanding Family-oriented Benefits and Services

The greater emphasis on market forces and the promotion of self-reliance within the unemployment and pension programs are one side of the social policy reforms. Largely parallel to these changes, new family policies were introduced and existing programs expanded. Traditionally the family did not receive much state support beyond a relatively low child (tax) allowance and the entitlement to derived social insurance benefits. Care was largely considered a private affair, namely the responsibility of a married woman who was not actively engaged in wage labour. In the realm of traditional family support it has to be mentioned that the child (tax) allowance was substantially expanded in the 1990s. Currently parents are entitled to a monthly child allowance of 154 Euros for every child (cf. Bleses/Seeleib-Kaiser 2004: 80; 82).

Starting in the mid-1980s, family-oriented benefits have been introduced into the formerly strictly earnings-related pension system and subsequently expanded. Instead of basing old-age pensions solely on social insurance contributions or on derived benefits for survivors (based on the earned benefits of a male breadwinner) – both core principles of a conservative pension system – benefits are now also dependent on the number of children an individual has raised. Currently, the time devoted to child rearing will be recognized as a fictive contribution to the old-age insurance system for the duration of three years per child – equivalent to 100 percent of an average contribution. Furthermore, if a parent should choose a part-time position to reconcile employment with the desire to at least partially care for the child personally, the state will contribute to the pension fund to make up for the 'lost' contribution up to a limit of 100 percent of the average contribution until the child is 10 years old (Bleses/Seeleib-Kaiser 2004). Through the recognition of (a limited) time spent as a caregiver, the state creates individual entitlement rights and reduces the dependence of the predominantly female caregivers on derived social insurance benefits of male breadwinners (Meyer 1998),[19] while the level of derived benefits itself has been substantially curtailed over the years.

To reconcile employment with the desire to care for small children personally, the state enacted an entitlement to unpaid parental leave for the duration of three years

19 Pension credits were also introduced in the Long-term Care Insurance for people caring for the elderly.

(1986). Concomitantly the state introduced and subsequently expanded a means-tested parental benefit to two years (initially limited to 10 months) after the birth of a child. This benefit gave both fathers and mothers the opportunity to continue to work or opt out of the labor market and commit themselves to child rearing for a limited time period. The employer must guarantee the parent's reemployment in a similar position and with equivalent remuneration following the parental leave. Parallel to the parental leave, parents were allowed to work in a part-time position with a weekly work schedule of up to 19 hours without loosing their entitlement to the parental benefit (Münch 1990: 59 ff.).

Declining birth rates, especially among academically educated women, has recently reinforced the perception among the elite of the need to expand family policies further. This perceived need has triggered a substantial modification of the parental leave benefit along the lines of Social-democratic approaches in Scandinavia: Starting January 1, 2007, parents are entitled to an earnings-related parental leave benefit with a wage replacement ratio of 67 percent of their previous income (capped at a maximum of € 1.800 per month) for the duration of 12 months (with an additional two months if the other partner takes these – in Scandinavia these are often referred to as 'Daddy Months'). This benefit is specifically focused towards the middle to high-income groups, as the parental leave benefit in the past was a flat rate, means-tested benefit, which could be received in addition to social assistance. Under the new regulations all those parents not previously employed will be entitled to a flat monthly benefit of € 300 (BMFSJ 2006).

From 1992 on, the opportunities for working parents to take leave during their child's sickness were also substantially improved. Each parent is now entitled to a maximum of 10 days' annual leave to deal with spells of a child's illness up to the age of twelve. Working parents with more than one child are each entitled to a maximum of 25 days' leave; single parents are entitled to 20 days' leave per child up to an annual maximum of 50 days. During these periods of leave, parents are entitled to receive a sickness benefit equivalent to 70 per cent of the gross wage, paid for by the sickness insurance funds (Lampert/Althammer 2004: 248).

