Organised Interests, Institutional Veto Points
and Welfare State Reform
in Germany and the Netherlands

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1 Introduction

Whether and how institutions matter for politics and effective policy-making is certainly one of the most discussed and analysed questions of political science. Social policy in general and the reform of the advanced western welfare states in particular has been and still is a challenging policy field when it comes to apply and verify institutional concepts, specifically from the perspective of the newer versions of institutionalism which, *inter alia*, seek to explain (and predict) how institutions as independent variables shape politics, political behaviour and public policies. This new institutionalism lens, which comprises a heterogeneous bundle of middle-range theories,\(^1\) has sustainably advanced and inspired comparative analyses, not least in comparative welfare state research. While the *trente glorieuses*, i.e. the post-war phase of expansion of the western welfare states seems to be sufficiently investigated and explained, the contested politics of re-structuring and re-adjusting welfare-state policy sectors are still less known: unsurprisingly, retrenchment and re-calibration politics beyond the Golden age of welfare statehood makes high strategic and political demands on governments, as many studies demonstrate, since the distribution of cuts and costs is a risky and hardly manageable issue in liberal democracies.\(^2\) But, however, the politics of defrosting (see Hering 2002; Palier 2000) the welfare state appear to be more complex, contradictory and surprising than often presumed.

The main question of this paper is whether and to what extent there is a relationship between political institutions and the trajectory of welfare-state reforms - and how these variables are important in explaining social-policy change and variation in welfare-state reforms. In this context we primarily focus on the role of corporatist institutions (social corporatism) and macro-institutions (constitutional veto points) as explanatory factors for reform politics. These political institutions can be assumed to play a decisive role both in structuring decision-making processes and political conflicts as well as in accounting for divergent policy outcomes. We thus analyse whether these independent variables and their interplay can be linked to

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\(^1\) See as a broad review of the debate Czada, Héritier & Keman (1998); Scharpf (1997); Hall & Taylor (1996) and, as classics, March & Olsen (1989); North (1990).

\(^2\) See Esping-Andersen (1996) and (1999); Ferrara & Rhodes (2000); Kuhnle (2000); Scharpf & Schmidt (2000a) and (2000b); Siegel (2002); and in particular Pierson’s influential contributions (1996; 1998; 2001a) which draw on historical-institutionalist lines of argument (see inter alia Thelen & Steinmo (1992); Pierson (1993)).
different roads of welfare state reform and to what extent other explanations or factors might be more interesting and fruitful. Thereby, we connect the analysis of macro-level institutional factors to sectoral reform politics and policy programmes. For comparative welfare state research it is particularly challenging to discuss the mechanisms of change: under which conditions do welfare states leave traditional institutional paths or develop policies apparently not corresponding to former philosophies and solutions? How and when can political actors overcome institutional inertia and resistance of strong political actors? And how do actors cope with mounting (internal and external) challenges and persistent uncertainty never felt before in the post-war era, whereas a vague, but urgent need for new policies forces them to deal? The core question of this paper, therefore, is to explain how and why politics sometimes matter even in policy fields whose structures ‘rebel’ against change and whose policies, implying long-term political promises and legal commitments, have become part of individual’s biographies. This approach is in line with Green-Pedersen & Haverland (2002: 49) who claim that the theoretical understanding of examples of path-breaking reforms and retrenchments, which proved highly controversial and politically risky, is still limited.

We provide empirical evidence from the Dutch and German welfare state. Germany and the Netherlands can be compared as two cases that have been confronted with similar severe social-policy problems. Moreover, Germany and the Netherlands are countries that have both a long tradition of sectoral corporatist regulation and coordination and tripartite concertation. Furthermore, in the 1980s and 1990s both nations are striking examples for the resurgence and proliferation of social pacts, i.e. the attempt of institutionalising new consensual strategies and new types of negotiating policy change mainly in the field of labour market policy. Moreover, Esping-Andersen (1990) classifies Germany and the Netherlands as conservative, corporatist welfare regimes: the continental, Bismarckian way of institutionalising mainly insurance-based social policy relating welfare rights to wage-earners’ contributions and targeting at maintaining the relative individual status quo. Hemerijck, Manow & van Kersbergen (2000) demonstrate that the welfare states of both countries can be characterised as tightly coupled indicating that the policy domains of industrial relations, macroeconomic policy, labour market policy and social security are highly interlinked. Finally: despite these significant institutional
similarities in their welfare state regimes, in economic governance structures and in industrial relations - although it is debatable whether the Netherlands truly belong to the same welfare category as Germany -, they used different ways of selectively adjusting their welfare systems. The Dutch case has often been characterised in the literature as a strategic and successful welfare miracle (from the Dutch disease to the Dutch model), while the German attempts to reform the welfare state seem to attract scientific attention only as another striking example of reform inability, policy inertia and status quo orientation (“Is Deutschland AG kaputt?”, The Economist, 2 December 2002). Following conventional wisdom, we thus have to explain a remarkable institutional persistence in the German case (dissent society and conflictual politics) and a considerable institutional and social-policy change in the Netherlands (consent society and co-operative politics).

The main finding of this paper is that institutions certainly matter, but they matter less than often assumed. We do not question institution-centred approaches, rather we suggest to more systematically take into account the politics-dimension (interactions, strategies, political dynamics, problem pressure, political parties, etc.) and to combine institutionalist concepts with ‘action-‘ or ‘situation-centred‘ concepts, be it in single case-studies or comparative research, in order to better explain both empirical variation and policy change within given institutional settings. Institutional settings have an important influence but they do not simply rule out policy choices; by contrast sometimes they provide an incentive for developing political creativity or even have an enabling effect. The message is that politics are not (always) predictable, and actors as well as specific situations make a difference.

After this introduction, four sections follow. In Section 2 we discuss the theory of the new and old politics of the welfare state. Then we turn to the main part of this paper, welfare reforms in the Netherlands (Section 3) and Germany (Section 4), in which we show how successes and failure of social policy reforms can be explained by institutions and politics. Here we focus on specific reforms which allow for exemplifying mechanisms of change. Section 5 presents the conclusions of our paper by the claiming that politics is a factor that has been ignored too often in the current literature on social policy change. Since this paper focuses on the mechanisms of change rather than the mechanisms of non-change, we pay specific attention to the
creative opportunism of governments which is an essential element of the new politics of welfare state reform.

2 The old and new politics of the welfare state

2.1 Introduction

The current welfare state literature argues that there is a difference between the old and new politics of the welfare. It is relatively easy to receive support for the development of popular social policies, such as health care and a pension scheme. On the other side, political actors are afraid to be blamed for rollbacks of the welfare state. In particular two factors seem important for the process of welfare state retrenchment: the institutional context and political competition. Corporatist institutions allow interest groups, especially trade unions and social benefit groups, to obstruct loss of social rights. Others, however, argue that corporatist institutions might be used to remove obstacles of welfare reform (see Ebbinghaus & Hassel 2000; Visser & Hemerijck 1997). Institutional veto points, such as those in federal states, allows minority groups to block changes of the status quo. Majoritarian democracies are expected to allow more radical policy changes than consensus democracies (see Vergunst 2004). Corporatist institutions, veto points and consensus democracies seem effectively to prevent reforms of the welfare state.

Conservatives and liberals are afraid to be blamed by voters. Social democrats are not the usual suspects and might easier be able to avoid the blame (Nixon goes to China). Moreover, social democratic parties in several western European countries have reformed their ideology. Their position on socio-economic issues moves closer to neo-liberalism under the third way (see Cuperus & Kandel 1998; Cuperus, Duffek & Kandel 2001; Hombach 2000; Miliband 2002). Social democratic parties had to renew their ideologies to attract new voters, such as women, immigrants and white-collar workers, to compensate for the loss of votes from the traditional male blue-collar workers. These new voters were willing to accept that a generous welfare state needed to be transformed in a much more flexible system of social rights. Moreover, social democratic parties were able to mitigate resistance against welfare reform from the labour movement. We argue that the changing ideology of the labour parties is
crucial to understand the successes of welfare state reform. Of course, this change of ideology and adaptation of welfare reform have the risk to cost these parties many voters and many members. However, it was the only possibility to remain a part of the government.

Not only political colour matters, but also the type of political competition might play a role. In party systems that are highly fragmented it is more risky for social-democratic and Christian democratic parties to rollback the welfare state than where there is hardly competition from parties on the left and parties on the right of centre.

We define success in policy reform as variation of the status quo, e.g. when social rights are limited and spending on social expenditures is cut. Policy reform has failed, if social rights and social spending remain largely unchanged. Cuts in social spending, as percentage of GDP, are generally modest. The real changes take place in the social rights of workers and citizens.

Figure 1 shows public social expenditures as percentage of GDP in 1980 and 1998. The Netherlands and Ireland are the only countries with a cutback in social expenditures between 1980 and 1998. In all other countries, including Germany, social spending has increased (see also Castles 2002).

2.2 Challenges, crisis and the institutional perspective
The external conditions of the welfare states - such as the internationalisation of trade, the globalisation of capital and as well the integration of the European economies - have imposed new constraints on government autonomy. At least initially, Germany and the Netherlands responded very similar to the crisis of the welfare state. Response patterns to tackle the high unemployment (see e.g. Hemerijck, Manow & van Kersbergen 2000: 106) were characterised especially by the attempt to reduce the

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3 We therefore make no normative statements about the desirability of welfare reform.
supply of labour by early retirement, relatively generous disability pensions and the
discouragement of female labour participation.

