

Changes in German Social Policy, 1990-2018

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1 Introduction

German social policy experienced a neoliberal shift in the early 2000s, but the concomitant attempts to radically change all elements of the welfare state failed. After far-reaching reforms in social assistance and pension schemes, no further fundamental changes in the social insurance system took place. Although basic structures of the German welfare system, such as corporatism and consensus politics between the Social Democrats (SPD) and the Christian Democrats (CDU), did survive unscathed, efforts to implement and legitimize neoliberal social-policy reforms that were no longer guided by the idea of social justice have floundered. And while it is true that justice and inequality are once again central issues among the German public, and that inclusion and human rights have come to supplement the traditional demands for needs-based justice and distributive justice, political actors in Germany continue to obstruct any political discussion or even political initiatives in the direction of justice in a global or European context. Social policy has thus entered a period of preservation of the status quo, determined by the interests of employers and strong unions in the industrial sector and encouraged by the success of the export economy, even as more and more industries are falling out of the collective bargaining system.

Despite all the emphasis on normalization, it should be remembered that in the last twenty years the continuation of the German model of a conservative, corporatist, and consensus-oriented welfare state was linked to trends in social policy that transformed the welfare state of the 1980s. In this paper, I will highlight five of these trends:

1. the growing role of markets in social policy, the new role of education and social investment policy in the welfare state,
2. the discursive hegemony of poverty reduction, social assistance, and minimum-income schemes in the public,
3. changes in gender relations and family policies, as well as
4. the internationalization and Europeanization of social policy.

2 The German welfare state since 1990

The German welfare state remained stable during the period that followed reunification but experienced a fundamental change in the early 2000s. Many observers spoke of a “paradigm shift.” Since that time, a gradual shift back to the traditional foundations of the German conservative welfare state has occurred. Social policy has normalized. No major reforms in the direction of retrenchment, restructuring, or dismantling the welfare state have taken place in the last few years. The corporatist character of the welfare state—that is, the close cooperation between the state, trade unions, and employers’ associations—has been

revitalized. Below, the main features of German social policy in the last 25 years will be presented, separated into four distinct phases. Only in the third of these phases, from 1999 to 2007, did the continuation of the German welfare-state model come to a halt.

Surprisingly, it was not new governments that determined shifts in the direction of social policy. Rather, the most important upheavals took place in the middle of legislative terms in the wake of intra-party disputes, conflicts within the governing coalition, and new economic or political challenges. After German reunification in 1990, the social policy of the conservative-liberal government under Chancellor Helmut Kohl, which had been in office since 1982, reaffirmed the traditional structures of the German welfare state in order to ensure the integration of the new states of Eastern Germany without political concessions to the institutional structures of the former German Democratic Republic (GDR; this marked the first phase from 1990 to 1994). Starting in 1994, the social policy of reunification was replaced by a moderate retrenchment policy because of considerably increased public expenditure. Yet the struggle between neoliberal reformers and traditionalists remained undecided until 1999 (the second phase, from 1994 to 1999). With the resignation of the SPD party chairman and finance minister Oskar Lafontaine after six months of red-green government that same year, a fundamental change in social policy was launched.

The so-called Riester reform of 2001, the Pension Insurance Sustainability Law of 2004, and the Retirement Age Adjustment Law of 2007 were key milestones in the field of pension policy. The Hartz Laws I-IV in the years 2002-04 ushered in a new labor-market policy. In health policy, two comprehensive reforms were implemented in 2003 and 2007. Chancellor Gerhard Schröder announced his program of structural change in a parliamentary speech in March 2003 with the title “Agenda 2010,” which became the symbol of his pioneering neoliberal social policy. Shifts away from central elements of the social-insurance model were intended as part of this. The subsequent reforms abandoned the system of equal financing by employers and employees along with the principle of securing one’s standard of living through old-age pensions. The red-green government and the first CDU-SPD Grand Coalition enforced such path-breaking reforms—initially with considerable intensity between 2000 to 2004 and then at an increasingly slower pace until 2007 (the third phase, from 1999 to 2007).

