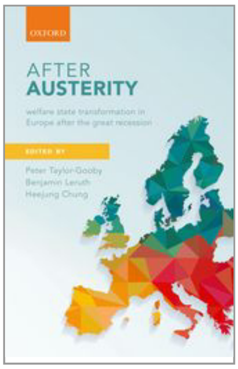

After Austerity: Welfare State Transformation in Europe after the Great Recession

Peter Taylor-Gooby, Benjamin Leruth, and Heejung Chung

Print publication date: 2017
Print ISBN-13: 9780198790266
Published to Oxford Scholarship Online: August 2017
DOI: 10.1093/oso/9780198790266.001.0001

Title Pages

Peter Taylor-Gooby, Benjamin Leruth, Heejung Chung

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Series Information

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(p.ii) The research discussed in this book was supported by NORFACE (New Opportunities for Research Funding Agency Co-operation in Europe) under grant 462-14-050 and the European Commission (ERA-Net Plus funding, grant agreement number 618106) for the project 'Our Children's Europe' as part of the *Welfare State Futures* programme.

Welfare State Futures: Our Children's Europe
WelfSOC examines the aspirations, assumptions, and priorities that govern the ideas of ordinary people about the future development of welfare in Europe. It relies on innovative deliberative forums and focus groups in order to investigate attitudes towards the future of the welfare state.

Five deliberative forums were conducted by the research teams in Denmark, Germany, Norway, Slovenia, and the United Kingdom between October and November 2015. These two-day events, organized with the help of national research agencies, gave the opportunity for participants to reflect on the future of the welfare state and address the following question: 'What should the priorities of the government in [country] be for benefits and services in 2040?' Early findings suggest that the discussion at such events generates attitude changes among participants, in relation to their ideas about government responsibility, welfare chauvinism, and the part to be played by the individual. It also indicates that the justifications for different policies differ between countries and this can be related to national welfare state traditions and regime types.

The first major publication related to this project is the current volume: *After Austerity: Welfare State Transformation in Europe after the Great Recession*, published by Oxford University Press in 2017. This book, co-edited by the coordinating team (Peter Taylor-Gooby, Benjamin Leruth, and Heejung Chung), conceptualizes policy responses to the Great Recession across Europe and includes a wide range of empirical chapters written by WelfSOC members and external contributors.

The next stage of the WelfSOC project uses focus groups conducted in October and November 2016 in the five countries in order to investigate the issues of solidarity, responsibility, and deservingness. The data is currently being coded and shared between the research teams. The material from the deliberative forums and the focus groups will be analysed further during 2017 and the findings published in comparative research papers and a further book.

More information about the project as well as working papers can be found on the website http://welfsoc.eu, or follow us on Twitter @WelfSOC.

WELFARE STATE FUTURES

OXFORD
UNIVERSITY PRESS

(p.iv) OXFORD
UNIVERSITY PRESS

Great Clarendon Street, Oxford, OX2 6DP,
United Kingdom

Oxford University Press is a department of the University of Oxford.
It furthers the University’s objective of excellence in research, scholarship,
and education by publishing worldwide. Oxford is a registered trade mark of

Oxford University Press in the UK and in certain other countries

First Edition published in 2017

Impression: 1

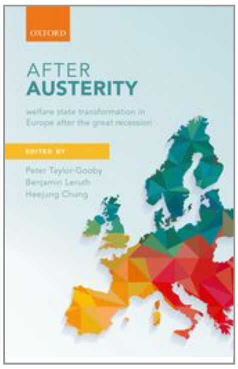
Published in the United States of America by Oxford University Press
198 Madison Avenue, New York, NY 10016, United States of America

British Library Cataloguing in Publication Data
Data available

Library of Congress Control Number: 2017930571

ISBN 978–0–19–879026–6 (hbk.)
978–0–19–879027–3 (pbk.)

Printed and bound by
CPI Group (UK) Ltd, Croydon, CR0 4YY



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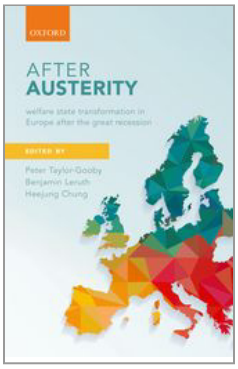

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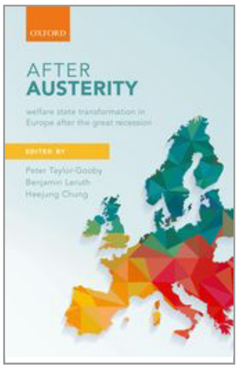

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(p.xi) Acronyms

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AfD
Alternative for Germany (Germany: populist right)
ALMP
Active Labour Market Policy
ANEL
Independent Greeks (Greece: Conservative–nationalist)
BSA
British Social Attitudes Survey
CEE
Central and Eastern European countries
EC
European Commission
ECB
European Central Bank
EOPYY
Greek National Health Service Organization
ESS
European Social Survey
EU
European Union
EU15
First 15 members of the European Union
EU28
Members of the EU between 2013 and the departure of the UK
FN
Front National (France: populist right)
GDP

Gross Domestic Product
GDR
German Democratic Republic (former East Germany)
GMI
Minimum income guarantee
ILO
International Labour Office
IMF
International Monetary Fund
ISSP
International Social Survey Project
ND
New Democracy (Greece: centre-right)
NPM
New Public Management
OECD
Organization for Economic Cooperation and Development
OMC
Open Method of Coordination
PASOK
Panhellenic Socialist Party (Greece: centre-left)
SAP
Social Action Programme
SYRIZA
Coalition of the Radical Left (Greece: left anti-EU, anti-austerity)
UK
United Kingdom
UMP
Union pour un Mouvement Populaire (France: former centre-right party)
UNHCR
United Nations High Commissioner for Refugees
VAT
Value Added Tax