Welfare state research has been built up on two argumentative pillars: Firstly, a strong emphasis on and “prediction of crisis and even downfall of the welfare state” (Hemerijck & van Kersbergen 1999: 168). Secondly, in the 1990s welfare state research “documented empirically that welfare states have been remarkably resistant to change notwithstanding the mounting challenges they face” (Hemerijck & van Kersbergen 1999: 168). Some studies (Esping-Andersen (1996b); Pierson (1994); Hemerijck & van Kersbergen 1999)) argue that despite serious external and internal challenges “the institutional landscape of the contemporary welfare state has largely remained intact. If the environment of the welfare state has changed, the welfare state itself has not” (Hemerijck & van Kersbergen 1999: 170). Indeed, despite the complex and mounting problems modern welfare states face the institutional persistence and resilience (path-dependencies) seem to be enormous: It can be easily seen that “a wide variety of welfare reforms across Europe have made changes only at the margins” (Rhodes 1997: 59).

What we can empirically see is that “although European Welfare states are not in crisis, and are certainly not being dismantled on any significant scale, they are certainly heavily constrained by cost problems and, while still institutionally diverse, are nevertheless converging in terms of their response to the present impasse and also, to some extent, in terms of social policy outcomes” (Rhodes 1997, 57). According to the programme of the new institutionalism (e.g. March & Olson 1989; Scharpf 1997; Steinmo, Thelen & Longstreth 1992; Weaver & Rockman 1993; Immergut 1997), we stress systematically the interdependencies between economic and social actions on the one hand and the political form, processes and outcomes on the other hand. We thus consider the interactions of institutions and of collective actors as well as the coordinating mechanisms between economy, society and the political sphere including the governance structures and the networks between state, economy and society.

2.3 Corporatism
The basic idea behind corporatism is the presence of cooperative relations between social partners and the government on socio-economic issues. Many corporatist scholars have argued that consensual industrial relations have a positive impact on the
effectiveness of the socio-economic policy-making process. Consequently, this would lead to more favourable policy outcomes and better socio-economic performance. However, at this point there exists some dispute.

One can distinguish two dimensions of corporatism: the existence of an interest groups system and concertation by socio-economic interest groups. In a corporatist system of industrial relations there exists considerable cooperation between workers and employers. The central government does not try to intervene directly by imposing decisions on the social partners, but to create certain autonomy for these groups. This enables them to reach agreements on their own without direct intervention by the central government.

The second dimension concerns the incorporation of interest groups in the process of policy formation and implementation. Corporatist theory states that the socio-economic policy formation by the government is not necessarily a neutral process to which everyone has equal access, but that some interest groups are strongly involved in this process. This leads to a system of cooperation between the government and social partners.

We expect that corporatist institutions have a positive effect on the expansion and resilience of the welfare state. In a corporatist institutional setting, interest groups have better access to decision- and policy-making. This means that in corporatist countries during the expansion of the welfare state after World War II, claims of these interest groups were better reflected in the resulting political decisions and policy choices. Since the 1980s, the welfare state came under high pressure because of the socio-economic crisis. Here again, we think that in those countries that have better organised interest groups and where they have better access to the decision-making process, attempts to reform the welfare state were less successful.

However, corporatism may have the opposite effect. When the government succeeds in convincing unions and employers in the urge of welfare reform, social pacts can facilitate the reform process. Hence, corporatist institutions can have two possible effects on welfare state reform. In case of aversion, it can empower the resistance by the interest groups. If, on the other hand, interest groups and the government agree on restructuring social policy, it leads to more legitimacy and it can break the resistance of opponents.

All this implies that “in corporatist polities it is important to specify analytically the interplay of puzzling and powering in a policy setting where
organised interests share in public policy responsibilities” (Hemerijck & van Kersbergen 1999: 182). It will thus be evident that the institutional variable of the division of labour and responsibilities between state actors and organised interests in particular policy areas play a major role in the reform of the German and Dutch welfare state.

2.4 Veto Players and their effect on welfare state reform

One of the most striking effects on political behaviour and policy results can occur from veto opportunities arising from the design of political systems. The presence or absence of veto players (e.g. Tsebelis 1995; 1999) or veto points (Immergut 1990; Immergut 1992a and 1992b) seems to be a crucial and critical aspect of recent welfare reforms. In this context, recent studies on welfare reform⁴ have shown that the ability and deepness of welfare adjustments are highly dependent on the impact political institutions can have on policies – especially on the number of veto players: According to these investigations, the likelihood of path-breaking welfare reforms in countries with one or few veto players have been much more drastic and successful (e.g. Sweden or United Kingdom) than in those with powerful institutional checks and balances and mighty institutional constraints (e.g. Germany, Switzerland or the USA). Even if the role of veto players is very ambivalent depending on many factors, they have in any case a certain impact on governing and therefore matter because they just exist.

The formal constitutional and electoral rules as well as e.g. the incorporation of organised interest groups in decision-making and implementation processes establish a complicated framework within which policy-making takes place. Political systems have often been shaped and structured in such a way that their logic impedes drastic political change and ensure stability in policy outcomes. Consensus democracies e.g. explicitly target on forcing permanent negotiations and consensual decision-making among a huge number of actors. (Legislative) veto points (like e.g. bicameralism or referendum options are often well protected by the constitution. Specific institutional preconditions like in-built institutional checks or veto points allow a core of political actors to intervene in processes and to block legislative

⁴ E.g. of Immergut (1990; 1992a; 1992b) in the field of health care reform in France, Switzerland and Sweden; or Pierson (1994) on the politics of retrenchment in the USA and United Kingdom.
proposals. Tsebelis (1995; 1999) argues that the potential for policy change decreases with the number of veto players, the lack of congruence (dissimilarity of policy positions among veto players) and the cohesion (similarity of policy positions among the constituent units of each veto player) of these players. All political systems having some of these features have thus a limited ability to policy change. His hypothesis is: an increase in the number of veto players separated by large ideological distance will reduce the ability of both government and parliament to produce significant laws. Institutional settings with multiple and heterogeneous veto points are likely to be capable of no more than minor adjustments or incremental change in the settings of concrete policy instruments.

The Westminster model - characterised by absolute majorities in parliament, the concentration and high degree of executive power and administrative autonomy available to government - are expected to have better options of radical and fast policy changes. Westminster intentionally renounces power-sharing checks and balances and bases policies mostly on majority strategies rather than consensus building. In-built institutional constraints and self-bindings (and pressures to negotiate policies) lead to the problem, “that non-majoritarian democracies have severe problems to adjust quickly and to carry out fundamental, far reaching policy changes” (Schmidt 1999, 284; our translation) and therefore seem to have a much lower capacity to produce policy change. But we think that it could in many cases be more fruitful not to take a specific model as starting point and as benchmark of an investigation. Instead of theoretical assumptions of causality leading to predictions of policy results and political processes, the real procedures and effects of the various different political systems as well as the real function of institutions in political processes seem to be – as shown by Kaiser (1998) - much more complicated – and even much more interesting. Politics sometimes are much more contingent than classifications, typologies or rankings try to imply.

Firstly, democratic political systems differ significantly in institutional regimes and veto points. Secondly, one has to take into account (cf. Kaiser 1998, 539) that it is not the institutions per se that imply veto effects but that these veto points have to be activated by the actors in case they want to. And if a veto player decides to intervene, the way she does and the instruments she uses are sometimes contingent and changeable depending on the situation (the German Bundesrat is a striking example for these strategies). Thirdly, one should restrict the catalogue of institutions
to those that really are interesting in that sense that they significantly matter. Fourthly, and generally spoken, we argue that political controlling (and the problems related to these attempts of purposeful steering) is always related to specific policy fields and can vary enormously according to specific situations and contexts. Different institutional regimes are effective in different policy fields. Politics and policy outcomes can depend on the constitutional design (Weaver & Rockman 1993) channelling strictly policy choices.

Institutions like corporatism, federalism, coalition governments and so on can change substantially over a period of time – and thus their impact varies according to specific constellations and situations. Institutional contexts are much more complex and less predictable than sometimes implied in institutional analytical concepts. It is therefore up to precise analyses of politics and institutions to supply further details and explanations about the institutional mechanisms of conflict regulations and their impact. We don’t want to overestimate neither the institutions nor solely the interests of the actors. We demonstrate in our case studies that both aspects must be considered precisely and linked to each other in specific (and therefore unique) situations.

Veto points are not necessarily negative in that sense that they only lead to obstruction of new policy initiatives and a tendency towards the status quo. The existence of veto points may influence the decision-making process in a more positive way. Actors are aware of the potential threat of these veto points. They could anticipate it by creating agreements with the other actors. Hence, in some cases veto points may enhance consensus and cooperation, sometimes they are initiator of reform. They can change from veto players into consent or cooperative players. This may be seldom and – as we are going to demonstrate in the following sections - depends upon specific situations. But it is therefore much too easy to claim that veto players are always and everywhere intervening in political processes and blockading them. Veto players can obviously have a dual effect on policy processes: Veto points can lead in stable political, social and economic contexts to consensus orientations and force political elites to act cooperatively. But veto points can in the same way be institutional mechanisms that in confronting situations are likely to be used to block or politicise policies. We thus have to explain why some policies – despite the same number of veto players and comparable institutional setting – have been successfully solved while others failed. One has to be careful in assessing the impact of veto
players: some institutional veto points have constraining effects on policy while others may have enabling ones.

What we can conclude so far is that political steering depends upon the number and location of opportunities for veto along the chain of decision-making. It makes governing much more complicated but not impossible – depending on specific situations, collective or individual interpretations of situations (crisis, alternatives, framing etc.), policies and strategies, depending on the power and the ability of veto player to access to the political arena, and depending on the ability of the government to cooperate or conflict with important veto actors. Finally, it is obvious that veto points are only a sort of incentive structure (Kaiser 1998: 538), that means that it is up to the veto players whether, how and with which purpose they use their possibilities. Institutions don’t evoke veto effects per se. Thus we expect that the policy outcome seems to be not as much predictable as sometimes implied. It is very likely that institutional constellations have variable effects according to specific factors and specific conditions (cf. Kaiser 1998). Institutional rules and procedures and the strategic behaviour, demands and resources of influential political groups set the terms for political conflicts. In the remainder of this paper we therefore have to work out more precisely which factors, figurations and logics of action are really influential in specific situations and how actors cope with distinct problems.