The introduction of the parental leave, the child-rearing credits within the pension system, and the leave for working parents to care for their sick children substantially increased the compatibility of employment and family responsibilities. Yet, one major social problem was left unresolved: how to reconcile the responsibilities of family and employment after the end of the three-year parental leave period, bearing in mind the insufficient childcare facilities for children between the ages of three and six? In 1992 the government enacted the right to a place in a childcare facility for every child between the ages of three and six effective 1996.[20] Due to implementation problems as well as the initial reluctance of local authorities to comply, the law was fully implemented only after a further transition period in 1999. Between 1992 and 1999 an additional 600,000 places in childcare facilities were created for this age group (Bäcker et al. 2000: 212).

Although the provision of childcare facilities has improved substantially for three to six-year-olds during the past decade, the improvements for the other age groups have been modest (see Tab 1). Based on a law effective since January 2005, municipalities are in a first stage legally required to provide day care for all those children under the age of three whose parents work or are enrolled in education and training. However, this law does not grant individual entitlements. This program is supposed to be financed through the 'savings' achieved by merging the unemployment aid and social assistance programs and transferring the responsibility for the unemployed fully to the federal level. The annual budget is estimated to be € 1.5 billion (BMFSFJ 2004). Based on a recent compromise between the political parties of the current grand coalition government, it is planned that in a second stage publicly financed care for children under 3 will fully meet the need in 2013, at which time the government will also grant an individual entitlement to child care for every child. It is estimated that the number of places will reach 750,000 by that time, increasing coverage to 35 percent (FAZ, May 15, 2007).

20 The idea behind the law was that mothers should not be 'forced' to have an abortion due to insufficient childcare.

Tab. 1: Supply of Childcare Facilities (number of places as a percentage of age group): 1975-2006

Year	Age		
	0 < 3 Years	3 – 6.5 Years	6 – 12 Years
1975	<1	66	N/A
1986	1.6	69.3	3.0
1990	1.8 (54.2)	69.0 (97.7)	3.4 (32.4)
1994	2.2 (41.3)	73.0 (96.2)	3.5 (22.6)
1998	2.8 (36.3) *7.0*	86.8 (111.8) *89.5*	5.9 (47.7)* *12.6*
2002	4.2 (37.0) *8.6*	90.6 (105.1) *92*	6 (67.6)* *14.3*
2005/06	9.6 (39.8) *13.7*	N/A	N/A

*) Ages 6-10.
The numbers in brackets are for the territory of the former East Germany and the numbers in italics are for unified Germany. Data over the years are not fully comparable.

Sources: 1975: Alber 2001, Tab. 9; children below 3: Neidhardt 1978: 234; 1985-1990: BMFSFJ 1998: 200; 1998: BMFSFJ 2002: 129; 2002 and 2005/06 children below 3 BMFSFJ 2006b: 15; 2002 children 3-6 and children 6-10 Deutsches Jugendinstitut 2005: 128, 145.

Although observers might argue that these expansions of family policy are still insufficient to create equal opportunities for both parents equally to engage in employment and child-rearing, it has to be stressed that compared to the traditional wage-earner centered pension and unemployment programs family policy was significantly expanded. This included improvements in transfers and services as well as granting working parents entitlements to time enabling them to care for their children personally. To sum-up: the state has partially socialized functions that previously had been considered to be private, while at the same time supported private/personal care arrangements.