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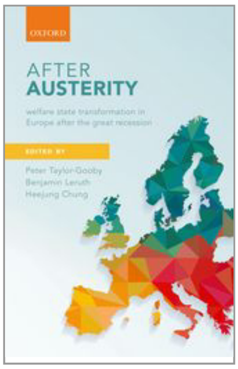

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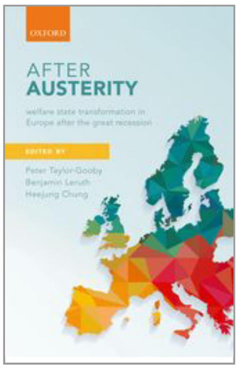

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Stretching the Limits of Solidarity

The German Case

Jan-Ocko Heuer
Steffen Mau

DOI:10.1093/oso/9780198790266.003.0002

Abstract and Keywords

Germany had already made major reforms to social policy before the Great Recession. It had moved away from the traditional corporatist breadwinner welfare state model towards greater individual responsibility (private pensions and workfarist reforms, with sharp benefit cuts), and much more extensive support for childcare. Social investment and training measures have been much strengthened. These measures, carried out within a general framework of austerity and retrenchment, had increased employment, although the expansion in work since the early 2000s was mainly in low-skilled precarious jobs. The country weathered the recession successfully. New pressures are from the deepening divisions between those advantaged by the new regime (highly skilled middle-class people in secure jobs) and outsiders in an increasingly dualized labour market. Very high levels of immigration have led to further tensions. Germany has successfully transformed its welfare state, but faces further challenges from the social and political consequences of those reforms.

Keywords: Germany, welfare state, continuity, austerity, cuts, individual responsibility, social investment, childcare, immigration, employment

2.1 Introduction

Germany is the largest national economy in Europe—and the fourth-largest worldwide—and has considerable influence on the economic and political development of the European Union and the Eurozone. Germany has also shaped

European policy responses to the latest crises. In the financial, economic, and sovereign debt crisis that hit Europe after 2007 (the Great Recession) it pressed for austerity measures in EU member states in exchange for bailout funds from the EU and other international organizations to counter budget deficits and rising sovereign debts. In the more recent European immigration and refugee crisis Germany has advocated an 'open arms' policy and accepted more than one million refugees and immigrants in 2015 alone (The Wall Street Journal 2015; Bundesamt für Migration und Flüchtlinge 2016). Both policies have received much domestic and international criticism and created new cleavages at national, EU, and international levels. In the light of Germany's economic model and political culture, the responses of the German government seem reasonable, but given wide cross-national differences in economic strength and institutions, it has been questioned if 'making Europe more German' is a suitable policy response for other nations.

The German case features a heavily export-driven economic model, with Germany being the leading export nation in Europe and the largest net exporter globally. The main export products—motor vehicles, machinery, electronic equipment, and chemicals—stem from a substantial manufacturing sector whose production is characterized by differentiation, incremental innovations, and a highly skilled and specialized labour force. The export-oriented high-skills **(p. 28)** economy was grounded in neo-corporatist capital/labour arrangements with a high degree of involvement of trade unions and work councils in economic decision-making in exchange for wage restraint by the labour force and its representatives. Germany has also been viewed as prototypical example of a 'coordinated market economy', characterized by dense and long-term networks among firms and social partners, collaborative education and training schemes, and high levels of employment protection (Hall and Soskice 2001). This consensual style of economic governance has been mirrored in the political system, as Germany is usually seen as a 'consensus democracy' (Lijphart 1999) with consensus-promoting political institutions, a stable system of political parties, and stable federal governments led by either the centre-right Christian Democrats (CDU/CSU) or the centre-left Social Democrats (SPD). More recently, as we will show, this political economy has partly eroded and given way to new economic and political institutions, actors, and ideas (e.g. Streeck 2009).

This economic and political system provides the background for the prime example of a 'conservative' welfare state, with status-preserving social policies institutionalized in compulsory social insurance schemes and promoting a 'male breadwinner/female homemaker' family model (Esping-Andersen 1990; Lewis 1992). However, Germany, like other conservative welfare states, seemed initially ill-equipped to respond to the economic and social challenges of increasing globalization, technological change, a growing service sector, population ageing, immigration, new family patterns and gender roles, growing social inequalities, and new social risks. In this chapter we will outline the transformations of the German welfare state since the 1980s by answering three questions. First, how did the German welfare state respond to these long-term economic and social challenges and which were the main directions of social policy? Second, did the more recent challenges of the ‘Great Recession’ and the immigration and refugee crisis alter the course of the German welfare state and, if so, in which policy directions? And third, what do these long-term and short-term developments imply for the future of social policy in Germany, and which new issues and cleavages might emerge and shape the future trajectory of the German welfare state?

In answering these questions we will put forward three arguments. First, after a prolonged period of institutional inertia, the German welfare state has undergone profound reforms in many policy areas since the early 2000s. These reforms have fundamentally reoriented the normative and institutional structure of German social policy in three main directions: towards welfare cuts and budget austerity; towards more individual responsibility for social security; and towards a ‘social investment’ paradigm (see section 2.2). Second, due to the timing of welfare state reforms—with structural changes being made shortly before the Great Recession—the recent crises have not been seen as structural challenges in Germany but merely as a shortfall in demand **(p.29)** and a fiscal problem; thus, except for a short period of neo-Keynesian responses to the Great Recession to counter declining exports, the course of German social policy did not change much during the latest crises (section 2.3). And third, while these social policy reforms in the directions of austerity, individual responsibility, and social investment have mitigated some of the structural problems of the German welfare state and have mostly received approval from the German population, they have also intensified existing structural problems that linger below the surface of a well-performing economy and created new ones. In this respect we expect that four challenges will shape the future of the German welfare regime: 1) growing inequalities of income and wealth; 2) continuing dualization of the labour market with divisions between insiders and outsiders and securely and precariously employed workers; 3) the turn of the middle class towards individual instead of collective responses to growing instabilities and inequalities; and 4) the rise of welfare chauvinism fuelled by growing immigration and resulting in divisions between parts of the established and the incoming population (section 2.4). We conclude with a short summary and outlook (section 2.5).

