# Divergence within Regimes:
# The Impact of Party Preferences on Welfare State Change

Martin Hering
Centre for Gerontological Studies/
Department of Political Science
McMaster University
Hamilton, ON, Canada
heringm@mcmaster.ca

— DRAFT —

Comments are welcome!

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## Introduction

In the past 25 years, the reform of the welfare state was on the agenda of most governments of advanced industrialized countries. Early studies found that almost everywhere the politics of reform was about the retrenchment of social programs. Since both leftist and rightist governments held power in a number of countries, these findings suggested that partisan differences mattered little. But more recent studies showed that the politics and policies of welfare state change were much more diverse than simple retrenchment. Policy reforms differed significantly across the three welfare regimes.[1] Real retrenchment—reforms that reversed the level of social protection achieved during the post-war period—occurred in the liberal world of welfare regimes. But changes in the social democratic and conservative types of welfare states were largely limited to cost containment and the recalibration of social programs. In the social democratic world, there was more cost containment, and in the conservative one more recalibration.[2] These new findings, however, did not lead scholars to reexamine their initial conclusion that political parties play a small or even insignificant role in the reform of welfare states. Pierson explained the observed divergence across regimes through variations in two non-partisan variables: the strength of socioeconomic pressures, and the level of popular support for the welfare state.[3]

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[1] Paul Pierson, ed., *The New Politics of the Welfare State* (New York: Oxford University Press, 2001); Fritz W. Scharpf and Vivien Schmidt, eds., *Welfare and Work in the Open Economy: Diverse Responses to Common Challenges*, vol. 2 (Oxford: Oxford University Press, 2000); Fritz W. Scharpf and Vivien Schmidt, eds., *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*, vol. 1 (Oxford: Oxford University Press, 2000).

[2] Paul Pierson, "Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies," in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001).

[3] According to Pierson's argument, political parties matter only in the liberal or Anglo-Saxon type of welfare states, first, because the popular support for the welfare state is relatively weak, and second, because in most Anglo-Saxon countries the governmental institutions are centralized. Huber and Stephens

**Table 1.** ***Divergence within Regimes: Health Care and Pension Reforms in Germany***

| | Reinforcement | Destabilization |
|---|---|---|
| Health Policy | Health Insurance Reorganization Act (1996)<br>Health Insurance Financing Act (1997)<br>Health Insurance Solidarity Act (1998)<br>Part-Time Employment Act (1999)<br>Health Insurance Reform Act (2000)<br>Health Insurance Harmonization Act (2001)<br>Pharmaceutical Cost Containment Act (2001)<br>Pharmaceutical Prices Adjustment Act (2002)<br>Hospital Reimbursement Act (2002)<br>Contribution Stabilization Act (2002)<br>Health Care Modernization Act (2003)**<br>Dentures Financing Act (2004) | Contribution Reduction Act (1996)* |
| Pension Policy | Growth&Employment Promotion Act (1996)<br>Social Insurance Correction Act (1998) | Pension Reform Act 1999 (1997)*<br>Budget Consolidation Act (1999)<br>Old-Age Provision Act (2001)<br>Reserve Fund Act (2001)<br>Contribution Stabilization Act (2002)*<br>Budget Law (2003)<br>Social Insurance Reform Act (2003)<br>Sustainability Act (2004)<br>Retirement Income Act (2004) |

*Included also some reinforcing changes
**Included also some destabilizing changes

Recent developments in the German welfare state, which belongs to conservative regime type, show that there is not only *divergence across regimes*, but also significant *divergence within regimes*. In the past decade, governments maintained Germany's comprehensive health care system, whose annual expenditures amounted to about 10 percent of GDP. They enacted more than a dozen health reforms, but only one contained major benefit cutbacks, which destabilized the health care system (see Table 1). The remaining reforms increased the system's efficiency and raised more revenue to finance the existing benefits and services. The direction of health reform was thus reinforcement, not destabilization. By contrast, governments transformed Germany's generous public

make an argument similar to Pierson's. See Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001).

pension system, whose annual expenditures exceeded 10 percent of GDP.[4] Like in the health care sector, in the pension one a large number of reforms were enacted (see Table 1). However, the content was very different: the large majority of these reforms included major benefit cutbacks, tight restrictions for revenues and structural shifts from public to private provision. The direction of pension reform was thus the opposite from that of health reform: destabilization, not reinforcement.