2.5 Similar contexts, but different outcomes in Germany and the Netherlands

We compare Germany and the Netherlands, because these countries show many similarities with respect to political and institutional factors, but differ on the dependent variable, welfare state reform. Until recently, the German welfare state remained largely intact, while in the Netherlands both social rights are limited and social spending has declined. Recently, Germany has adopted several drastic changes of its social policy. The government of the social-democratic chancellor Schröder succeeded in taking a series of decisions for radical policy reform and substantial cost containment.

One of the similarities between Germany and the Netherlands is a tradition of sectoral corporatist industrial relations. In both countries, large encompassing trade unions have made on a regular basis social pacts with employers’ organisations and the government. However, since the early 1980s we see a difference between these
countries. While Dutch trade unions have become considerably weaker, German unions were still able to prevent more flexible labour laws. Moreover, in the 1980s and 1990s Dutch and German socio-economic policy was not as corporatist as it has been in the 1950s and 1960s. The general pattern is, hence, a weaker form of corporatism in both countries and the survival of strong veto power for German unions. The next two sections focus on how these changing patterns of corporatism has influence social policy in Germany and the Netherlands.

Until the mid-1990s, the political colour of the political leader of the government, was most of the time the same in both countries. After a socialist Prime Minister in the 1970s, both countries were ruled by a centre-right coalition led by a Christian democratic PM, Kohl and Lubbers. Since 1994, with the exception of the period 1998-2002, both countries have a PM of a different party family. In the next two sections we show that in both countries the centre-right coalition were not able to implement drastic changes of social policy. Welfare state reform succeeded only when the social democratic party was in power. This was the case since 1989 in the Netherlands and since 1998 in Germany. Moreover, in both countries the social-democratic party needed to make an ideological shift in order to enter the coalition government again, after a long period of being in opposition (SPD 16 years and PvdA 12 years). We argue that this ideological shift towards neo-liberalism paved the way for successful welfare state reform. Finally, together with British Labour Party, both social democratic parties, joined the third way movement in the 1990s, which advocated an updated version of its political programme, which implied a removal from traditional socialist goals.

A last similarity that possibly plays a role in the explanation of the path to welfare reform is the party system. Basically both political systems are dominated by three major parties: social democrats, Christian democrats and liberals. Moreover, in both countries the social democrats meet competition from one or two leftist parties. This means that the social democrats always have the risk of losing votes, when moving too much to the political centre. However, since they are in government sicne
1998, the impact of the German Grünen is much stronger than the Dutch GroenLinks, which are comparable to their German counterparts, and the Dutch Socialist Party SP. In both countries, there are no serious rivals at the rights side of the political spectrum. Of course, there is a larger number of small parties in the Netherlands, but these do not play a role in the ideology of the coalition government (D66 and the small Christian parties).

There also exist several differences. As already stated, the Netherlands succeeded in job creation and welfare reform in the 1990s, while Germany failed in this respect and it is yet not known whether this will change the next years. Another striking difference is that German cabinets are much more stable than Dutch cabinets. Although stable cabinets are expected to have better possibilities to implement drastic policy changes, this is not the case in Germany. This may be partly due to another German peculiarity that is totally absent in the Netherlands, the federal political system gives several actors strong veto power.

The next two sections explain how these political and institutional factors have contributed to more or less social policy change in the Netherlands and Germany.

3 Myths and miracles: institutions and social policy in the Netherlands

3.1 From disease to miracle?

The Dutch case is considered successful in reforming social policy in the 1990s. Most studies emphasise the role of institutions in this process, but we agree with Hemerijck & Vail (2003) that the role of the government is an often forgotten factor. However, our claim goes one step further. Not only we argue that a dominant government was able to push unpopular policy reforms against the will of interest groups, the role of the social democrats have been crucial in this process as well. Without participation of the social democrats in government since 1989, welfare reform would not have been so drastic. Christian-democrats and liberals alone could not have succeeded to reform social policy to the same extent.

Another essential factor has been ‘the third way’ and the changes of the social-democratic ideology, resulting in a neo-liberal economic policy. This does not mean
that the social democrats have totally abolished their original ideology. Active labour market policy is one of the most successful policies that have been implemented in the Netherlands in the 1990s, although most of the jobs that were created were part-time and flexible jobs. The biggest failure in Dutch policy is the ‘success’ of the disability scheme: 1 of 6 Dutch workers is officially ‘disabled’.

In the past, the Netherlands was seen as an example of welfare without work: the Dutch disease. Has this been changed into a miracle? Visser & Hemerijck (1997) argue that three developments were crucial for the Dutch success: consensual agreements about wage moderation, strong increase of employment rates by means of an active labour market policy and structural reforms of several welfare state provisions. In their view, the change of the welfare state has contributed to economic recovery in the Netherlands. For this reason it is interesting to examine to what extent this welfare state reform is facilitated and opposed by institutional arrangements.

The Netherlands and Germany used to have several similarities, such as a sector oriented system of industrial relations, a continental welfare state with a strong male breadwinner bias and low female labour participation most of which consists of part-time employment. The crucial difference between both countries lies in the Dutch integration of different policy domains: industrial adjustment, labour market policy and social protection (Visser & Hemerijck 1997: 13).

The goal of this section is to determine the impact of the specific Dutch institutional context on welfare state reform. A possible effect is that institutions increase the resilience and resistance of the welfare state against attempts to reform. The opposite may be true as well. The institutional features of consensus democracy and corporatism can lead to decisions that have a broad support of the actors. It can take some time to agree on welfare state reform, but this time can be used to convince opponents of the need to reform of the welfare state and to make several agreements at once (Ebbinghaus & Hassel 2000; Vergunst 2004).

3.2 Political system and industrial relations in the Netherlands
The central characteristics of Dutch political decision-making are proportional representation and oversized coalition governments. The system of industrial relations is dominated by sector level corporatism and weakly organised unions. This section describes the institutional arrangements that have been most crucial.
The Netherlands has been described as one of the examples of consociational democracy. The institutional arrangements that have been created by the political elites were meant to solve the urgent political issues on which the political parties could not agree - struggle for universal suffrage, lack of social policy and state financing of Catholic and Protestant schools. Even when the social needs for the pacification of the democracy disappeared, many of the informal rules used by the political elites survived. At three important time-points some political actors have tried to break these rules. The first attempt was after World War II. At the end of the war, a group of party leaders was imprisoned by the Germans in a camp in Sint-Michelsgestel. They agreed that Dutch politics had to change strongly after the end of the war. The first proposal was to break the denominationalism of the political parties and to create a broad party of socialists, liberals, Catholics and Protestants. This party - Partij van de Arbeid (Labour Party)\(^5\) - did not perform significantly better than the parties from which it emerged. It proved that actually nothing had changed in the political culture. It can even be said that the most significant time of pillarisation started in 1945. The second proposal of this group has had considerably more impact. They agreed that the severe economic crisis of the 1930s - a time of laissez faire in economic politics in the Netherlands - should be prevented by a much more active role of the government. It resulted in the creation of the tripartite Socio-Economic Council (SER) and a very strict government policy of wage moderation until the 1960s.

In the late 1960s several new political parties had electoral success and the Labour Party tried to introduce some elements of the British majoritarian political system. But again, these attempts were not successful.

The most recent attempt to change the political culture was after the elections of 1994. The Christian Democratic CDA experienced an extreme electoral loss. The three other big parties - social democrats, conservative liberals and liberal democrats - decided to create a coalition government, which was the first without the Christian-Democratic parties since 1917\(^6\). This new coalition purported to end the obvious power of the Christian-Democrats and it attempted to decrease the influence of organised interests, advisory boards and non-governmental organisations. Two prominent policy goals were

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\(^5\) The change of the name, from Social Democratic Workers Party to Labour party, was not without meaning. It marked the shift of their orientation from the German socialists to the British.

\(^6\) Three parties (two Protestant and one Catholic) merged in 1980 into a single Christian-Democratic Party. The Catholic party has been in the government ever since 1917.
the creation of jobs by a more active labour market policy and the extension of the free market and the privatisation of many government tasks.

After the war two important institutions were created in which the social partners and the government could talk about socio-economic issues: the SER and the Foundation of Labour (STAR) (Delsen 2000: 14). The STAR was created by the unions and employers’ organisations. The SER is a permanent tripartite organisation which advises the government. For a long time the government was obliged to ask the SER advise about important social-economic issues. Because the SER was more active since the 1970s, the STAR became less important since the 1970s. However, it continued to exist and it still advises the unions, employers’ organisations and the government about the collective agreement negotiations (Delsen 2000: 14). Because of these formal institutions, the social partners and the government meet each other very often. It has contributed to consensual and cooperative patterns of behaviour.

Since the 1990s both councils have become less important. For the government it is not required anymore to consult the SER. Moreover, since then the collective agreements were decentralised. There is a strong trend towards more flexible and individual collective agreements. The collective agreements at the sector or firm level became a general framework on top of which each employee has to negotiate.

In sum, the Dutch political system and the industrial relations can be characterised as follows. Because of the segmentation of society, the political elites have made package deals and created specific formal and informal rules for decision-making. Interest groups were consulted and involved in many policy areas. Attempts to change these institutional arrangements have never been successful. Despite dramatic societal changes, the political elites continued to operate the same way. Only in 1994 a coalition government was created without Christian-democrats. Since then, the influence of interest groups was limited and many official platforms were abolished.

Another target of the purple coalition government was the SER, which became less important. There seems to be a contradiction in the view many have on what has happened in the Netherlands. The miracle-story wants us to believe that the pact of Wassenaar was a breakpoint in Dutch industrial relations which has paid off some fifteen years later in high employment rates and some drastic welfare state reforms. In 1982 an agreement was made in Wassenaar between the social partners and the
government about wage moderation and working time reduction in order to create more jobs. Three days before this pact was made, the central government threatened to intervene in the wages. Hence, the question is whether the social partners agreed voluntarily and because of their own interest. It seems more evident to assume that they realised that they had no other option than to comply with the proposals of the government, in other words they were forced by the shadow of hierarchy. Moreover, wage moderation did not start in 1982, but already in the late 1970s (Delsen 2000: 26).