4.3. From Conservative to Liberal-Communitarian Welfare?

These policy developments clearly demonstrate that social policy in Germany, once the proto-type of the conservative welfare state regime, has undergone profound changes. The formerly important elements of status protection and publicly guaranteed achieved living standards are on the retreat. Furthermore, family-oriented policies are expanded. In other words, social policy in Germany has increasingly incorporated elements from both liberal and social-democratic welfare state regimes and connected these to communitarian principles. The reach of means testing often identified as a dominating principle of liberal welfare states is clearly expanding within the German social policy arrangement. Due to the secularized remains of the once influential catholic social teachings, communitarian elements – for example, the important role of the family – seem to be particularly strong in Germany. In contrast to the situation in Scandinavian as well as in liberal welfare states, a majority of political actors in Germany believe that parents should not be 'forced' into paid employment, while having public or private child-care arrangements take care of their children. Moreover, parents should have the right to decide whether to care for their small children personally or send them into child-care centers. While this approach clearly enhances the autonomy of parents, compared to the strong male breadwinner model, the increase of autonomy is not achieved by an unidimensional process of de-familialisation, but rather through a process, which in addition includes measures to support families irrespective of their particular family arrangements. For Germany, this constitutes a marked change from previous normative arrangements, which prescribed the role of the married woman as housewife and mother.

5. Can the German Welfare State Survive?

Within the social science literature the crisis of the welfare state has been diagnosed for the past three decades, and the German welfare state has not been an exception. Discussions in regards to the sustainability of welfare states are frequently limited to economic dimensions – focusing primarily on the viability of current financing structures under future conditions of rapidly aging societies and ever more globalized 'national' economies. Furthermore, at the core of these debates are often neo-classical assumptions about the functioning of markets. Recent reforms of the German welfare state have largely been justified as a necessity resulting from economic pressures and demographic developments; it was argued that without significant reforms the welfare state would become economically unsustainable (cf. Seeleib-Kaiser 2001a, b; Bleses/Seeleib-Kaiser 2004).

In contrast to the debates about welfare state crisis, we witness quite a substantial resilience of welfare states in Western Europe, with indications of formerly more peripheral countries seemingly joining the *European Social Model* (cf. Kaelble/Schmid 2004). Although past welfare state resilience is not necessarily a reliable predictor for the future sustainability of the German welfare state, it should make us more cautious of the crisis diagnosis. 'Real' institutional contexts in regards to the specific variety of capitalism and the political system, and moreover the preferences of the citizens are often neglected in the crisis literature. As the 'varieties of capitalism literature' (Hall/Soskice 2001) has shown, different forms of capitalism might 'necessitate' different approaches to social policy. Institutional political contexts, such as constitutional requirements or lock-in effects of past decisions, might block 'necessary' reform adjustments. Yet, the most important element of a 'sustainable' policy within a democratic system is political legitimacy, without it, seemingly sustainable approaches from an economic perspective might turn out not being sustainable after all as they undermine democratic legitimacy. Overall, the social protection systems within OECD countries enabled these countries to adapt to structural change and can be understood as "an *asset of society*, which needs to be nurtured through adequate investments and by sharing the costs of this investment collectively when benefits accrue to society at large. Achieving sustainable development within each OECD society hence requires assuring the sustainability of these institutions … This requires not only assuring the financial sustainability of existing programmes, but also adapting programmes to new constraints, responding to new aspirations of individuals, and balancing new and old demands on social protection systems" (Mira d'Ercole/Salvini 2003: 23). Finally, we need to be cautious and take into consideration that economists and social scientists have not been very successful in predicting or reliably forecasting future developments. In order to address the issue of sustainability we have to differentiate at least between three dimensions: a) socio-economic sustainability; b) political sustainability; and c) social sustainability.

5.1. Socio-economic Sustainability

Discussions about the socio-economic dimension of sustainability are usually based on assumption extrapolating past trends into the future. However, history is full of surprises and many social scientific predictions of the past turned out to be wrong. In this respect, I only want to mention German unification, which has had considerable effects on the financing of the German welfare state. Funds of approximately four percent of GDP are transferred annually from West to East to finance unification (iw-trends 1/2003: 16). Despite all the crisis diagnoses, the German political economy was quite successful in mastering this huge redistributive effort.