2.2 Challenges for the Conservative German Welfare State and New Directions in Social Policy

The German welfare state has traditionally been seen as the archetype of a conservative welfare state, deeply rooted in authoritarian and paternalist strategies of modernization and bearing the legacy of compulsory organization of artisans and craftsmen in guilds, thereby emphasizing occupational differentiation and status privileges (Esping-Andersen 1990). Since its formation, from the 1880s to the 1920s, the core of the German welfare state has consisted of major social insurance schemes built around labour market positions and providing wage replacement for the typical risks of wage labour: sickness, invalidity, old age, and unemployment; this was supplemented by tax-financed and means-tested social assistance benefits for those without sufficient entitlements to social insurance. Membership in social insurance schemes was compulsory for most employees, and—with the exception of sickness insurance—benefit levels were related to prior contributions, which, in turn, were related to income levels; thus, status differences in the labour market were reflected in the social security system and ensured individual status maintenance in times of unemployment (Stolleis 2013).

This status-preserving social insurance model had two important effects on societal arrangements of production and reproduction: first, the social security system was directly linked to the labour market and implicitly based on a ‘standard employment relationship’ (Mückenberger 1985) of stable and **(p.30)** continuous full-time employment enshrined in strict labour market regulations and far-reaching collective agreements and ensuring a ‘family wage’ sufficient to pay for the needs of a nuclear family (Hinrichs 2010: 47–8); second, this arrangement—complemented by corresponding education, care, family, and tax policies—encouraged a division of work within the family between a ‘male breadwinner’ earning income and rights to social security benefits on the labour market, and a ‘female homemaker’ responsible for domestic work, care and child-rearing, and dependent on the partner’s income and social security entitlements (Lewis 1992).

However, the long-term economic and social changes since the 1970s proved to be a massive challenge for conservative welfare states in general and the German one in particular. The encouragement of a ‘female homemaker’ family model resulted in low (and mainly atypical) female employment and left the financing of the core welfare institutions to the male half of the population. This model was not only challenged by new family patterns and gender roles, but also by rising numbers of single-woman households and single mothers lacking social security entitlements and therefore at high risk of poverty (Bundesministerium für Arbeit und Soziales 2013: 461–2). Also, population ageing shifted the ratio between contributors and beneficiaries in social insurance schemes towards the latter, resulting in an increasing imbalance between revenues and expenses. A particular challenge for the German welfare state was the collapse of the German Democratic Republic (GDR) in 1989 and the unification of West and East Germany in 1990. In the former GDR the economy crashed and about one third of jobs disappeared, while the eastward expansion of the West German welfare system meant that 16 million people received welfare entitlements based on fictitious contribution histories from their employment careers, which required large financial transfers from West Germany. Moreover, while unemployment exploded in East Germany, it had been on the rise in West Germany since the mid-1970s as well. After the end of a short-lived economic boom and in the light of increasing globalization, higher social insurance contributions were seen as a threat to the international competitiveness of the export-oriented German economy, and employers complained about the level of non-wage labour costs and inflexibilities in the labour market. Thus, in the late 1990s, Germany was generally considered ‘the sick man…of Europe’ (The Economist 1999).

Yet, after a long period of institutional inertia, the German welfare state was fundamentally reformed. The reform trajectory can be divided into several phases, with the critical juncture being the early 2000s. Before this period, reforms were minor and in line with traditional social policy paradigms. Since the late 1970s the main response to cost increases in healthcare, unemployment, and pension schemes had been raises in contribution rates. Even though in 1982 the incoming Christian–Liberal coalition government under **(p.31)** Helmut Kohl (CDU) had announced a ‘mental and moral turn’ including welfare reforms, the 1980s were dominated by continuity in welfare policies with selective but modest cost-saving measures. The collapse of the GDR in 1989 was seen as confirmation of the West German ‘social market economy’ (*Soziale Marktwirtschaft*), and thus the West German welfare regime was extended to the East. Massive unemployment in East Germany was countered by public job creation schemes and an extension of early retirement, while the ensuing costs were counterbalanced by further increases in social insurance contributions and the introduction of a ‘solidarity surcharge’ (*Solidaritätszuschlag*) on income tax and other taxes.