A second problem with the miracle-story is that the finest hour of the ‘polder model’ can be found since the mid1990s. However, exactly since that period the national government changed some formal and informal institutions that have been considered as crucial for the consensual character of the political system and industrial relations. It seems ironic that the government that has destroyed the consensus model, has received the most credit for having developed such a model.

3.3 Welfare state reform
Despite our critical remarks about the Dutch miracle, we do not dispute the economic successes of the 1990s. While the Netherlands in the early 1980s had one of the highest levels of unemployment, this has been reduced in the late 1990s to one of the lowest. Wage costs and inflation rates have been quite low for a substantial period. Moreover, economic growth increased in the 1999s. Three policy shifts have been considered as crucial contributor to Dutch economic recovery: disability benefits, labour market policy and the pensions scheme. Socio-economic performance has improved quite strongly and welfare state provisions have been revised drastically, but this does not mean that the problems of the high demands on the welfare state have been solved. The main problem was a large number of inactive people receiving generous welfare benefits. The labour participation rate has indeed increased, but it is still not high in comparison to other countries. Moreover, all of jobs that have been created are on a part-time and flexible basis. This has not resulted in a big reduction of the need of welfare benefits.

The goal of the pact of Wassenaar was reducing unemployment by means of wage moderation and working time reduction. Wage moderation was meant to improve the position of Dutch companies on the world market. Lower wage costs
could stimulate Dutch export. Wages were indeed kept low. But the main effect was that the proportion of profit increased. A drawback of decreasing wage costs is that people and firms are less willing to invest in education and job training. It may become cheaper to hire workers, the quality of labour was reduced. Later, workers did not take advantage from economic growth. Public servants were even confronted by a reduction of their purchasing power. The reduction of working time was meant to lead to a more equal distribution of labour among workers. In reality, many firms did not hire new workers, but used the money in computerisation of the production process. This is the second reason that labour became less important as a production factor.

It has been argued that the Dutch miracle works in two ways. On the one hand, employment is stimulated by wage moderation and working time reduction. On the other hand, the costs of the welfare state are cut by reducing the level and period of the legal benefits and the number of people receiving it. Both roads are reinforcing. If more jobs are created, more people move from welfare to work. And if less people leave welfare, the costs of the welfare state are reduced and consequently people have more to spend. This is the crux of the Dutch miracle: the combination of job creation, welfare state reform and wage moderation. Moreover, the reforms in different social policy areas are connected to each other as well. Youth unemployment is reduced by giving young people jobs and education instead of welfare. By reforming the sickness and disability benefits, people and firms are stimulated to take advantage of the labour potential instead of keeping them inactive. Early retirement programmes are reformed in such a way that they leave the work force more gradually. Below, several of these welfare policies are discussed.

The disability and sickness benefits have been a great burden for the Dutch government. More than 900,000 people receive disability benefits (WAO) for a long time and about 300,000 people receive sickness benefits. Disability benefits in the Netherlands have been quite generous and to a large extent they still are. For a long time, it was very difficult to reform the disability benefits. Both workers and employees took strongly advantage of the generous benefits. From the late 1970s and early 1980s many superfluous workers were declared unable to do the same job anymore full-time or part-time. These workers received disability benefits that covered about 80% of their last income. Both parties were satisfied. Firms could quite easily get rid of surplus working force and the workers were secured of a high income. As a result, there is a high proportion of hidden unemployment.
The first reforms of the disability scheme were introduced in 1987, but they were rather modest. More drastic were the measures proposed in 1991 by the Dutch government to reform the level of protection and entitlements under disablement and sickness compensation programs (Visser & Hemerijck 1997: 117). There was a wide negative response to these proposals. There was a large demonstration in 1991, the social democrats lost many members and lost 25% of its electorate in 1994 and the relationship with the unions came to a deep low.

Several reforms were implemented, but the number of people receiving disability benefits is still high. One can doubt whether the reform has really been a success when still 1 of 6 workers are officially declared disable.

For a long time, Dutch government was more occupied with giving money to inactive people instead of promoting jobs. In the 1990s, a more active labour market policy was developed. The labour market policy resulted in several job programmes, such as the youth work guarantee programme and the so-called Melkert jobs –. The result of the first programme has been spectacular. All young people who were not working or studying, were given a job by the government. Youth unemployment felt back to zero. At the age of 18 it was officially impossible to be unemployed. The only possibilities at this age are having a regular job, studying or accepting a job of the job programme. The second programme – the Melkert jobs – created public sector jobs of 32 hours a week. It was focused on low-paid workers. Labour participation has indeed increased. The most spectacular growth can be found in the female labour participation. This can be explained by women re-entering the labour market, most of them in part-time jobs.

The Dutch pension system can be characterised as a cappuccino-model containing three tiers. The first tier consists of the public pensions. Every person of 65 and older has the right to receive an elderly pension (AOW). This first tier is a pay as you go system. This means that there is inter- and intra-generational income redistribution. The second tier is organised by sector or firm pensions. The pensions in this tier are paid by the reservations that have been made. The reserves are at this moment around 80% of GDP. All workers in a sector of a firm have to contribute. This leads to intra-generational solidarity. The third tier consists of private insurances and reservations. Another important reservation is the property of a house. Buying a

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7 Named after the Minister of Social Affairs and Employment Ad Melkert.
house is in the Netherlands stimulated by the government by means of the tax reduction of the mortgage interest. This third tier is strictly individual and there is no redistribution. A fourth tier that can be distinguished consists of early retirement schemes. Since the accord of Wassenaar, programmes were developed to stimulate workers of 55 years and older to retire. This has increased job creation. The past years, early retirement is less stimulated by the employers. The Dutch pension scheme is a combination of a pay-as-you-go system and occupational pensions. This means that there is both an element of solidarity and there has been reserved enough money for the future.

3.4 Institutions and welfare state reform

In 1982, in the pact of Wassenaar social partners and the government made an agreement on wage moderation and reduction of working time. Moreover, some welfare reforms have been implemented such as a system of early retirement. Another important policy measure was a more active labour market policy. The result was more part-time employment and a more flexible labour market. In general, employment rates increased strongly, but the number of people that are dependent on social welfare is still very high.

To what extent have institutions to do with these reforms? First of all, the Dutch political system has a long tradition of consultation of interest and minority groups. Decision-making does never take place without acknowledging the opinions of involved groups. On the one hand, this makes the decision-making process in the Netherlands much more difficult. On the other hand however, once decisions are taken, the have a broader support. This increases the legitimacy of the political system. Critics and opposition are incorporated by the government. Sometimes opposition is even organised and subsidised by the government. The Netherlands is in that respect a true consensus democracy. The decision itself is less important than the process through which it is made. However, this does not mean that there can be no real polarisation between opponents. In the 1980s and early 1990s there have been strong debates about welfare state reform. The institutions of Dutch consensus democracy have made it possible to make some decisions that are painful for some groups. But on the long term, the consensus style takes away the resistance. This can be seen as the first paradox of the Dutch miracle. The institutional context seems to
prevent drastic policy measures, but in the end all resistance has been effectively removed by it.

Second, it has been argued that Dutch corporatism has contributed to economic recovery. One of the symbols of Dutch corporatism is the pact of Wassenaar. But if this pact was a turning point in Dutch relations, we should see a strengthening of the coordination of wage bargaining and cooperation between the social partners and the government. However, most developments seem to point in the opposite direction. First of all, the SER has become less important. Second, in the 1980s and 1990s there have been some serious strikes, especially in the public sector. Third, unions have become less organised (Ebbinghaus & Visser 2000). Hence, we cannot conclude that corporatism has become more important. The opposite is more evident. The second paradox of the Dutch miracle seems to be that while the degree of corporatism is decreasing, this corporatism is held responsible for the economic success.

Third, looking at the political composition of coalition governments, a striking fact is that most attempts of welfare reform by the conservative-liberal government (CDA-VVD) have failed. Only after the entering of the social democrats in the government since 1989, progress was made in reforming social security. There appears to be a link between the political composition of the coalition and the attitude of the unions. It may be the case that unions are more willing to support a government when social democrats are part of the coalition. However, it must not be forgotten that in the early 1990s that there was considerable protest of the unions against the government policy. Why did the reform succeed despite the resistance of the labour movement? We argue that the institutions of consensus and corporatism work more efficiently as long as social democrats are in power. During the 1980s the institutional veto points were effectively used by the unions to block efforts to adjust the welfare state. Once the PvdA took part of the government coalition in 1989, the resistance against reform was effectively transformed in support and cooperation. This was possible because of the ideological shift of the social democrats in the 1990s towards the ‘Third Way’.

From this section it may be concluded that the celebration of the Dutch miracle has been exaggerated. Of course, when compared to the past, certain improvements were made. But what has happened in the Netherlands cannot be generalised that easily and has partly been a matter of luck. More severe is the fact
that the explanation of the Dutch miracle seems to be paradoxical. The economic success cannot be explained by corporatist institutions, since these have become less instead of more important.

The role of institutions has been overstated. There was bi- and tri-partite consultation, there were social pacts, but trade unions were weak and the dominant government forced social partners to comply with drastic reforms. The institutional platforms were mainly used to legitimate unpopular policies. The role of politics in the politics of the welfare state has been largely forgotten. We have shown in this section that social democrats were needed for welfare reform. Although Christian-democrats attract a broader and cross-class electoral support, they did not succeed in serious reform with conservative liberals.