At the centre of the debate about sustainability are usually the old-age pension systems. Very often the ratio of pensioners to employees, which currently is about 1:2, is used demonstrate the unsustainability of the pension program, due to the fact that without any further changes to the pension program this ratio would decline to 1:1 by 2030 (Lampert/Althammer 2004: 490). However, if we analyze the overall dependency ratio ([pop. below the age of 15 + pop. above 65] / pop. between 15 and 65), we arrive at somewhat less alarming figures, the ratio rising from 0.47 in 2000 to 0.66 in 2030.[21] It is very likely that even these scenarios will not be reflective of the real situation in 2030. First, in March 2007, the parliament enacted a law to incrementally increase (starting in 2012) the retirement age from 65 to the age of 67 by 2029. Secondly, it seems likely that more people will want to, and effectively can, work beyond the official retirement age in the future, a process which is supported by the EU anti-discrimination regulation.

Taking the increase in retirement age into account, it is expected that the pension fund will accumulate surpluses in the medium term, funding a sustainability reserve on which the system will start to draw by 2015 (Bundesregierung 2006: 43). Until 2019, the contribution rate to the pension system will remain below 20 percent of gross wage and the transfer out of general revenues will vary between 23.7 and 24.7 of overall outlays (cf. Bundesregierung 2006: 42, 44). Finally, it has to be mentioned that the current financial difficulties of the pension fund are largely due to German unification, as the ‘West’ German pension insurance funds will accumulate substantial surpluses until 2019 (see Tab. 2).

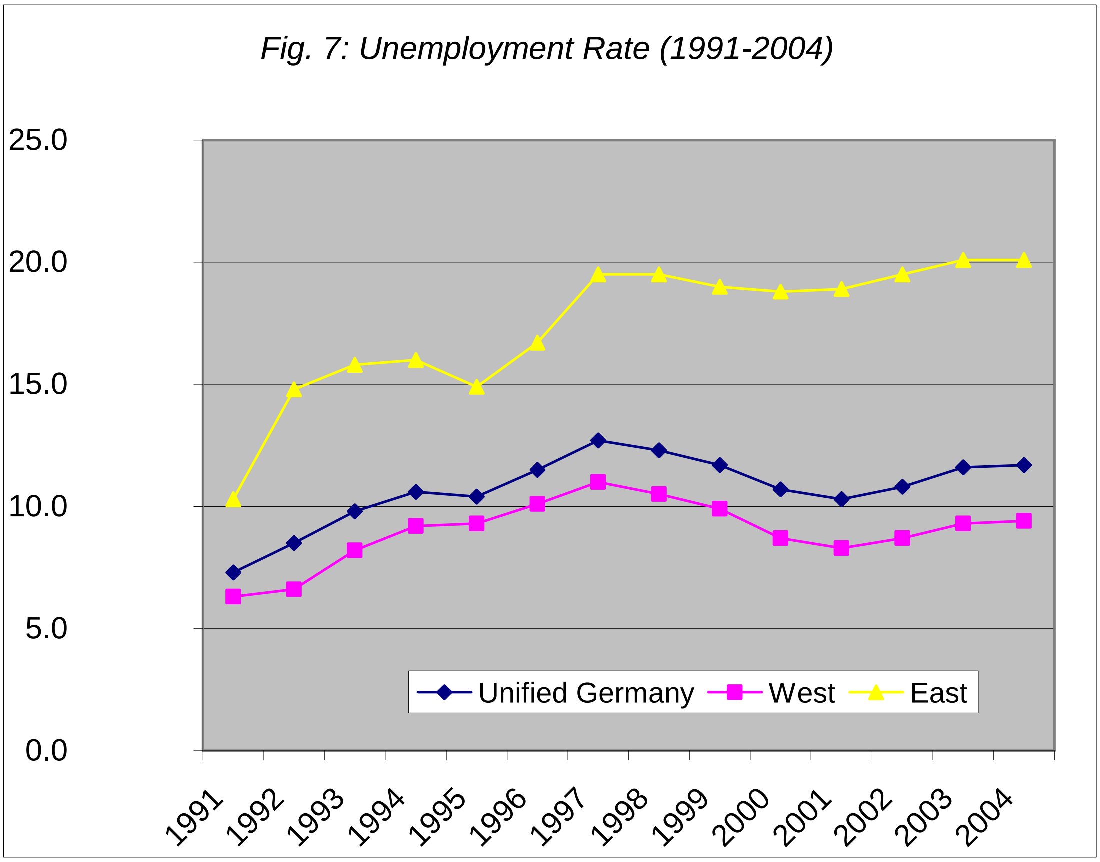
[21] Own calculations based on BMGS 2003b: 55.