Such wide divergence within a welfare state poses a puzzle for current explanations of welfare state change. The non-partisan factors that many scholars use to explain the differences across countries are unlikely to account for differences within countries. Pierson argues that the combination of high socioeconomic pressures and high popular support in conservative welfare states explains the latters' focus on recalibration and cost containment—in short, on reinforcement. But even though this argument may account for the differences between liberal and conservative regimes, it cannot explain why the directions of change differ substantially between social programs *within* welfare regimes: in Germany, health care and pensions are both very large spending programs, are equally vulnerable to socioeconomic pressures such as unemployment and low wage growth, and are equally popular among voters. In short, the *divergence of directions* occurred despite of the *convergence of constraints*. Why, then, did German governments enact reinforcing changes in health care, but destabilizing ones in pensions? If Pierson's argument were correct, the content and direction of health care and pension reforms would be similar. In addition, institutional factors, which many scholars add to accounts

[4] Martin Hering, *Rough Transition: Institutional Change in Germany's "Frozen" Welfare State* (Ph.D. Dissertation: Johns Hopkins University, 2004).

based on "austerity" and "maturation",[5] are unlikely to explain differences within countries. At least in Germany's federal system, and possibly in other countries with strong institutional contraints, there are as many veto points in the pension policy sector as in the health policy one.[6]

Since socioeconomic pressures, electoral constraints and institutional restrictions did not vary significantly in the 1994-2005 period, which variations explain the different directions of change in German health care and pensions? In this paper, I argue that a long-neglected cause of welfare state change—the policy preferences of political parties—accounts for the *divergence within regimes* pattern in the German welfare state. The reinforcement of the health care system, and the destabilization of the public pension system, were the preferred choices of Germany's major parties, the Christian Democrats (CDU/CSU) and the Social Democrats (SPD). The two parties, which are key competitors for office at the federal level, developed divergent preferences in the health care and pension sectors in the mid-1990s. They remained committed to defending public health care, but began to push for private pension provision. In the two biggest sectors of the welfare state, German political parties thus got the changes that they wanted.

This paper is divided into three parts. In the first part, I review the key arguments and findings about the role of political parties in welfare state reform. In the second one, I

[5] Jacob S. Hacker, "Dismantling the Health Care State? Political Institutions, Public Policies and the Comparative Politics of Health Reform," *British Journal of Political Science* 34, no. September (2004); Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001); Paul Pierson, "Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies," in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001).

[6] By contrast, in Canada's federal system there are substantial variations in the number of veto points across the health and pension policy sectors. See Keith Banting, "Canada: Nation-building in a Federal Welfare State," *Zentrum für Sozialpolitik Working Paper*, no. 6 (2004).

propose a typology of welfare state reforms that seeks to overcome some of the limitations in the welfare state literature, which so far has not resolved the "dependent variable problem" of conceptualizing and measuring policy change. In the third, I employ the typology of welfare state change to analyze the health care and pension policy reforms in Germany from 1994 to 2005, and to describe the social policy preferences of the Christian Democratic and Social Democratic parties in Germany.

**Political Parties and Welfare State Reform**

In the early 1990s, there was a consensus among scholars that political parties were the primary causes of differences among welfare states, both quantitative and qualitative ones. According to Esping-Andersen's influential account, the differences among political parties explained the rise of three distinct welfare states during the post-war period: the liberal, conservative and social democratic types. Esping-Andersen and other welfare state scholars found big differences between rightist parties on the one hand and centrist and leftist parties on the other.[7] Strong market-liberal parties had created a small welfare state that served the working class and the poor, but not the middle classes. By contrast, powerful Christian democratic parties or social democratic ones had built large welfare states that provided public social benefits to almost the entire population, including the middle classes. In addition, Esping-Andersen found significant differences between Christian democratic parties, which preserved social benefits that were differentiated by occupational status, and social democratic ones, which successfully pushed for universal and similar social benefits. Huber, Ragin and Stephens showed that

[7] Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990) 29-32.

both Christian democratic parties and social democratic ones to a large extent explained why welfare states were large in some countries but not in others. Moreover, their findings supported Esping-Andersen's argument that strong social democratic parties produced a more redistributive and egalitarian welfare state, while strong Christian democratic ones protected both income and status differences.[8]

However, less than a decade after these analyses, scholars no longer saw parties as key explanatory factors of welfare state development. In fact, the debate in the literature shifted to the question whether political parties had *any* noticeable impact on welfare state development during the 1980s and 1990s.[9] Pierson's work on the politics of welfare retrenchment was critical in de-emphasizing partisan effects. Pierson made two arguments that jointly led to the conclusion that parties mattered little in recent developments of welfare states. First, parties' policies changed radically during the 1980s.[10] A number of factors such as rising fiscal pressures led to "... a shift in goals from expansion to cutbacks".[11] Second, voters' policy preferences changed since the growth and popularity of social programs created large welfare state constituencies which opposed structural change. Parties that preferred to dismantle the welfare state were thus reluctant to do so.[12] Pierson concluded that in the 1980s and 1990s, the policies of all major parties converged towards retrenchment: leftist and centrist parties were no longer

[8] Evelyne Huber, Charles Ragin, and John D. Stephens, "Social Democracy, Christian Democracy, Constitutional Structure and the Welfare State," *American Journal of Sociology* 99, no. 3 (1993): 738-42. See also Alexander Hicks and Duane Swank, "Politics, Institutions, and Social Welfare Spending in the Industrialized Democracies, 1960-1982," *American Political Science Review* 86, no. September (1992)

[9] Bernhard Kittel and Herbert Obinger, "Political Parties, Institutions, and the Dynamics of Social Expenditure in Times of Austerity," *Journal of European Public Policy* 10, no. 1 (2003).