In the mid-1990s the direction of welfare policies began to change. This was not yet a departure from the core norms and institutions of a conservative welfare state regime, but the basic orientation of social policy reforms shifted towards cost-cutting, benefit reductions, contribution rate stability, privatization, and marketization. A telling example is the establishment of long-term care insurance in 1995 as a new fifth pillar of the social insurance system: while this seems to signify an affirmation and reinforcement of the traditional German social insurance model, this new insurance scheme did not follow the model of ‘full’ insurance but provided only partial coverage against the risk of care dependency and was supposed to encourage additional private provision. Beyond that, an ideational split and deadlock in the political system emerged during this period: previously both Christian Democrats and Social Democrats had been committed to preserving the basic principles of the German welfare state, but now the governing Christian Democrats (CDU/CSU) and the liberal Free Democratic Party (FDP) supported employers’ demands for far-reaching reforms, including benefit cuts, more flexible labour market arrangements, and lower non-wage costs for employers. By contrast, the Social Democrats (SPD) and the Green Party (*Bündnis 90/Die Grünen*) opposed most reform proposals and used their veto powers to block some of them. In hindsight, this period has been called a ‘transitional period’ (Hinrichs 2010: 46) or ‘latency period’ (Nullmeier 2014: 185) for the following reforms.[1]

The most important period of social policy change in Germany was the early 2000s when the most fundamental restructuring of the welfare regime since the end of World War II took place. The foundation had been laid in 1998, when a new federal government formed by the SPD and the Green Party (the first Red–Green alliance on the federal level) under the Social Democrat Gerhard Schröder superseded the sixteen-year chancellorship of Helmut Kohl and pledged—partly inspired by ‘New Labour’ in the UK (see Chapter 3)—to create a sustainable welfare state and to tackle mass unemployment by increasing the productivity and competitiveness of the German economy.[2] In the following years the Red–Green government implemented major reforms in all areas of social policy. In *old-age pensions*, an ongoing trend **(p.32)** towards cost-cutting, benefit reductions, and private provision was intensified by means of a considerable decrease in the level of public pensions, the creation of a voluntary but state-subsidized private pension scheme (‘*Riester-Rente*’), and the introduction of a needs-based basic pension for those without sufficient entitlements; this trend was fortified in 2007 by a gradual increase in the regular retirement age from age 65 in the year 2012 to age 67 in 2029 (Hinrichs 2005; Bonin 2009). In *healthcare*, the creation of quasi-markets, reductions in services covered by the social insurance system, co-payments for additional services, and allowances for prevention measures established different levels of healthcare services for different groups of the population and aimed at ‘activation’ and ‘responsibilisation’ of healthcare recipients (Ullrich et al. 2012).

The most controversial reforms were made in the area of *labour market policies* with the so-called ‘Hartz-reforms’ (Seeleib-Kaiser and Fleckenstein 2007: 431–5).[3] These reforms were implemented in several steps between 2003 and 2005 and included a restructuring of labour market services, funding for further vocational training, and the facilitation of new types of employment. The promotion of these types of non-standard, unsecured and often low-paid employment has been argued to strengthen precarization and labour market dualization (Eichhorst and Marx 2011). Especially contested was the last reform (Hartz IV) in 2005, which merged long-term unemployment benefits and social assistance benefits into a new benefit at the level of social assistance benefits and thus meant that even individuals with long insurance contribution histories would end up at the social assistance level after twelve months of unemployment (or, following a reform in 2008, after up to 24 months for persons aged 50 and over). If they refused a job offer, such people would receive a further 30 per cent benefit cut. The recipient’s savings and spouse’s salary are taken into account in benefit calculations. Moreover, ‘one-euro-jobs’ were created, meaning a combination of job creation scheme and community work in which the state employs people for one euro an hour with the aim of improving their chances on the regular labour market.

While these reforms were mostly backed by the CDU/CSU and the FDP, they received strong criticism from trade unions and left-leaning Social Democrats and led to the establishment of a new left-wing party—called ‘Labour and Social Justice: The Electoral Alternative’ (*Arbeit und Soziale Gerechtigkeit*: *Die Wahlalternative*)—which merged in 2007 with the Party of Democratic Socialism (*Partei des demokratischen Sozialismus*; the successor to the governing party of the GDR) to form a new party called ‘The Left’ (*Die Linke*). This was another step in a growing dissolution of the traditional political party system, even though the electoral base of *Die Linke* remains primarily in East Germany.

Not least due to strong opposition to the welfare reforms, the Red–Green alliance could not defend its parliamentary majority in the federal election **(p. 33)** of 2005, and a ‘Grand Coalition’ government between the CDU/CSU and SPD under Christian Democrat Angela Merkel was formed. In the following years the reform fervour abated. Policy-making concerned itself with amendments and minor revisions, and the German welfare state returned to previous levels of reform activity (Nullmeier 2014: 191). The most important changes were in family policy, as the Grand Coalition expanded its predecessor’s initiatives and introduced a relatively generous tax-financed parental leave scheme. This replaced 67 per cent of income for up to 14 months (*Elterngeld*), including two months earmarked for the partner and thus supposed to encourage shared parental responsibilities between mothers and fathers. The state also invested in public childcare facilities and improved tax deductions for child costs. In combination with the reorientation of labour market policies, this represented a shift from the conservative ‘female homemaker’ family model towards universal labour market participation and an accompanying ‘adult worker’ or ‘dual breadwinner’ model (Lewis et al. 2008; Boling 2015).[4]

Following the establishment of a Grand Coalition, the political system also returned to its consensual style, even though occasional quarrels about social policy occurred. For example, to placate the conservative clientele of the CDU’s sister party—the Bavarian CSU—and against opposition even from within the governing coalition parties, the Grand Coalition introduced a childcare subsidy for home-based care by parents in 2012. However, in 2015 this *Betreuungsgeld* was declared unconstitutional by the German Federal Constitutional Court on the grounds that the federal government lacked the legislative powers; thus, this subsidy is being discontinued. Also against resistance from the coalition partners, the SPD pushed through a full pension at age 63 for those with a contribution history of 45 years in 2014, and in 2015 the introduction of a minimum wage (8.50 euros per hour; adapted in 2017 to 8.84 euros) in response to the considerable rise of temporary, unsecured, and low-paid forms of employment.