4 Pragmatic adjustment, conflict management and semi-sovereign leadership: welfare politics in Germany

4.1 No government – or many? The German state of co-regents

Germany can be characterised as a state without a government, or with many governments due to its manifold constitutional self-bindings and political veto points. The four main cornerstones of the complex German system of power sharing and co-governance are: co-operative federalism and bi-cameralism, multi-party coalition, co-governing opposition, and a system of delegated welfare-state competences (sectoral, meso-level corporatism and self-government of social security institutions) or dissent cultivation. While the term co-operative federalism refers to the fact that federal policy is extensively co-determined through the Länder-governments’ representation in the upper house of the Federal Parliament (the Bundesrat representing the Länder governments), the aspect of multi-party coalition means that - according to the rules of electoral representation – since 1949 Germany has been governed by (nevertheless remarkable stable) coalition governments at the federal level. The concept of co-governing opposition draws attention to the fact that the opposition in parliament has ample opportunity of compensating for its opposition status and having influence on the federal government (via electoral campaigns, the Länder-governments, the system of co-operative federalism, the Bundesrat, and the like). Finally, the system of competence delegation, which de facto is a system of incorporating the organisations
of ‘capital’ and ‘labour’ into the welfare state, refers to the extensive autonomy and exclusive integration of employers’ organisations and unions into the formulation and implementation of public policy (be it in the area of industrial relations, or be it in the area of self-governed social insurances). This complex web of institutional self-bindings divides political authority and represents significant limitations on state capacity and the role of the federal government.

Unsurprisingly, given this “set of consensus-inducing mechanisms” (Smith 1992: 40; original emphasis), the popular interpretation of Germany as a “semi-sovereign state” (Katzenstein 1987) achieved widespread acceptance as an adequate description of the political reality in the old Federal Republic as well as in the ‘new’ one after unification. This interpretation of German politics emphasises, as e.g. Sally and Webber (1994: 18) discuss, how strongly the freedom of action of the federal government is constrained by other actors – governmental (state governments), semi-governmental (para-state agencies), and private (organised interests; professional organisation), and how ‘strong’ government is hampered by the federal government’s own internal cleavages. Fundamental policy change is expected to be the exception in such a fragmented political system which is orientated towards moderation, negotiation, and status quo preservation. According to conventional wisdom German politics are kept on a “middle way” (Schmidt 1987 and 2003), not least to a great number of co-regents, which made Schmidt (2002a) call Germany the “grand coalition state”: the majority principle has been ‘tamed’ both within and beyond the parliamentary arena by a bundle of institutional constraints and consociational processes which require complex negotiations on the one hand and political will and skill on the other. These constraints have major repercussions on the politics of reforming the welfare state and often make them, especially when it comes to pushing unpopular reforms with identifiable losers and winners, a complicated, risky, and often politically disappointing undertaking. Critics argue that the institutional features of the German political system have paved the way to a substantial ‘self-blockade’ (Reformstau) and allowed for gradualist, ‘organic’ policy change only. This is true insofar as the rigid institutional self-bindings within the German political system and the manifold formal and informal veto points provide ample opportunities for obstruction, but, theoretically, little possibilities for actively pushing substantial policy change. Consequently, this traditional “‘institutions-as-policy-destiny’
interpretation leaves little room for either a governments’ ability to negotiate policy within these constraints or the fluidity of established institutional frameworks” (Vail 2003: 46). Against this background it is interesting to briefly have a look at both the factors which might hamper policy change (as in the case of the Alliance for Jobs) and at those (exceptional) conditions and strategy which open up temporarily restricted windows for far-reaching reforms (like in health and pension policy), the latter contradict the tradition portrait of German politics. In line with Vail (2003) we argue that existing literature is poorly equipped to specifically account for far-reaching policy change, since it systematically underestimates the elites’ capacities for negotiating policy change and policy outcomes within the parameters of the German institutional system.

4.2 Concertating a band of egocentrics: the failure of the Alliance for Jobs

The German Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit (Alliance for Jobs, Vocational Training, and Competitiveness; abbreviated as Alliance for Jobs) was a prestigious core project of the red-green government which had won the elections in 1998. Chancellor Schröder (SPD) and the new Berlin coalition government replaced the Christian-democratic and liberal (CDU/CSU and FDP) government which had been in office for 16 years. From the very outset of the new Social-democratic and Bündnis90/Die Grünen-government, Schröder and the Chancellor’s office offensively promoted the re-establishment of a tri-partite institution of national macro-concertation which should comprise officials of the government, peak-level representatives of the employers and unions, plus scientists (benchmarking group). Inspired by social pacts in other European countries, in particular in the Netherlands, and with regard to the traditional and long-established arrangements of formal German meso-level corporatist and quasi-corporatist coordination and co-operation (social partnership), the German chancellor tried to initiate an orotund platform for negotiations, political exchange and consensus building (Standortbündnis) in order to tackle a complex mix of inter-related and overlapping domestic problems (poor economic performance, high unemployment, rigid labour market regime, high non-wage labour costs, high public debts). Accompanied

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8 See with respect to the highly formalised internal structure of the Alliance e.g. Heinze (2003).
by high expectations and solemn promises, the explicit aim of this alliance was, as the
head of the Federal Chancellery, Steinmeier (2001), variously explained, to
institutionalise a new culture of pragmatism, consensus, dialogue and strategic co-
operation between government, employers and unions.\(^9\) The political mission of this
alliance, whose initial meeting took place in December 1998, was to make Germany
fit for the challenges of globalisation and the EMU on the one hand and,
simultaneously, to combat the mounting internal dysfunctions of the labour market
and to reform the transfer-heavy welfare state which became an imperative political
problem in Germany in the 1990s. Against this backdrop, the re-vitalised Alliance for
Jobs had a high symbolic value for Chancellor Schröder and his idea of co-operatively
re-structuring the German welfare state.

At that time, this idea of negotiated adjustment and corporatist
concertation/interest intermediation, which has always been a normative core idea of
the so-called *Modell Deutschland* and the *Rheinland*-variant of welfare capitalism,
was very much in line with what had happened in other European states and what
Jochem & Siegel (2003b: 10) characterise as the “renaissance of concerted reform
patterns in Europe” (our translation). Co-operative, negotiation-based social pacts
were a centre-piece of the politics of re-negotiating the post-war social contract in
many continental- and Southern European states (see e.g. Ebbinghaus & Hassel 2000;
Fajertag & Pochet 1997; Regini 2000). However, it was not only the sheer
establishment of social pacts as such which was inspiring for Chancellor Schröder;
rather it was the idea that such concertations should comprise a broader spectrum of
interdependent policies (like industrial relations, labour law, wage policy, fiscal
policy, labour market policy as well as pension and health policy) in order to be
effective and produce sustainable and coherent results. Concertation therefore,
appeared to be a promising way (and policy style) to activate reform potentialities
within and, specifically, across policy fields also in a country like Germany which is
marked by belligerent interest groups, tightly coupled (Hemerijck, Manow & van
Kersbergen 2000), and complementary and self-supporting policy domains (industrial

\(^9\) The Alliance for Jobs was part of the 1990s Third Way rhetoric of the ‘new’ Social Democrats
whose aim was to modernise society and the welfare state alike. The ideas and vocabulary of
protagonists of the Third Way or, in Germany, the *Neue Mitte* which, as a vague point of reference of
social-democratic attempts at political re-orientation and programmatic modernisation, became so
influential after the mid-1990s. See for more details e.g. Cuperus, Duffek & Kandel (2001) and Funk
(1999); for Germany Hombach (2000); summarising the British perspective Miliband (2002).
relations, macro-economic policy, labour market policy, fiscal and tax policy, social
security). Instead of segmented and uncoordinated, incremental reform initiatives, the
aim of the new alliance was, as Siegel (2003: 149) stresses, to develop an integrated,
cross-sectoral reform concept comprising a bundle of interdependent policies and
policy fields. But, however, the Alliance for Jobs failed to establish new resources for
re-structuring the welfare state, to manage adjustment and, in toto, proved to be a
political flop: though the German chancellor explicitly regarded the alliance as a
personal political project and did never hide his ambition to make it a sustainable
success, the results of the alliance, which broke down in 2002, were sobering and
disappointing for both the government and the public – and not least for the scientific
community.

Tri-partite arrangements, such as the German Alliance for Jobs, are demanding
and fragile institutions of interest intermediation and consensus building which very
often suffer from a double under-estimation: an under-estimation of the pre-conditions
of effective macro-concertation and an under-estimation of institutional, economic
and political obstacles. The informalisation of politics via the selective incorporation
of a specific cartel of influential peak-level organisations in policy formulation and
decision-making processes (like the Alliance of Jobs), which might be an important
vehicle for overcoming veto points and pushing complex reforms, failed due to a
bundle of factors and reasons in Germany. To mention but a few: given their different
interests and expectations, the representatives of employers and unions were both
unable and unwilling to switch to the mode of co-operation and common problem-
solving. Evidently, confrontation and status quo orientation appeared to be more
attractive for them than compromising and concessions. Though, in the coalition
convention of the Social-democratic and Green Party of October 1998, the new red-
green government had called the participants of the future Alliance for Jobs to
contribute to equal parts to the Alliance in a fair manner of give and take, the
addiction and incentives of employers and unions to co-operation, consensus-
building, and political exchange were marginal. Both parties were neither willing nor
disposed to make compromises in those policies where losses can be assigned but

10 Like wage moderation, lower non-wage-costs, cost containment in social security, de-
regulation of labour law, greater flexibility of the labour market on the part of employers, and the
exclusion of wage policy from the agenda of the Alliance or binding promises of employers to create
new jobs on the part of the unions.
gains are uncertain (e.g. to obtain new jobs in exchange for wage moderation). In this respect, this tri-partite forum for negotiating reform has served mostly as a “façade of consensual policy making” (Vail 2003: 48).