Tab. 2: Surplus/Deficit (Billion EUROs) in the Pension System

Year	West	East	Germany
2005	6.4	-10.4	-4.3
2006	13.7	-10.6	3.1
2007	8.6	-11.0	-2.5
2008	9.9	-10.4	-0.4
2009	11.2	-9.8	1.3
2010	13.6	-9.1	4.4
2011	15.0	-8.8	6.2
2012	15.2	-9.0	6.3
2013	13.0	-9.6	3.4
2014	10.9	-10.3	0.7
2015	10.3	-10.7	-0.4
2016	10.2	-11.0	-0.8
2017	9.5	-11.6	-2.0
2018	8.6	-12.2	-3.6
2019	7.4	-12.9	-5.4

Source: Bundesregierung 2006: 44.

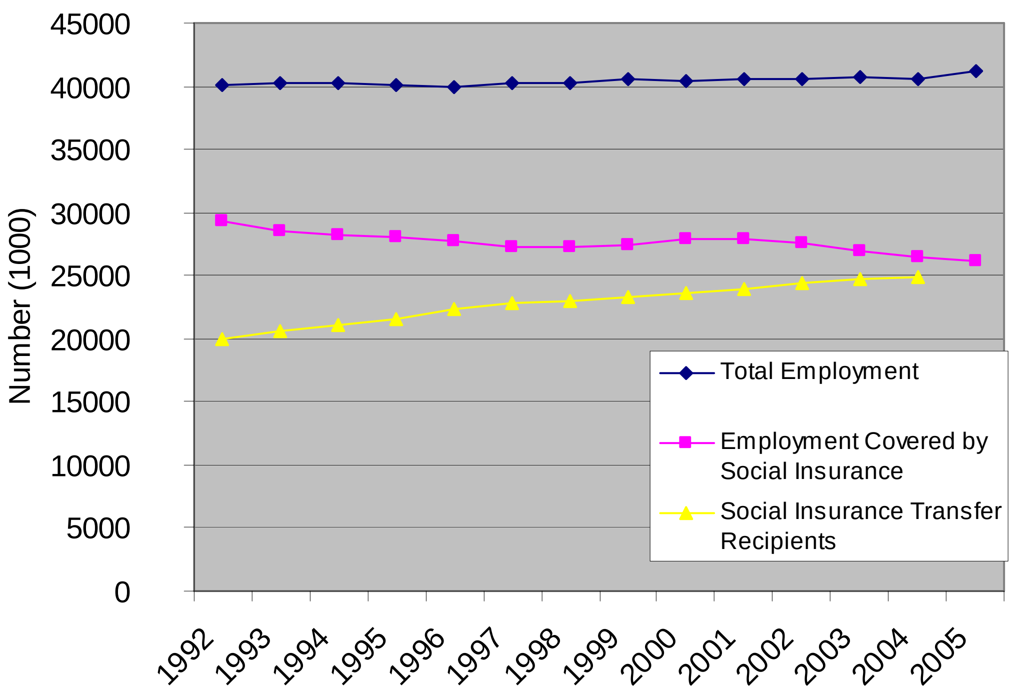
Within the unemployment insurance system, we also witness high transfers from the West to the East. According to analysis by the Institute for Employment Research (IAB) the transfer amounted to about six billion Euros in 2003 (Blos 2006). The need for these huge transfers is largely the result of the extremely high unemployment rate in the Eastern region (see Fig. 7).