This variety of reforms in the German welfare state since the 1980s covers a few basic directions of policy change, although reforms over several decades and in various social policy fields obviously do not always follow clear and unified paradigms and can be overlapping and contradictory.[5] The first and arguably most persistent change in German social policy has been a shift towards benefit cuts and budget austerity. This reorientation of social policy began in the 1980s and was intensified in the mid-1990s, but its most obvious outcome was the redirection of unemployment and pension schemes in the 2000s from their traditional aim of status maintenance towards basic protection for pensioners and the long-term unemployed. These reorientations are particularly noteworthy, as they do not only represent a reduction in benefits but a departure from the core principle of status preservation in the **(p.34)** conservative German regime. Yet, even in fields where no paradigmatic change occurred—such as in healthcare—the general tendency since the 1990s has been towards cost-cutting and benefit reductions.

A second major change in social policy has been a shift towards increased individual responsibility for social security. This has become especially manifest in the area of old-age provision—with the shift from a one-pillar (public) pension system to a multi-pillar system requiring private provision to ensure an adequate pension level—and in labour market policies with the shift towards an 'activation' paradigm based on the assumption that there are sufficient job opportunities for unemployed persons and that the state has to 'nudge' people to take more individual responsibility for finding work. The various Hartz reforms promoted a new balance between rights and obligations, made the receipt of benefits conditional upon individual efforts and cooperation, and cut the link between benefits and prior contributions for the long-term unemployed. Finally, in healthcare this development is signified by allowances for prevention measures and the introduction of individual health services whose costs must be borne by the patients themselves.

The third—and most recent—major change in German social policy is the growing importance of a 'social investment' paradigm based on the idea that it is better to invest in human capital, skills, and lifetime learning in order to foster employability and employment than to pay for unemployment and passive transfers (Morel et al. 2012). This development includes 'activation' measures in labour market policy as well as the reorientation of family policy towards publically funded childcare and education programmes intended to help integrate women into the labour market by improving opportunities for combining labour and domestic work and to improve education and qualification levels of children, not least of those from lower-class families. The adoption of a 'social investment' paradigm required the adjustment of two core values of the

German welfare state—the preservation of the previous labour market status in social security, and the 'female homemaker' family model (van Kersbergen and Hemerijck 2012: 487)—and thus it has been argued that conservative welfare states such as Germany 'probably have undergone the most dramatic and path-breaking reforms in their adoption of the social investment paradigm' (van Kersbergen and Hemerijck 2012: 485).

Put more generally, we find benefit cuts and paradigmatic change in traditional areas of social policy, although some expansionary measures buck this general trend. By contrast, in other areas—such as education, family policy, and activating labour market policies—spending has increased, often justified as 'social investment' policy. This also explains how the aggregate level of total social spending in relation to GDP has remained rather constant in Germany since the 1990s.[6]

(p.35) 2.3 Social Policy Responses to the Great Recession between Old Habits and New Directions

The financial and economic crises that hit Europe in 2008 developed into the deepest recession since the 1930s. The trajectory of the German economy during the Great Recession was unusual compared with other European economies: initially it slipped deeper into recession than other economies, with a decline in GDP by 5.6 per cent in 2009 and below the EU28 average of minus 4.4 per cent (OECD 2016a). It also recovered more quickly and returned to growth already in early 2010. Moreover, the unemployment rate remained relatively unaffected by the recession and rose only from 7.4 per cent in 2008 to 7.6 per cent in 2009 and declined afterwards (OECD 2016b). This led economists to praise 'Germany's jobs miracle' (Krugman 2009), although one has to bear in mind that the employment rate had been relatively high before the crisis and that since the mid-2000s the jobs created have partly been precarious.

The limited impact of the Great Recession on the labour market and the speedy economic recovery have been ascribed to three main causes. First, the German government responded quickly to the crisis in the financial sector by adopting several 'express laws' with the aim of supporting troubled financial institutions and maintaining confidence in the financial sector to prevent a 'credit crunch'.[7] Second, the 'automatic stabilizers' of developed economies that dampen fluctuations in GDP, such as income taxes and welfare spending, played a particular role in Germany, as the economy not only benefited from its own stabilizing mechanisms but, as a major exporter, also imported the effects of automatic stabilizers in other economies (Streeck 2010; Dolls et al. 2012). More generally, membership in the Eurozone and the resulting fixed exchange rate allowed the German economy to benefit from its strong competitive position within the Eurozone. And third, in contrast to earlier crises, the German government deliberately and actively used demand management, social policy, and labour market measures to counter the effects of the recession (e.g. Chung and Thewissen 2011; Vis et al. 2011; van Kersbergen et al. 2014).

The most important social policy measure to dampen the effects of the recession on the labour market was the extension and financial modification of a short-term work scheme (*Kurzarbeitergeld*). This measure allowed companies to respond to declining demand by reducing the working time of their employees instead of laying them off, and the employees received 60–67 per cent of the difference between their net pay and their reduced pay from the public purse. During the crisis the funding of this measure was shifted from social security contributions to general taxes, and its maximum duration was extended from six months to 18 and later to 24 months. It is estimated **(p.36)** that about 1.5 million employees—or 5.1 per cent of the labour force—were temporarily on this short-term work scheme during the recession (Starke 2015: 22–4). The massive use of this measure can be explained by the core characteristics of the German economy, as it was mainly used to protect the core industrial workforce in the export-oriented sectors and thus served to maintain the firm- or sectoral-specific skill profiles of qualified workers for their companies (Chung and Thewissen 2011: 364). This shows that despite its partial departure from status-preserving social policies, the German welfare state ‘fell back on old habits’ during the crisis and displayed its conservative legacy by focusing on protection and status maintenance of labour market insiders (Chung and Thewissen 2011: 366).