Despite well-known and severe problems in many sectors the Alliance for Jobs was threatened and finally destroyed by fundamental differences in policy positions and – which is a crucial aspect compared to the Netherlands – fundamental differences in defining the problem as such (common problem diagnosis) from the very outset of this macro-concertation – nor was it possible to formulate common reform therapies though the aim was clear and accepted by all participants (decrease of non-wage labour costs, more employment, increase of competitiveness, etc.). Additionally, the negotiations suffered from the unilateral declaration of political taboos, i.e. issues about which both employers and unions were not willing to discuss, let alone to compromise. In the end, there was a deeply rooted mistrust and scepticism both on the part of employers organisations and unions vis-à-vis the Alliance and the price they have to pay for participation (expectation and rejection of losses, unlikelihood to achieve positive-sum-games; preference to autonomously negotiate at meso-level). In this respect, Germany serves as an example for the fact that and how concertation can end up in conflict and confrontation in the wake of economic crisis, despite massive appeals and initiatives of the governments. Moreover, the Alliance for Jobs allows for demonstrating that concertation and consent building can fail when the social partners have large self-regulatory competences in key policy areas, when it is acceptable for social partners that the price of failure is to be excluded from further reform discussions, and when the only consent is that there is no consent.

4.3 Taming the party-political beast: informal reform coalitions in health policy

The German health care system, a peculiar hybrid, represents a third way between a state-run, national health service (like in Great Britain) and a pre-dominantly market-based system (like in the USA). While national legislation provides the general legal framework (health care is subject of the shared decision-making powers of the federal government and the Länder, the latter especially responsible for hospitals), it is up to sickness funds’ and medical practitioners’ self-regulatory organisations to jointly negotiate, manage and specify the details of health provision, and thus to allocate public resources. Though health care is one of the most often reformed welfare-state
policy fields, Germany has often been described as a textbook example for political paralyses, reform blockades and reform resistance in health policy. German health policy certainly has a history of putting off structural reforms as long as possible, backing down in the face of fierce oppositions to change, or watering down reform proposals. Major policy change has proven to be fairly unlikely, not least due to the specific features of this policy field (professional dominance, influential organised interests, powerful joint self-government of the public-law insurance funds and physicians, clientelistic party politics, strong position and strong interests of Länder-governments, coalition government, etc.), which make cost containment policies, let alone structural reforms, rather difficult. Nevertheless, the examples we provide in this section – the health policy reform of 1993 (*Gesundheits-Strukturgesetz*; GSG) and the 2004 health policy reform (*Gesundheits-Modernisierungsgesetz*; GMG) demonstrate how governments succeed in strategically opening-up temporary windows of reform and thus shed light on some of the causal mechanisms which allow for more substantial policy change, i.e. structural change (GSG 1993) and far-reaching cost containment (GMG 2004).

The health care reform of 1993, that passed the parliament in 1992, can be interpreted as the realisation that the previous political strategies had been ineffective or even counter-productive. This act has surprised not only the scholars, but especially the actors in the health system because the conservative-liberal federal government succeeded in tackling the identified reform blockades and made a big step towards restructuring the system. With regard to the horrific scenario of spiralling costs and the enormous pressure to act, which was the greatest trump card of the government, the Ministry of Health fundamentally changed the policy style to confrontation with lobby groups and health care organisations – acknowledged with applause by the public. The government of Chancellor Kohl (CDU) turned the massive financial problems as well as the enormous pressure to act consequently against the system and authoritatively forced the actors to accept a substantial reduction of the competencies of the joint self-government.

This “victory over pressure group politics” (Blanke & Perschke-Hartmann 1994) was only made possible via the building of a reform coalition which allowed for circumventing both the veto points of the German political system and the vested interests (medical profession, pharmaceutical industry, etc.). In order to suppress the
liberal coalition partner, the FDP, the new conservative Health Minister offered both the SPD and the SPD-governed Länder to enter in a cross party coalition. After the SPD had signalled its approval, negotiations commenced between experts from the government and a negotiating commission consisting of representatives of the individual federal states and the Social-democratic party. In the strategy of the Health Minister, reaching agreement with the central policy makers in government, opposition and federal states was given top priority in order to save the new reform from suffering the same fate as those before. This was also the key to dismiss the organised social pressure groups: the Minister succeeded in managing to exclude the health care organisations totally from the negotiations between the political experts in order to avoid encountering ‘crossfire’ form the lobbies (Blanke & Perschke-Hartmann 1994: 236f). No attempt was made to gain the support of the medical profession – although the new reform substantially reduced the privileges of the physicians. In addition to that, the position of the Liberal Democrats was once again weakened, because the Health Minister succeeded in persuading the employers (whose interests were represented by the FDP) to change their position: they apparently had been convinced that the announced reform package could lead to significant cost savings and decreases of the contributions and thus of the high non-wage costs made responsible for the weakness of the competitiveness of the German economy.

Blanke & Perschke-Hartmann (1994: 239) are right to emphasise that the real reason for approaching the opposition was that “only a strategy subject to approval like this one could have any hope of introducing arguments which were unenforceable within the coalition (...). The CDU and CSU would never been able to force (certain) issues against the determined opposition of the Liberal Democrats. (...) The ‘cross-party coalition’ therefore offered strategic advantages”. The reform coalition was able to pass a law which was not just innovative in terms of the policy method and the style of policy, but also in terms of its legal form. The legislature limited the powers of the negotiating partners, therefore most of the important measures that redefine or limit the actions of the joint self-government were now to be regulated directly by law (e.g. legislative interventions in pricing by allocating fixed budgets to service sectors within the Statutory Health Insurance, SHI). Besides the interventions having a direct effect on the health care costs, several structural reform issues that had always been
abandoned in the past as a result of failure to reach agreement were implemented (reforms of financing the hospital sector; reforms to improve co-operation between out-patient and in-patient treatment; fixed medical budgets; the organisational reform of the health insurance funds; the revolutionary idea of a Risk Compensation Scheme between all insurance funds to offset the different structural risk factors applied to the insured; or the right of workers to choose their insurance fund).

It is evident that the 1993 health reform is a striking example of an (exceptional) situation in which severe problems were dealt with constructively at the negotiating table. The reform coalition consisting of the two big people’s parties on the one hand and the majority of federal states on the other was celebrated in the German parliament as “living proof of the capacity to act in politics” (Blanke & Perschke-Hartmann 1994: 242). But it was indeed a very special bundle of reasons that made this atypical political process possible and successful: First of all, the failure of the previous reforms produced a number of political learning effects which brought about a fundamental change in the style of policy-making and the content of the reform. Secondly, given the reform coalition, “government policy was able to ward off the pressure-group policies of the health care organisations with the cross-party coalition as a kind of extended negotiated democracy” (Blanke & Perschke-Hartmann 1994: 242). Thirdly, in this context the veto points (e.g. the coalition partner or the federal states) were either fundamentally weak - or intelligently and strategically involved in the reform settlement. This made it possible to realise a hierarchical policy style and to redress various structures of the health system. It compensated for the internal fragmentation of the governmental system. This holds – at least partly – also true for the latest German health reform.

Explicitly referring to the experiences and political success of the 1993 reform, in 2003 the red-green German government reproduced the same political pattern. Against the background of severe crisis scenarios (comparable to those of the beginning 1990s), the Social-democratic Minister of Health, Schmidt, and her Christian-democratic counterpart and negotiator, the former Health Minister Seehofer, agreed to build yet again a consensus-based, informal grand coalition in health policy in order to conceptualise and push a new health reform. After years of sharp conflict between Social-democrats and Greens on one side and the Conservatives and Liberals on the other, the German government and the Christian-democratic opposition in
parliament, plus representatives of Länder-governments, succeeded in consensually negotiating the content of a new health reform (in force since 2004) which was finally adopted in both the German parliament and in the Bundesrat in autumn 2003, the latter dominated by conservative Länder-governments at that time.

It was again the mounting internal and external challenges of the German SHI which made government and opposition move together and try to push an extremely unpopular reform despite the resistance of large parts of the population. The 2004 German health reform act, which the former Health Minister Seehofer called the “greatest reform of the younger German social history” (Frankfurter Rundschau, 23 July 2003), has been the fifth health-policy act since 1992. The aim of this new health reform was – once again – to stabilise and even decrease the high SHI-contribution rates and to sustainably settle the debts of the public health insurances. In contrast to the 1993 reform, its main focus mainly has been, by and large, on substantial cost shifting to patients and insured, and significant cuts in benefits/risk privatisation on the one hand and the extension of the financial resources of the SHI via both increasing co-payments and additional financial resources (increase of the tobacco tax, higher contributions for insured pensioners) on the other. From the point of view of political risks, given the substantial new financial burdens for insured and patients caused by this political compromise, the building of an issue-specific, informal Grand Coalition comprising the Social-democratic, Green, Christian-democratic and Christian-social party, once again, allowed for blame avoidance, the obfuscation of accountability, and for reducing electoral risks. From the point of view of strategically pushing an unpopular reform, the inclusion of the opposition and of representatives of the German Länder gave the government the twofold opportunity of both standing the opposition of parts of the Social-democratic party and as well the vehement resistance of the unions on the one hand, and of winning the approval of the Bundesrat which would have had the power (absolute veto) to reject the bill, on the other. Against this backdrop it is understandable that the government joyfully accepted the offer of the opposition to co-operate – while the Christian-democrats were keen on publicly demonstrating competence and responsibility, and on presenting themselves as indispensable rescuer without which the governments would be unable to act in this policy field.
4.4. From path-dependency to path-breaking: the 2001 pension reform

The 2001 German pension reform, adopted in May 2001, represented the beginning of a new welfare politics of a new welfare state. This pension reform can be denoted as a direction-setting law. The new direction consists of a new public-private mix whereby the German welfare state has added to the former exclusively pay-as-you-go (PAYG) financed public system a capital-funded private pillar which is generously subsidised by the state. While the function of the public pension system is continuously reduced to a kind of elaborated, individual basic income, the significance of the voluntary (not compulsory as originally planned) private pillar increases proportionally. As a result, the new German welfare state does not change within the path-dependency of the three worlds of welfare, rather it is on an irrevocable path from a conservative welfare state to a new recombinant type mixing elements of all worlds of welfare.