Source: Gesis 2006

Crucial for the sustainability of any welfare state, which is still significantly based on earnings-related, pay-as-you-go social insurances, is the ratio of those in employment covered by social insurance and those receiving insurance-based benefits. Over the past decade, we have witnessed a declining number of employees covered by social insurance, while at the same time the number of social insurance beneficiaries has been rising (see Fig. 8). Hence, if the policy objective in the future is to continue to rely on social insurance contributions based on the earnings of employees (excluding the self employed and civil servants) to finance the system, this trend needs to be reversed, in order for the system to be sustained. To achieve such a turnaround, economic growth can be an important variable, as has been demonstrated by the comparatively strong economic growth since 2006, leading to social insurance surpluses after years of deficits. According to estimates an extra 100.000 full-time jobs translate into a net gain for the social insurance programs of about 1.5 billion Euros (Benoit 2006).[22] In addition, if policy makers would consider income from any form of employment as the basis for social insurance contributions (as it is the case e.g. in the US), this could further increase the sustainability of the pension system.

Fig. 8: Total Employment, Employment Covered by Social Insurance and Social Insurance Transfer Recipients



Note: Social Insurance Transfer Recipients = Pension + Unemployment Insurance Benefit Recipients.
Source: BMAS 2006.

In regards to socio-economic sustainability the second most important process mentioned in the literature is the process of globalization. In an era of globalization, the financial sustainability of the welfare state relies heavily on the capacities of the state to tax or raise social insurance contributions, both of which are limited by "voice" and "exit" (Hirschman 1974) or to be more specific the threat of "exit" of its citizens and corporations. However, in this context it has to be emphasized that the Achilles' heel of the (West) German economy has been its reliance on international markets ever since the 1950s (Abelshauser 1983, 2003). Although the 1970s brought

22 The economic 'boom' since 2006 has created an increase of more than 300.000 full-time jobs, covered by social insurance (cf. Arbeitsagentur 2007).

some fundamental changes,[23] these did not seem to negatively influence the performance of the German export sector during the 1980s, when the German economy achieved increasing trade surpluses. The trade surplus initially plunged in the early 1990s due to the German unification process, but quickly recuperated in the following years. In contrast to the competing US and British economies, Germany was able to once again secure increasing trade surpluses at the turn of the century, demonstrating high competitiveness, which to a large extent is due to the fact that Germany is not primarily competing on cost.[24] Furthermore, comparative research on the effects of globalization has shown that domestic variables are more important in determining social policy, but depending on the operationalization of the independent and dependent variables it can also have statistically significant expansionary, retrenchment and curvilinear effects (Brady et al. 2005).

5.2. Political Sustainability

Political legitimacy is core to any sustainable social policy approach in a democratic state. Contrary to theoretical assumptions based on a process of increased individualization, empirical evidence shows that the differences among various socio-economic groups with regard to their support for the welfare state are in fact very small; 91 per cent of unemployed individuals, 86 per cent of all pensioners, 84 per cent of all public employees, and 82 per cent of those employed in the private sector support the institutional core of the welfare state, namely, the *public* responsibility to provide income security to cover the core social risks (Roller 2002a: 16; Fuchs/Roller 2002: 612). Furthermore, various survey data show a strong continuous overall support (intensity) for the welfare state, which was even further strengthened by German unification, as indicated by a significantly higher support rate in the east (cf. Andreß/Heien 2001; Roller 1999a). Asked which public programs or policy domains should be cut in times of austerity, an overwhelming majority (more than 70 per cent)

23 Firstly, the Bretton Woods system of fixed exchange rates was replaced by a floating system, which led to a substantial appreciation of the German mark. Secondly, companies with very low personnel costs in the emerging economies of Asia began to compete with German companies at an increasing rate. Thirdly, due to the liberalization of capital markets, assets could move much more freely around the globe, thereby enhancing the 'exit option' of companies to relocate to low cost economies.