The German government also used several other social policy measures to counter the effects of the recession on the labour market and to stimulate consumer spending and economic growth, including a temporary cut in unemployment insurance contributions, increases in child benefits, tax allowances for children, improved tax deductibility of healthcare and nursing care contributions, and lower health insurance contributions (for overviews see Vis et al. 2011: 346–7; Starke 2015: 18). It has been noted that ‘the main part of the German package affected the revenue side, i.e., the German package included a large element of tax cuts’ (Zohlnhöfer 2011: 234), which is noteworthy not only because the OECD estimates that the multiplier effects of tax cuts are only around half as large as the multiplier effects of increased expenditures but also because tax cuts are potentially permanent and thus decrease the future scope of action for the welfare state (Zohlnhöfer 2011: 234).

Most of these measures were part of four fiscal stimulus packages adopted between October 2008 and May 2009 with an overall financial volume of 90 billion euros that included public investments and increases in public expenditures. The largest package was adopted in January 2009 and amounted to 50 billion euros and thus 2.1 per cent of GDP (Armingeon 2012: 550–1). It included a ‘wrecking premium’—a government subsidy of 2,500 euros if consumers bought a new car while scrapping their old one older than nine years of age—resulting in 1.7 million applications and thus reaching its goal of increasing private consumption during the crisis (Zohlnhöfer 2011: 235).

Due to this demand management by means of fiscal stimulus packages, Germany has been viewed as 'a special case because…a Keynesian type of response seems to have been most systematically formulated' (Vis et al. 2011: 347). It has also been noted that 'this was the first time in more than 25 years that a German federal government adopted counter-cyclical packages at all' (Zohlnhöfer 2011: 233). However, two qualifications are necessary: first, the financial size of these packages should not be overestimated, and some have called them 'notable, but by no means extraordinary' (Zohlnhöfer 2011: 233) or even 'largely symbolic' (Armingeon 2012: 559). And second, it is important **(p.37)** to note that 'the main actors saw the fiscal packages as a necessity in times of a dramatic recession, but they also made clear that they wanted to return to a policy of budget consolidation as soon as the crisis was over' (Zohlnhöfer 2011: 234). In other words, neo-Keynesian demand management was conceived from the outset as a purely temporary measure to counter the immediate effects of the Great Recession on the export-led Germany economy.

More generally, in Germany the Great Recession was not seen as a structural challenge, but merely as a demand shock and a fiscal problem (Clasen et al. 2012: 16–17). This was not least due to the timing of social policy reforms, which in hindsight turned out to be advantageous, because 'the main reforms of the German welfare system were implemented right *before* the crisis and partly explain the comparatively successful developments of the economy and labour market' (Blum and Kuhlmann 2016: 134).

Therefore, after neo-Keynesian demand management and the temporary social policy measures had expired in 2010, the German welfare state returned to its overall social policy course of austerity and benefit cuts in some areas, increasing 'self-responsibilisation' via marketization and privatization, and expenditure shifts towards social investment policies (see 2.2). In fact, in 2010 the Christian–Liberal government that had come into office in 2009 announced the most extensive programme of spending cuts in post-war history for the years 2011–14, which included—aside from cuts in the public sector—social policy cuts including reductions in housing benefits, parental allowances, and subsidies for statutory health insurance; this was complemented in the same year by reductions in benefits for the long-term unemployed and high-earning parents (van Kersbergen et al. 2014: 898). However, even during this return to, or continuation of, budget austerity, the government also continued to pursue its social investment policies, which consisted of a higher ceiling for all child-related tax allowances, tax deductions for childcare, investments in education and research, higher student allowances and extra stipends, and a 'Skilled Workers Initiative' ('*Fachkräftekonzept*') with activation measures, plus measures to attract high-skilled workers from abroad (van Kersbergen et al.

2014: 898). This indicates that the turn towards social investment was intended to become permanent and was not abandoned in times of limited fiscal space for manoeuvre.

The financial future of social policy will presumably be shaped by two main developments. In 2009 the German constitution (*Grundgesetz*) was amended to include a balanced budget provision—a so-called 'debt brake' (*Schuldenbremse*)—which requires that from 2016 onwards the federal government may not run a structural deficit of more than 0.35 per cent of GDP, and from 2020 onwards the federal states (*Länder*) may not run any structural deficit at all. Second, the recent immigration and refugee crisis, which resulted in the admission of an estimated one million refugees and immigrants to Germany in 2015, will, at **(p. 38)** least initially, create considerable costs in social policy and integration measures and thus strain the budgetary limits. However, in March 2016 the Grand Coalition announced plans to keep the federal budget of 2017 within these limits, despite expenditures of ten billion euros to tackle the refugee crisis and—as demanded by the SPD as 'compensatory' measures for the 'domestic population'—increases in spending for social housing and labour market measures (Die Zeit 2016).

2.4 What Future for German Social Policy? Four Possible Challenges and Cleavages

Traditionally the moral economy of its core institutions had generated broad popular support for the German welfare state. The earnings-related social insurance system protected and reproduced 'the existing pecking order of society' (Goodin et al. 1999: 33) and is easy to legitimize, because it instils a sense of individually earned rights and is morally undemanding: 'no one needs to believe in lofty principles of solidarity, justice, or equality to become—and remain—a rational supporter of the system (…). Its modest goal is the guarantee of income—and of relative income status!—for employees and their dependants' (Offe 1992: 129). Due to the principle of status maintenance, cross-class redistribution was relatively low and the middle class was an important beneficiary of the system; therefore, middle-class persons—skilled workers, white-collar employees, and civil servants—were strong defenders of the core welfare institutions in Germany (Mau 2003; Mau and Sachweh 2014).