In November 2000, after more than one year of controversial discussions and substantial alterations, the Social-democratic Minister of Labour and Social Affairs presented the bill of a two-part pension reform act. The red-green government strategically separated the pension reform into two parts: the Bundestag passed both bills against the votes of the opposition in January 2001: the new pension formula (AVmEG) which substantially reduced benefits (decrease of pension level, etc.) of the PAYG scheme in order to stabilise the contribution rate and the introduction of tax-financed subsidies for a private, capital-funded pension pillar (AVmG). Subsequently, as expected, the second chamber, the Bundesrat, dominated by Christian-democratic Länder governments or by those governments where the Christian-democrats were in a coalition with either the Liberals or the Social-democrats, rejected the second part, the system change towards the stimulation of (better: voluntary obligation to) private provision for old-age, in February 2001. After long negotiations within the mediation committee of Bundesrat and Bundestag, the AVmG finally passed both houses of parliament (in May 2001) in spite of the initial resistance of the vocal Christian-Democratic opposition (CDU/CSU) that had tried to block it even in the Mediation Committee.

Which are the mechanisms of change in this particular case? This fundamental policy change was made possible by four processes (see Lamping & Rüb 2004): first

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11 The core ideas of this section stem from Lamping & Rüb (2004).
a running out of policy options in respect of traditional concepts of problem-solving within the pension system, second a mounting pressure to contain the costs of the public pension scheme which forced the government to react (dramatically increasing contribution rate; severe and scientifically confirmed crisis scenarios), third a new experimental and pragmatic policy style, and forth a strategy of compensatory concessions and side payments to key actors in order to overcome their political resistance (of the unions) and institutional veto potentials (the Bundesrat)– plus specific concessions to the electorate. The latter aspect is an important one since the red-green government pursued a vice-into-virtue-strategy by claiming to have both stabilised the public pension scheme (lower contribution rate) and improved the benefits for families (higher public subsidies for private provision contracts) and for needy persons (quasi-minimum pension) in order to avoid blame for an extremely unpopular policy and claim credit for taking aspects of equity and family policy into account.

The red-green government adopted a double strategy that was clearly aimed at increasing the political feasibility of the reform, for it combined a politically more inclusive approach of making concessions to political key actors with an effective strategy to neutralize veto points and veto players in the arena of German pension policy – i.e flexibility and creativity in respect to the reform content and the way to reach the aim. The aim of the new stabilisation policy was to both radically reduce the level of pensions and to halt the mechanisms of massive and quasi-automatic expansion due to demographic changes, massive unemployment, and the specific consequences of German re-unification for the public pension scheme. Therefore, the basic idea to switch to a new public-private-mix was accepted as an appropriate policy option among all important party-political actors involved and within the policy community of pension experts, not least the social partners. The red-green government was not only astonishingly quick but also remarkably successful in pushing through this system change. It has to be taken into account that the Social-democrats, especially the policy advisors in the Chancellor’s Office advocated not only a new pensions policy but a new style of decision-making: in contrast to the former decision-making within well-established and exclusive, the new red-green government pursued a different political strategy which has been coined experimental law-making (see Lamping & Rüb 2004). One of the features of this new policy style
within the pension arena was the successful attempt to situational negotiations and *ad hoc* consensus-building. Against this backdrop, experimental law-making, which side-stepped the traditional pension policy community, should be seen as a deliberate political strategy to eliminate the complex and long-enduring consensus-building processes within the fragmented German political system. Experimental law-making turned out to be a stop-and-go process in which the government threw a rough idea into the political arena, observed the reactions of the actors involved, and reacted *ad hoc*. In the end all the actors involved succeeded in leaving their marks on the final bill without the *core idea* of the reform being threatened. The most important intervention from the unions was made through a telephone call to the Federal Chancellery the day before the voting in the *Bundestag*.  

The law on public subsidies for private provision, the centrepiece of the reform, required a majority in both houses of parliament (absolute veto of the *Bundesrat*). The subsidies for the private provision are financed via the tax yield from income tax, which is divided between the Federal State and the *Länder*. Inevitably, pension policy has become part of the particular logic and complex interplay of collaborative federalism and party competition, the outcome of which is often (and often too rashly) judged to be ineffective and sub-optimal in terms of policy change (see Wachendorfer 2000). This is especially true in those cases in which the *Bundesrat* is used as a party-political instrument of the opposition against the federal government and/or when a cartel of the *Länder* tries to block a federal initiative that, for example, is perceived to disadvantage the *Länder*. In pension policy these high political risks could have been reduced through bargaining with and financial compensation to the *Länder*:  

The Federal Government, mainly Chancellor Schröder and his Finance Minister succeeded via informal negotiations in convincing those *Länder* governed by the Social-democrats to agree to a financial package consisting of an increase in child allowance, the reform of the interstate financial compensation

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12 cf. *Der Spiegel* 5/2001 titled a report on the policy-making process: “A telephone call is enough”. While in the initial bill the minimum level had been 64%, the government immediately decided to accept the union’s proposal of 67% as standard level, promising (too!) optimistically that pensions should and would not fall below this level

13 While the red-green government could count on 23 votes in the *Bundesrat*, in contrast to 28 votes of the Christian-democratic opposition, 18 votes belonged to the ‘neutrals’, i.e. ‘grand coalition’- *Länder* governments (SPD/CDU- coalitions in Berlin, Bremen and Brandenburg) or the Social-democratic/Liberal-government of Rheinland-Palatinate. After the Bundesrat had rejected the bill, it was the aim and ambition of the federal government to win at least 12 votes of the ‘neutral’ *Länder*-governments.
(Länder-Finanzausgleich), the Solidarity Pact II, and the increase of public subsidies for the new private pension, which together were to compensate for Länder’s tax losses. Additional votes, especially in those states with grand coalitions or with a social-democratic/liberal government, were needed by the red-green federal government to pass the law in the Bundesrat. The federal government tried to get the agreement of Rhineland-Palatinate (SPD/FDP) via the concession to accept even assets in housing as equivalents to individual savings plans (promoting both the building industry and the individual acquisition of a house or flat). Finally, the federal government succeeded in getting the agreement of the Berlin and Brandenburg Länder via the promise of more financial compensation for pensioners’ basic income and the settlement of new federal agencies. In the end, the coalition governments of Berlin and Brandenburg plus the Social-democratic/Socialist (PDS)-government of Mecklenburg-Vorpommern approved the bill. Due to the fact that the Bundesrat was far from being a coherent or monolithic veto player (see Merkel 2003), the federal government succeeded in strategically making parts of the conservative party at Länder level (those in grand coalitions) vote for the pension bill though the conservative party in the Bundestag had voted against it.

4.5 Governing the co-governors: political flexibility and policy pragmatism

German governments face severe institutional and party-political obstacles for major policy change as well as for a negotiated reform of the welfare state. Unsurprisingly, Germany is widely regarded as an example of strong path-dependency and resilience (Pierson 2001a and 2001b; Rhodes 2001: 59; Esping-Andersen 1996: 266f.). Indeed, in respect of constitutional arrangements and institutional features, the German political system can be understood as a fine structure of institutional checks and balances and numerous veto points along the chain of decision-making. Policy standstill and inability to reform have become by-words for the serious problems of modifying the German welfare state. However, our analysis puts emphasis on remarkable flexibility and successful changes made possible despite the semi-sovereign leadership of the government.

While the health policy examples reveal that grand coalition building, which allows for blame sharing and the diffusion of political responsibility, is a key to
reforming the German welfare state, the German pension reform demonstrates that unions are important actors in reform processes in mature welfare states (see also Anderson & Meyer 2003). While in power, however, Social-democrats have to seek the support of important societal groups, not least of the unions. In contrast to Anderson & Meyer (2003) we argue that Social-democrats’ political strategy concerning the unions has been an important factor vis-à-vis the successful political adoption of the pension reform: the German labour minister was flexible enough to negotiate and eventually design a reform which contained specific concessions to the unions (and the left wing of the SPD) in order to win their acceptance. However, government’s clever politics allowed for pushing a reform despite the resistance of important political actors and for enacting the first major structural reform of German pension since the institutional of German pension in 1889.

In contrast to these political success stories, the Alliance for Jobs failed to fulfil the high political expectations and aims on the part of the governments and the scientific community. At no time, the Alliance was an effective arena for negotiating adjustment policies, generating trust and making actors turn to co-operative games. Its output can be regarded as modest, ineffective and, regarding actual policy reforms, politically irrelevant (see also the analysis of Siegel 2003). The government preferred political ‘soli’ and unilateral action alongside the Alliance and in the end deprived the Alliance of many of the issues which could have been negotiated between the partners.

Siegel (2003) and Lehmbruch (2000) are right to allude to the point that the highly formalised, tri-partite Alliance for Jobs was unable to come to cross-sectoral consensus building due to the specific institutional segmentation of the German meso-level corporatism. In other words, there was a profound incompatibility between the government’s attempt to macro-concertation and the various forms of meso-corporatist negotiation networks (‘social partnerships’)14 whose self-interests and autonomy are considerable and which were unwilling to accept the results of the Alliance for Jobs without reservation. Against this background, the failure of the Alliance for Jobs demonstrates the fundamental weakness of the federal government to both effectively govern (restricted top-down steering competences compared to

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14 Like the arenas of collective bargaining, industrial relations, social security, and the like, all of which follow distinctive ‘rules of the game’ and involve different actors with different interests.
Westminster-democracies) and to impose substantial sanctions on the actors involved (low potential to carry out a political threat).