24 For an overview of the economic development and the globalization discourse see Seeleib-Kaiser (2001a: 60-71; 2001b).

named public administration, defense, and transfers to the EU, whereas, on average, only 18 per cent were in favor of cuts in various social policy areas (Roller 1999b: 30).[25]

Notwithstanding the overall support for the welfare state, the support might vary across the spectrum of social policies (extensity). In analyzing the core wage earner-centered policies, we can identify a drop in support only for those measures designed to maintain the living standard of the unemployed and to create jobs, although the support continues to be substantial (see Tab. 3). In 2000, 18 percent of the electorate supported cuts in unemployment compensation, whereas only 5 per cent were in favour of benefit reductions in the pension program (Roller 2002b: 517). Based on these data one might argue that the support for a social democratic welfare state, in which the institutional responsibility for full employment lies with the state, has dropped somewhat. Nevertheless, it is important to note that a clear majority still perceive job creation to be the responsibility of the state (cf. Roller 2002a: 17).

Tab. 3: Public Support for State Responsibility in Various Policy Areas of the Welfare State in Per Cent

	Health Care	Living Standard of the Elderly	Living Standard of the Unemployed	Create Jobs
1985	98 (N/A)	97 (N/A)	85 (N/A)	82 (N/A)
1990	96 (99)	95 (99)	79 (94)	74 (95)
1995	97 (99)	96 (98)	80 (92)	74 (92)

Percentages for West Germany. Numbers in brackets are percentages for East Germany.
Source: ISSP 1985, 1990, 1996 calculated by and cited in Andreß/Heien 2001, p. 171.

Upon further examination of the old-age system, we find that it enjoys strong support among the public. According to a survey conducted in 2001, 91 per cent of all respondents said they preferred a pension system which would guarantee senior citizens an adequate living standard, based on their previous wage income. Only 35 per cent agreed with the statement that public pension benefits should cover only basic needs and that citizens should be obliged to additionally insure the risk of old age through other, private means.[26] More than 60 per cent said they supported a continuation of the current (2001) pension benefit levels, even if this meant raising social in-

25 Data is for western Germany only.
26 Data refers to West Germany only.

surance contributions. And only slightly more than 30 per cent were in favor of stabilizing social insurance contributions if associated with a reduction in benefit levels (Kohl 2002: 490 f.).

Assuming the attitudes will not significantly change in the near future, we can argue that the political legitimacy of government intervention in the realm of social policy and thus the political sustainability has declined as the government pursued policy reforms that were deemed to improve the socio-economic sustainability, without the necessary popular support of the public (Seeleib-Kaiser 2003).

5.3 Social Sustainability

Closely associated with socio-economic and political sustainability is the issue of social sustainability. In other words, is the welfare state producing social outcomes that are in tune with its long-term overall sustainability? Although within the EU Germany still has one of the lowest poverty rates (only Denmark and Sweden have lower rates) the percentage of the population in poverty (defined as less than 60 % of the median income) has significantly increased over the past decades (see Tab. 4). The highest risk of poverty encounter the unemployed, among whom the rate increased from 33.1 to 40.9 percent between 1998 and 2003. Although also very high, the poverty rate among lone parents (35.4 percent) has not increased during the past five years; pensioners have a below average poverty rate of 11.8 percent (Bundesregierung 2005a: 21).

Tab. 4: Poverty Rates: 1973-2003

Year	Poverty Rate			Gini coefficient		
1973			8.7			0.242
1978			9.0			0.242
1983			11.0			0.246
1988			11.8			0.250
1993			12.0			0.262
1998			13.1			0.264
	West	East	Germany	West	East	Germany
1998	11.0	17.1	12.1	0.257	0.211	0.255
2003	12.2	19.3	13.5	0.258	0.226	0.257

Note: Poverty Rate based on 60% of median income (weighs according to new OECD scale). Starting 1998, 60 % of median in unified Germany.