Given the fundamental departure from core norms and principles of the German welfare state, it might be expected that the population in Germany would reject the new policy directions, yet studies and survey data indicate that most, but not all, policy changes and their normative underpinnings are accepted (Nüchter et al. 2010). For example, there is very high acceptance of, and support for, female labour market participation and the shift towards a 'dual breadwinner' family model as well as for social investment policies in education and childcare.[8] The reorientation of pension and labour market policy towards increased individual responsibility is also accepted by large parts of the population. The greatest scepticism exists regarding welfare cuts and the shift from status preservation towards basic protection in unemployment and public pension schemes (e.g. Sachweh et al. 2009; Nüchter et al. 2010).

The acceptance of most social policy changes by the population and the strong economic performance of the German economy following the Great Recession do not mean, however, that the German welfare state has left all **(p.39)** structural problems behind; in fact, some problems have not been tackled by recent reforms or have even been aggravated, and the reforms have created some new problems and pressures. In this respect, we expect that four challenges and cleavages will shape the future of the German welfare state regime.

One issue which has moved up the public agenda is the issue of growing inequality. In the 1990s and early 2000s Germany experienced marked increases in the unequal distribution of income and wealth (Grabka 2014; Fratzscher 2016). As in most OECD countries, the rift between top incomes and lower incomes widened, partly linked to the growing wage inequality between high- and low-skill occupations. The changes in the labour market, particularly the expansion of a low-income sector and the emergence of a new 'service proletariat' (Bahl and Staab 2010), the restructuring of the welfare state (in its lowering of unemployment protection), and the adjustments to the tax system, particularly the lowering of the top income tax, the introduction of a flat-rate capital income tax, and relatively low taxes on inheritances and gifts, paved the way to a more unequal distribution of earnings and assets (OECD 2015). Although this trend was accompanied by some public criticism, it did not trigger a political backlash towards more government redistribution. Attitudes towards inequality remained relatively stable despite growing inequality (Kenworthy and McCall 2008). Although 82 per cent of the population claim that inequality is too high (Mau and Heuer 2016: 4), there is less support for a stronger welfare system or more redistribution. Roughly one fifth of the German population seems to accept higher levels of inequality, and a considerably larger share seems sceptical that the state can or should actively decrease inequalities (Sachweh et al. 2009: 613; Mau and Heuer 2016: 6). Alongside all inequality critique, there is an implicit 'consent to inequality' (Rosanvallon 2013), making political actors rather unwilling to push this theme more emphatically. The topic is often couched less in redistributive terms than in the language of life chances, social mobility, education, and social investment.

A second critical feature of the German welfare state is the divide between well-protected insiders and precarious outsiders (Palier and Thelen 2010; Emmenegger et al. 2012). This feature had already been highlighted by Esping-Andersen (1996) when characterizing the continental welfare regime. However, while in the past the insider–outsider division was highly dependent upon labour market participation, with the number of working poor being negligible (Goodin et al. 1999), this has changed. Since the Hartz reforms in the mid-2000s, the unemployment rate has decreased and labour market participation has increased, but the labour market has become more heterogeneous or even divided. Labour market flexibilization, the creation of a low-income sector, a stronger emphasis on in-work benefits, and the growth of the service sector have all led to a larger segment of low-wage and low-protection employment. **(p.40)** Germany saw a growing group of non-standard workers—fixed-term contracts, part-time work, marginal employment (institutionalized via 'mini jobs'), contract work and flexible low-pay jobs—but only partly at the expense of standard employment (Eichhorst and Marx 2011). As far as opportunities for people in atypical employment for a mid-term transition into regular employment are concerned, recent evidence suggests that certain segments are trapped into non-standard employment (Brülle 2013; Böhnke et al. 2015). Thus, there are signs of a dualization of the labour market between a core labour force in 'standard employment' with high employment protection and a rising share of people in atypical, low-paid, and less protected employment. In fact, the German production and welfare regime with its focus on high-skilled labour and status maintenance in social security has arguably fostered this tendency towards dualization.

The combination of labour market restructuring, welfare state calibration, and growing inequality has also influenced the social structure and self-perceptions of German society. The notion of a 'middle-class society' with high levels of social protection, compressed inequality, and a permeable social structure allowing lower class people to join the ranks of the middle class through education and work has been eroded with the experience of new insecurities, a shrinking middle class, a weakening of upward mobility, and a stagnation of incomes of the lower 40 per cent (Mau 2012; Fratzscher 2016). While it would be an exaggeration to talk about a decline of the middle class, the lower middle class in particular faces new social risks and has difficulties in making ends meet (Burkhardt et al. 2013; Schimank et al. 2014). Status fear has become more widespread—including fears of deprivation and concerns about long-term security, and the costs of housing and education (Schöneck-Voß et al. 2011; Burkhardt et al. 2013)—as well as efforts and investments to maintain status. We also see that particularly the middle classes have embraced increased individual responsibility and social investment policies, and one can even say that the middle classes were partly receptive to the neo-liberal agenda: while the state transfer programmes, public education, and regulation protecting workers are still cornerstones of status protection of the better-off middle class, for certain fractions, particularly the upper middle class, asset accumulation, private education, and private provision have gained in importance (Mau 2015). Thus, there is a rift not only between the middle class and the lower classes but also within the middle class, linked to distinct ideas about what the welfare state should do.