The Alliance for Jobs once again shows that one should not expect from the sheer existence of a high number of formal and informal negotiation bodies and their inherent force to co-operation that co-operative policy-making and consensual problem-solving is the inevitable result: by no means does the formal and informal enforcement of co-operation and negotiation *eo ipso* imply a productive dealing with dissent and conflict. In its very core, Germany is a ‘dissent society’. Siegel (2003, 149) is therefore right to characterises the German political system as a “seriously defect consociational democracy” (our translation).

5 Conclusions: managing austerity and re-structuring the welfare state: bringing back politics in the ‘new politics of the welfare state’

Welfare states are in trouble, facing similar challenges which governments, caught within the relentless logic of liberal democracies (electoral retribution, etc.), try to cope with by using different pathways and pursuing different goals. Demands for retrenchment have grown more insistent in all western countries and have provoked sharp conflicts. As a response, significant – and sometimes fairly painful - changes in social policy have been introduced, as discussed in this paper on the basis of Dutch and German examples. Since welfare states and welfare-state policies, firstly, are deeply embedded in national cultures and national polities and, secondly, create long-term (collective) commitments and (individual) expectations which de facto constrain the range of feasible reform initiatives to a kind of path-dependency without knowing the future direction, and, finally, guarantee party-political allegiance and popularity and thus are a centre-piece of electoral campaigns, it is plausible to assume that institutional veto points play a major role in the politics of welfare state re-adjustment. Do they really reduce welfare state re-structuring to a kind of innovative status quo preservation? Our case studies on specific policy domains central to the welfare state suggest that one should not overestimate the impact of institutional variables. By contrast, the politics of re-structuring the welfare state are often marked by an astonishingly high strategic variability and (enforced) creativity on the part of political actors. Institutional settings enable and constrain at the same time; they do
not simply rule out specific policy choices – nor do they simply pre-determine politics.

Undoubtedly, institutions serve as a ‘filter’ and ‘incentive’ for collective action and, like veto points, can be made use of in order to obstruct policy initiatives. But, as demonstrated in this paper, constitutional veto players do not always block or substantially modify policies, since the political price for a simple obstruction strategy is high. Veto points, as “points of strategic uncertainty” (Immergut 1992), provide to the same extent ‘windows of opportunities’ and may stimulate actors to both political creativity and co-operative negotiations. Therefore, there is evidence to more precisely take into account both the interaction effects among relevant institutions and actors on the one side and the specific context and framing of reform agendas on the other which may have a substantial modifying impact on institutional variables. By no means, the new politics of welfare state adjustment seem to be as predictable as scenarios of path-dependency and institutional rigidity often imply. On the contrary, they are complex, spontaneous and contingent in particular situations and in particular sectors. Due to the unpopularity of welfare state reforms and the high political risks these delicate policies imply, successful, and more rational, reform heavily depends upon the ability of political actors to reduce political risks by building broader reform coalitions both within parliament (formal) and beyond (informal) with societal interest groups. Once again, our case studies confirm that much depends upon successful coalition building, i.e. to ensure the support of crucial actors and to base retrenchment policies on negotiations and compromise. This does not necessarily imply that policies degenerate to the lowest, and thus ineffective, common denominator. These often centrist reform coalitions temporarily thwart the rules of the game of liberal democracies and allow for sharing blame and responsibility, clouding accountability and depriving the constituency of exit options to other parties. Such coalition building is not only a matter of acting from necessity given the overwhelming pressures on the welfare state; rather what facilitates the sectoral and temporary creation of these reform coalition is not only, but particularly the fact that the social-democratic and conservative parties both in the Netherlands and Germany are still protagonists of strong welfare statehood – none of the big people’s parties targets at substantially dismantling the post-war social contract. On the one hand, this implicit consensus makes coalition building and concertation easier,
on the other hand the politics of preserving the party-political ‘slight distinctions’ often prevent political actors from taking part in reform coalitions and shift their preferences to competition and short-term electoral gains.

Far-reaching policy change in mature welfare states is, as Schmidt (2002b) emphasises, complicated and complex, but yet possible, not least in the politically sensible and salient policy areas such as social security or wage policy. The ‘fate’ of reform policies is very much dependent upon the clever, strategic moves of the government, be it, as in the German cases, the inclusion of veto players into a reform coalition (like in health policy), bilateral agreements with and partial concessions to major interest groups (like specifically to the unions in pension policy), or – divide et impera - the strategic splitting-up of the opposition or of conflicting interests via (financial) compensatory transactions (like side payment to Länder governments in the Bundesrat). The Netherlands succeeded in reforming part of their welfare state because of their institutional arrangement (consensus democracy), and Germany despite of its institutional arrangement (dissent society).

In contrast to – inter alia – Huber/Stephens (2001) we argue, and have demonstrated, that the importance of partisan politics has not at all declined. Partisan politics are of utmost importance when it comes to successfully re-structuring the welfare state. In a twofold perspective: Firstly, the examples discussed in this paper underline once again (see also Green-Pedersen 2002 and 2003; Kitschelt 2001; Ross 2000) that party competition – and the, at least partial, de-activisation of its competitive logic - is a crucial factor for welfare state reforms. Policy legacies, vested interests and institutions play an important role for the ‘new’ politics of welfare state adjustment, but partisan politics play a key role – especially when it comes to include influential political actors into reform coalitions. In this respect, Germany provides empirical evidence for the fact that party competition and the opportunity of co-governance of the opposition via the Länder and the Bundesrat fundamentally complicate effective policy-making, especially when it comes to imposing unpopular reform policies. The examples provides in this paper underline that the big people’s parties in particular – and especially the consensus among them are of utmost importance for the success of welfare state restructuring: a broad, negotiated party political consensus bridges the institutional fragmentation and cleavages of the political system, often allows for cross-sectoral and integrative policy reforms,
increases the rationality and effectiveness of reform policies, and finally, as Lehmbuch (2000: 111), stresses, might help to overcome both societal fears and resistance vis-à-vis reform policies. Secondly, German pension policy is only one example for the fact that left-wing parties may retrench more successfully than right-wing parties since, from the point of view of political psychology, they are still associated with defending the welfare state and expected – if necessary – to retrench it in a socially fair manner (credit claiming). Our finding is in line with Ross (2000) who argues that in some cases the left has had more effect in pursuing contentious retrenchment policies than conservative parties.

We come to the conclusion that institutional settings (dispersed authority and strong veto points) undoubtedly have an influence on the style of reform initiatives, but not necessarily on their content. The Dutch and German examples demonstrate that negotiated settlements (antagonist co-operations) might sometimes result in a more fundamental policy change than expected. Pierson (2001b: 9) is therefore right that the analysis of institutional effects on welfare state reform is complicated and complex: “it would be a mistake to simply treat institutions as ‘independent variables’ which will have similar effects in different settings.” Arguments about political institutions explain important aspects specifically when it comes to discussing the capacities of governments to unilaterally introduce retrenchment policies of whatever kind; but there are other important dimensions which have to be taken into account. Most of the institutional changes discussed in this paper are marked by what Offe called “creative opportunism” (Offe 2001, 368). Governments, in this respect, can be denoted as ‘creative opportunists’ - insofar as they have proven to be both pragmatic and creative in opening-up new ‘windows of reform’ when it comes to push retrenchment policies and to define new policy priorities; be it via informal ‘grand coalitions’ in order to tame party competition or to overcome institutional veto points (like in German health policy or regarding the Dutch Pact of Wassenaar), be it via new policy styles and far-reaching concessions to veto players (like in German pension policy). Conflict of interests, that is the basic idea, can only be solved when governments bide their time and chose the right strategy in order to successfully manage a bundle of political trade-offs. In welfare-state politics it is these opportunists who are the most creative ones – they make a difference.
However one assesses these institutional changes, the retrenchment or restructuring policies do not follow an overall normative, coherent or clear-cut programmatic, rather they follow, as again Offe (ibid.) calls it, a “messy logic”: they are often opportunistic, pragmatic, incremental and compromise-based policies which aim at adjusting the welfare state while simultaneously reducing the political risks for the government. Policy processes and policy-making do not necessarily follow a ‘master plan’ rationality of problem-solving, rather they follow a political rationality of conflict-channelling and office-keeping. These messy politics, which bring about change, are characteristic of the new politics of the new welfare states – beyond path-dependencies, policy legacies and institutional rigidity.

Institutions (corporatism and veto points) certainly matter since they have an effect on the way and extent to which governments have to organise consensus (politics-dimension) (compared to “Westminster”), as discussed in our case studies. But institutions do not necessarily have an effect on (or are less important for) reform contents (policy-dimension) once governments succeed in building a broad reform coalition. Therefore reform trajectories and policies are subject to a significant degree of negotiation and pragmatism within institutional constraints. When governments fail (see the German Alliance for Jobs) then institutions (the German corporatism) reveal their rigidity and power – and policy standstill or failure becomes reality.

Most of the welfare state literature, and Pierson in particular, focuses on the mechanisms of non-change while we focus on the mechanisms of change, i.e. how reforms have been enacted. The failure to explain (and allegedly predict!) change by the current welfare state literature can be explained by the low explanatory power of institutional theory. This paper has shown that the politics and ideology remain decisive in changing policies.
Figures and tables

![Figure 1 Public social expenditures as % of GDP (source: OECD social expenditures database)](image)

Table 1 Party governments in Germany and the Netherlands, since 1974.

<table>
<thead>
<tr>
<th>Period</th>
<th>Prime Minister</th>
<th>Parties</th>
<th>Share of seats in parliament</th>
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<tbody>
<tr>
<td>1974-1982</td>
<td>Schmidt (SPD)</td>
<td>SPD - FDP</td>
<td>around 52%</td>
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<tr>
<td>1982-1998</td>
<td>Kohl (CDU)</td>
<td>CDU/CSU - FDP</td>
<td>between 51% and 60%</td>
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<tr>
<td>1998- present</td>
<td>Schröder (SPD)</td>
<td>SPD - Grünen</td>
<td>around 52%</td>
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<table>
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<th>The Netherlands</th>
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<td>2002-2003</td>
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<td>2003-present</td>
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