Source: Bundesregierung 2005b: 102.

Furthermore, the statistics show that Germany is still quite divided when it comes to poverty; in former East Germany almost one-fifth of the population lives below the poverty rate. If we base our analysis not only on the indicator income, but also on the perception of those living at the risk of poverty and their values, a new study by the Friedrich Ebert Foundation identifies 25 percent of East Germans (and 4 percent of West Germans) belonging to an excluded underclass with no hope of upward mobility (Schmidt 2006). For any democracy these are alarming figures, which should be taken into account when evaluating the sustainability of the welfare state or welfare state reform trajectories.

Two further interwoven developments question the social sustainability of the German welfare state: the underperformance of public schools and the unsuccessful integration of ethnic minorities or immigrants. Specifically, poor performance of the General Secondary Schools (*Hauptschule*) and a high level of stratification characterize the system, making it extremely difficult for children with a working-class or ethnic minority background to attend a Grammar School (*Gymnasium*), which leads to the *Abitur* – in general still the precondition to enter a university. In the early 2000s, almost 20 percent of students leaving school without any diploma are students with ethnic minority/immigrant background, while only 3.4 percent of those graduating from a *Gymnasium* had an ethnic/immigrant background. Furthermore, ethnic minority youth are overrepresented among the group without any vocational training (approximately 36 percent), which in Germany is still crucial for those who have not graduated from a university to successfully participate in the labor market (Bundesregierung 2005a: 87 ff.). The unemployment rate of those without any vocational training certificate was 24.6 percent in 2004, whereas the rates for those with such a certificate or a university degree were 9.9 and 4.0 percent respectively (Reinberg/Hummel 2005).

Ultimately, these trends lead to a polarization of society, which undermines the sustainability of the social policy trajectory set out in the history of the German welfare state with its emphasis on social cohesion. Furthermore, in an economy highly reliant on human capital, these results also question the long-term socio-economic sustainability.

6. Conclusion

If we take regime theory seriously, Germany can no longer be conceived as the prototype of the conservative welfare state regime. Moreover, the country seems to increasingly fit into the category of a liberal-communitarian welfare state regime. Such a welfare state regime is defined by the prominent role of the market, largely needs-based and means-tested social policy benefits, and a strong public responsibility for the family. The comprehensive transformation of the German welfare state only becomes evident, if we include the work-welfare nexus *as well as* the care-welfare dimension in our analysis *and* take a long-term perspective.

The research presented in this paper demonstrates that a solely quantitative analysis of spending data, often used in comparative studies, would not have justified speaking of a transformation. Moreover, a detailed qualitative analysis of the changed eligibility criteria and benefit levels as well as the regulatory framework concerning the relationship of employment and family life was necessary to evaluate welfare state change and continuity. In the important domain of pension politics, the analysis of the enacted statutory rules for *future* retirees unveiled major changes leading to a withdrawal of the public guarantee of the achieved living standard, while scrutinizing the decommodification potential of the old-age insurance scheme for *current* pensioners, justified if one wants to evaluate the adequacy of current benefits, would largely reflect continuity. In terms of labour market policy we have to include eligibility criteria such as benefit duration and the variable of suitability in our analysis. In addition to the process of implicit disentitlement, changes along these two dimensions are at the core of the process towards the increased means testing of benefits. Within the domain of family policies, we should not limit our analysis to benefits and services, but include the dimension of labour market regulations affecting the relationship of employment and family work.

Finally, globalization and demographic change – often cited as the key challenges for welfare states – do not seem to severely undermine the sustainability of social policy in Germany for two reasons: firstly, these challenges are often exaggerated; secondly, policy makers have taken the demographic challenges into account in their recent reforms of pension and family policies. Based on the analysis presented above, addressing the dimensions of political and social sustainability might turn out to be more important for the overall long-term sustainability of the German welfare state than the economic dimension.

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