A fourth important challenge for German social policy lies in dealing with immigration. While the inclusion of migrants and refugees into the welfare system was relatively uncontested for some time, this has changed. One starting point was the debate in 2013 about intra-European migrants coming from Bulgaria and Romania and claiming welfare benefits. Conservative **(p.41)** political actors regarded 'entry' into the benefit system, particularly social assistance, as too liberal. They believed that welfare transfers could attract immigrants. Over time this debate has intensified, leading to fierce conflicts. In particular, the recent refugee crisis with an influx of over one million people in 2015 has triggered serious concerns about the degree of openness of society. While during the initial phase the so-called welcome culture was embraced by a large majority, with the ongoing and uncontrolled movement of refugees and asylum seekers the public mood has shifted towards more sceptical views. While a large majority of Germans remain committed to the right to asylum and the political responsibility to accept people in need, many people feel also they are paying too much (ARD DeutschlandTrend 2016). This has also brought about new opportunities for right-wing populist and xenophobic political movements to promote their political agenda. The regional elections in the aftermath of the refugee crises have boosted the right-wing party *Alternative für Deutschland* (AfD)—founded in 2013 as platform for opposition to the euro currency—and put enormous pressure on the German political system; for instance, in 2016 the AfD entered parliaments in several federal states with up to one quarter of the votes cast. Apart from outright anti-immigrant arguments, the party and related movements articulate resentment to the inclusion of refugees into the welfare system. Issues of affordability and costs as well as conflicts of resource allocation between natives and newcomers feature quite prominently together with the claim that Germany cannot and should not be the 'welfare agency of the world'. To some extent, the support for these political actors is fuelled by the status fear and welfare chauvinism of the lower classes and the lower middle classes, which were most affected by the restructuring of the labour market and the welfare system as well as by the increasing social inequality (Mau 2014; Hensel et al. 2016). Setting refugees and the native population against each other has triggered fundamental social cleavages related to questions of openness and closure, which are likely to reshape the landscape of German politics.

2.5 Conclusion

This chapter has outlined major social policy changes in Germany since the 1980s in the light of both long-term economic and social challenges as well as more recent developments such as the Great Recession and the immigration and refugee crisis. We have argued that the fundamental restructuring of the German welfare regime especially in the early 2000s, representing a departure from status-preserving social policies and from the 'female homemaker' family model, has mitigated some of the structural problems of the conservative

German welfare state regime. Moreover, due to the timing of welfare reforms, **(p.42)** the Great Recession had a limited impact on the German welfare state and thus—after a short period of neo-Keynesian demand management and social policy measures protecting labour market insiders—the overall directions of social policy did not change much in recent years. However, we have also argued that some of these social policy reforms have evaded existing problems or created new ones and that they might result in the emergence of new cleavages and polarizations.

Future redistributive and political conflicts seem especially likely over labour market issues, growing social inequalities, and immigration. The centrality of the labour market for social security remains a core characteristic of the German welfare state, but it has taken another form due to the promotion of female employment on the one hand, and the introduction of means-tested basic security benefits on the other. While before the reforms the social security system had mirrored the status order on the labour market, it now partly amplifies status differences and creates strong cleavages between labour market insiders and outsiders and securely versus precariously employed workers. How these cleavages will develop seems to depend not least on the international competitiveness of the German economy as well as on the integration of the new immigrants into the German economy and society.

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Notes:

(1.) While the political system experienced a deadlock, the industrial relations system turned out to be adaptable under competitive pressure: a considerable decentralization of wage-setting institutions combined with wage restraint by the trade unions increased Germany's economic competitiveness and has, according to some scholars, had more impact on economic performance before and during the Great Recession than the higher-profile labour market reforms (Dustmann et al. 2014).

(2.) The main reforms in 2003–5 were implemented under the heading 'Agenda 2010', which alluded to the 'Lisbon strategy' of the European Union and was supposed to promote economic growth and reduce unemployment by means of changes in labour market regulations, vocational training, education policies, healthcare policies, pension policies, labour market policies, and family policies.

(3.) The reforms are named after Peter Hartz, the chief human resources manager of Volkswagen and head of a commission established in 2002 to develop recommendations for labour market reforms.

(4.) This policy change is reflected in female employment rates, which rose in West Germany from 64.7 (in 1994–9) to 71.8 per cent between 1994–9 and 2005–9, and in East Germany—which already had high rates due to the legacy of the GDR—remained at the high level of 81.6 per cent in 2005–9 (Deutsches Institut für Wirtschaftsforschung n.d.). Female employment in Germany at 73.1 per cent considerably exceeded the EU28 average of 63.5 per cent in 2014 (Eurostat n.d.).

(5.) We focus on changes that are likely to affect future cleavages and solidarities in the German welfare state and thus largely ignore administrative and organizational changes that, for example, were aimed at creating a more managerial structure in public organizations and also affected the para-public social insurance schemes.

(6.) The lowest share was 25.0 per cent in the year 1992, and the highest 29.8 per cent in 2003. The share rose to 30.8 per cent in 2009, but this was partly due to the inclusion of basic private health insurance into the statistics; statistics before and after 2009 are not directly comparable. In 2014 total social spending was 849.2 billion euros and thus 29.2 per cent of GDP (Bundesministerium für Arbeit und Soziales 2015).

(7.) The most important support and bailout package for the financial sector in December 2008 had a total volume of up to 480 billion euros (about 20 per cent of GDP) and included liquidity guarantees of up to 400 billion euros, capital injections of up to 10 billion euros per financial institution, and purchases of toxic assets of up to 5 billion euros per bank (Zohlnhöfer 2011: 231–3).

(8.) Data from the German General Social Survey (ALLBUS) show that agreement to the statement ‘it is much better for everyone concerned if the man goes out to work and the woman stays at home and looks after the house and children’ fell from 70.3 to 27.3 per cent between 1982 and 2012 (West Germany only). Moreover, data from the International Social Survey Programme show that support for more government spending on education in Germany more than doubled between 1985 and 2006 and with 82.4 per cent in 2006 even surpassed support for increased spending on healthcare (65.7 per cent) or old-age pensions (51.5 per cent).