Following that period, a gradual shift took place in social-insurance-centered policy. And managerial reforms within service providers’ organizations were maintained and further developed. The social-service sector became subject to economic rationalization and a permanent quest for efficiency. The financial market crisis in 2008-09 prompted the revitalization of Keynesian economic stimulus packages. The entry of the liberal Free Democrat Party (FDP) into the government in 2009 after the electoral disaster that befell the Social Democrats did not give rise to new efforts to implement neoliberal policies. Instead, the period from 2009 to 2013 was marked by a low level of social-policy reforms. The euro crisis forced most of the countries in the eurozone into fiscal policies of budget cuts and retrenchment. Some observers called this development the coming of the “age of permanent austerity”. Nothing like this happened in Germany, however. Beginning in 2009, the ongoing favorable economic situation based on an undervalued currency, comparatively low wages, and a highly productive export sector resulted in a massive increase in tax income and a very satisfying fiscal situation for the social-insurance system. The second Grand Coalition from 2013 to 2017 and the third Grand Coalition that was launched in 2018 (the fourth phase, from 2008 to date) intensified the corporatist cooperation between state, employers’ organizations, and trade unions, introduced a statutory minimum wage, and expanded the social benefits in

pension and long-term care policies. The gradual shift back to the traditional path of social policy occurred without any strategic conception for future developments. Calls for the transformation of the social-insurance system from an employment-based system to an insurance scheme for all citizens that have repeatedly arisen in party manifestoes have failed. The German social-insurance state with its tradition of consensus politics and corporatism may have returned, but its further development will be largely dependent on the German industry's continued success in the global market.

The political results of the neoliberal period were a key driver in the shift back to the traditional welfare state. The Agenda 2010 direction of social policy strongly determined the development of the German party system. The SPD experienced a steep drop from 39% of the vote in the parliamentary elections of 2002 to 23% in 2009, followed by a slight recovery to 26% in 2013 and then another fall to 20.5% in 2017. These losses, especially in the case of traditional voters, were a result of the perception of a 'deficit of justice' in politics. Reciprocally, the rise of the Left Party (*Die Linke*) in the western part of Germany was also an effect of the Agenda 2010 reforms. The share of voters for the Left Party rose to 12% in 2009 and then decreased to 9.2% in 2017. The social policy of the Agenda 2010 reforms effectively diminished and split the Left Party camp.

3 Major trends in German social policy

The identification of five structural trends in social policy can help to modify this picture of normalization and the moderate shift back to the traditional model.

3.1 Privatization of social security and social services

In the mid-1990s, the philosophy of New Public Management and the policies of deregulation, liberalization, and privatization spread to social-policy debates. The legislative equalization of for-profit private organizations and the previously privileged nonprofit charitable organizations in the social-service sector constituted the first step in this direction. The introduction of the Riester pension as a state-subsidized private pension scheme in 2001 represented the pinnacle of the politics of privatization. Since then, only small legislative steps have been made down this path. Despite some reforms (e.g., the introduction of a unisex tariff and improvements in consumer protection), the number of concluded Riester contracts has stagnated since 2013.

On the other hand, privatization in the social-service sector has continued without new legislative measures, especially in the hospital sector and in out- and inpatient long-term care. Nevertheless, nonprofit welfare associations still play the most important role in the social-service sector. Reforms in business administration, processes of adaptation to a competitive environment, and a new culture of economic efficiency and service orientation have restructured for-profit and nonprofit welfare organizations.

3.2 On the road to a social investment state?

At the start of the 2000s, the concepts of a 'social investment state' and an 'activating labor-market policy' emerged as leading programmatic guidelines in German social policy. The social-investment state demands the priority of education policy and preventative measures over policies based on social benefits. However, the link between education policy and social security as well as the prioritization of prevention have been implemented only to a small extent. After years of conflict and controversy, the "Act to Strengthen Health Promotion and Preventive Health Care" was adopted by the German federal parliament in 2015. Early

childhood policies designed to promote children's daycare centers have been touted as major components of education as poverty prevention, and language-assessment tests have been introduced as a measure to compensate for early deficits, especially in the case of children from a migrant background. Yet lifelong learning as a further component of the conception of a social-investment state has remained merely a programmatic statement without any considerable legislative support. The Federal Employment Agency (*Bundesagentur für Arbeit*), the most important funding institution in this field, has cut back its financial support on a large scale. A further central deficiency in education policy is the unjust and unequal financing of different sectors of the educational system. While university tuition fees were abolished in all *Bundesländer*, or federal states, parents are nevertheless compelled to pay contributions for child daycare facilities.

3.3 From social-insurance system to minimum-income schemes

The introduction in 2005 of the Unemployment Benefit II (*Arbeitslosengeld II*) as a means-tested social-assistance benefit has triggered a shift in the public perception of social policies. Prior to 2005, the social-insurance system had set the standards of social policy, in particular with its basic principle of the 'social protection of income status.' Social assistance was designed to be a supplement to the social-insurance system and a lender of last resort. After 2005, the notion of avoiding poverty and providing benefits on a minimum-income level became the dominant thrust in public debates. The discursive hegemony of poverty policy started in the field of child poverty and old-age poverty. This meant that, for a long time, pension policy was primarily oriented towards the issue of demographic change. In the last few years, however, public attention has shifted to questions of poverty reduction and the levels of benefits. Because of the reforms of the early 2000s, the level of pension benefits significantly decreased. Without an improvement in the general level of pension benefits, more and more pensions will have to be bolstered by tax-financed benefits provided by the means-tested social-assistance scheme for the elderly. This has called into question the legitimation of the social-insurance system based on contributions by the insured. The ensuing calls for a universal basic income have enhanced the discursive hegemony of the issue of poverty reduction.

3.4 Gender relations and family policies

Aspirations toward an independent pension-insurance scheme for women first emerged in the 1980s. Since then, political actors have had to take a stand on the question of whether social policy should be focused on the individual, the family, the marriage, or the household. Anti-discrimination legislation, female quotas, gender mainstreaming, equal treatment of women and men, the equalization of marriages and registered partnerships, as well as reforms in maintenance legislation have markedly changed gender and family relations in Germany. Despite constant criticism, however, some traditional metrics of a marriage-centered policy, such as tax reductions through income splitting for married couples, remained unchanged. Other elements in social-policy legislation—for example, the non-contributory co-insurance of family members in the statutory health-insurance scheme—offer economic incentives for the continuation of the classic 'male-breadwinner model.' A modified form of this model with women in part-time employment is quite frequently represented in the population, although the adult-worker model, which assumes the employment of all adults in a family, has increasingly determined the reform perspectives of social policy. The parental allowance introduced in 2007 was regarded as an important step in the direction of the adult-worker model. Nevertheless, the gender division is only modified by such measures as long as the gender pay gap, which is particularly high in Germany, reinforces economic inequalities

between the sexes. The expansion of social services into childcare and long-term care has failed because of low wages and poor working conditions in these sectors, which do not encourage women to pursue full-time jobs.

3.5 Europeanization and internationalization of social policy

The influence of the EU in social-policy issues has grown in line with the transfer of legal authority for employment policies to the EU by the Treaty of Amsterdam in 1997. Furthermore, the Open Method of Coordination (OMC) has enabled the European Commission to give recommendations that shape many other social-policy issues. However, EU budgetary and fiscal-policy guidelines have often played a far more important role in national legislation than the OMC recommendations on social policy. The necessary freedom of movement for European citizens forces all member states to take into account the impact of national legislation on attracting workers and non-working citizens from other member states. The anti-discrimination policy of the EU acts as an important driving force in this area as well. Since the euro crisis, the intergovernmental mode of euro zone politics has nevertheless become more significant.

As the hegemonic European power, Germany has been able to influence the fiscal and social policies of other member states, in particular the southern European countries. Germany's dominance raises the question of transnational justice in Europe. Among the German public, a leading concern is the idea that Germany has been exploited by the southern European countries by means of the low-interest-rate policy of the European Central Bank, and therefore any discussion about financial compensation within the EU or any social-policy initiative to improve the social and economic circumstances in other EU countries is typically thwarted from the start. The divergent refugee policies within the EU since 2015 have further aggravated this situation.

The influence of international organizations is particularly evident in the case of the UN Convention on the Rights of Persons with Disabilities (CRPD). The basic principle of the CRPD, inclusion, has played an important role in German debates. A broad interpretation of inclusion requires a general restructuring of social institutions to ensure their accessibility and that the participation of any person with personal obstacles of any kind is possible. This generalized version of the concept of inclusion counters any type of compensatory or specialized institutional system for particular target groups and requires the conversion of all societal institutions into accessible and barrier-free institutions—and not only for the disabled. In recent years, however, the concept of inclusion as discussed in Germany has been restricted to the participation of disabled young persons to the public school system. Calls for a broader reorganization of the social care and service system have been dismissed.

4 Semantic Changes in German Social Policy

In summary, the neoliberal restructuring of the entire German welfare state has failed. This can also be observed in terms of the semantics of social policy. Today, justice is undoubtedly the core political value in all disputes about social issues in Germany, but it is important to remember how that has developed over the past 20 years. At the end of the 1990s, quite a number of political actors wanted to abandon the traditional social policy of redistribution. The agenda of Britain's New Labour, the international efforts towards administrative reform—specifically, New Public Management—and the tendency to perceive capital markets as the solution to the fiscal problems of the welfare state spread to Germany. To mitigate the focus on redistribution, most parties tried to avoid the semantics of *fairness* and *social justice*. New variants of the term *justice*, such as *justice of participation*, *justice of education* and,

above all, *generational justice* were introduced into the political discourse. Between 1998 and 2003, all parties that were represented in the German parliament worked on party manifestos in which the concept of justice was reworded to accommodate these shifts. The year 2005 marked a watershed in the public controversies over social justice in Germany. This was the year that the Christian Democrats strongly promoted (neo)liberal ideas in their electoral campaign (e.g., a per capita premium for health insurance), and at no point did their manifesto refer to “justice” or “equality.” The CDU won the federal elections with a remarkably low vote share of 35% (relative to their previous average of over 40%). As a consequence, the neoliberal line in the CDU came to an end, and a renewed orientation towards social justice became a party strategy despite the fact that the left wing of the party, the Christian Democratic Employees’ Association (*Christlich-Demokratische Arbeitnehmerschaft*), had been weakened. Public opinion also changed from constant demands to dismantle the welfare state and cut social benefits to discussions about the social consequences of restrictive social-policy reforms such as the increase in poverty, especially child poverty.

After the global financial crisis in autumn of 2008, criticism of capitalism and demands for a strongly regulated market economy dominated the German public opinion for no longer than six to 12 months. Since that time, however, social justice and the distribution of income and wealth between rich and poor have been at the heart of public debate, as the distribution of income and, primarily, the distribution of wealth have been perceived as increasingly unequal and unfair. The previously promoted variants of justice (e.g., justice of education, justice of participation, gender justice) disappeared after the financial crisis of 2008. Only the term *generational justice* has survived as an oft-cited concept in the public discourse on account of the currently high level of child poverty and the impending poverty among the elderly, which has fueled complaints about ultimately unacceptable social inequalities. The five editions of the *Report on Poverty and Wealth* by the German Federal Government (2001, 2005, 2008, 2013, 2017) have greatly expanded knowledge about living conditions in Germany and reestablished the idea of needs-based justice. Even in the face of the long period of economic growth and the global dominance of the German export economy, domestic politics has been informed and guided by debates about social justice. A public perception of growing inequalities coexists somewhat paradoxically with a voting behavior against left-wing parties and the perpetuation of a traditional basic structure of social policy alongside the moderating mechanisms of the conservative welfare state in the five directions outlined above.

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