[10] Paul Pierson, "The New Politics of the Welfare State," *World Politics* 48, no. 2 (1996): 156.

[11] Paul Pierson, "The New Politics of the Welfare State," *World Politics* 48, no. 2 (1996): 145-46.

[12] Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (Cambridge: Cambridge University Press, 1994).

able to expand the welfare state due to socioeconomic pressures ("austerity"); and rightist parties were no longer able to dismantle the welfare state due to its popularity among the majority of voters ("maturation").

Most scholars, including some of the proponents of partisan theory, largely agreed with Pierson's argument about the declining role of political parties in welfare state development during the 1980s and 1990s. From quantitative and qualitative analyses of developments in the major welfare states, Huber and Stephens concluded that there was a "narrowing of differences" and that "... partisan effects declined because, while the right was still constrained by the popularity of existing policies, fiscal constraints now tied the hands of the left".[13] Similarly, Kittel and Obinger's findings supported the notion of a partisan convergence towards retrenchment. They showed that in the 1980s, social democratic parties and Christian Democratic ones were still able to expand social spending more than conservative parties. By contrast, they did not detect any partisan effects in the 1990s. Kittel and Obinger concluded that "[t]he 1990s .... witnessed a policy reorientation towards budget consolidation, which did not leave social expenditure growth unaffected" and that "[t]his orientation occurred regardless of the ideological orientation of the governing parties".[14] Finally, Castles did not find any significant

[13] Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001) 32. See also Duane Swank, "Political Institutions and Welfare State Restructuring: The Impact of Institutions on Social Policy Change in Developed Democracies," in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001).

[14] Bernhard Kittel and Herbert Obinger, "Political Parties, Institutions, and the Dynamics of Social Expenditure in Times of Austerity," *Journal of European Public Policy* 10, no. 1 (2003).

relationship between the party composition of governments and changes in public spending in the 1980s and 1990s.[15]

Three recent interventions in this debate reject the claim that parties no longer have an impact on welfare states and argue that differences between leftist and rightist governments still matter. First, Korpi and Palme's examination of three social programs in advanced welfare states—sick pay, work accident and unemployment insurance—shows that in the 1980s and 1990s the number and likelihood of major cutbacks was higher in countries that were governed by rightist parties than in those led by leftist parties.[16] Second, Allan and Scruggs' analysis of unemployment and sick pay insurance shows that governments composed of rightist parties were associated with larger cutbacks in unemployment and sick pay replacement rates than those composed of leftist ones. The authors conclude that there were "... reasonably strong partisan effects on welfare state retrenchment".[17] Third, in a case study of French social policy, Levy shows that even though both rightist and leftist parties sought retrenchment, they still pursued different approaches. French governments led by the right enacted universal cuts of social benefits while those led by the left targeted cutbacks on upper income groups and used efficiency reserves in existing social programs.[18]

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[15] Francis G. Castles, "On the political economy of recent public sector developments," *Journal of Social Policy* 11, no. 3 (2001).

[16] Walter Korpi and Joakim Palme, "New Politics and Class Politics in the Context of Austerity and Globalization: Welfare State Regress in 18 Countries, 1975-95," *American Political Science Review* 97, no. 3 (2003): 433-39.

[17] James P. Allan and Lyle Scruggs, "Political Partisanship and Welfare State Reform in Advanced Industrialized Societies," *American Journal of Political Science* 48, no. 3 (2004): 505-09.

[18] Jonah D. Levy, "Partisan Politics and Welfare Adjustment: The Case of France," *Journal of European Public Policy* 8, no. 2 (2001): 281-83.

The debate about the politics of welfare state reform has shed some light on the question whether political parties still have an impact on the direction of policy change. But the literature has limitations in conceptualizing and measuring the dependent variable: welfare state change. First, welfare state change is conceptualized as a dichotomy: there is either welfare state expansion or welfare state retrenchment.[19] This dichotomy captures the *intertemporal changes* in the directions of welfare state development. But since welfare states have "grown to limits"[20], it does not capture the *cross-national and cross-sectoral differences* in directions that emerged in the past 25 years. Due to this limitation, every one of the empirical analyses discussed above confirmed Pierson's argument that the expansion of welfare state came to an end in the 1970s, and that all political parties enacted some form of social cutbacks in the 1980s. Even Korpi/Palme and Allan/Scruggs do not contest the claim that there was a policy convergence towards retrenchment in the 1980s. They merely argue that partisan differences explain observable variations in the *degree* of retrenchment in particular social programs.[21] Second, even though in most studies the dependent variable is conceptualized as *policy change*, it is operationalized in terms of changes in social expenditure, or *policy outcomes*. By focusing on changes in benefit replacement rates, Korpi/Palme and Allan/Scruggs come closer to measuring specific policy changes as opposed to general policy outcomes. But they, too, miss many important features of welfare state reforms. For example, reform packages may include not only cutbacks of

[19] It should be noted that none of the studies uses welfare state dismantling as a category of policy change.

[20] Peter Flora, ed., *Growth to Limits: The Western European Welfare States since World War II* (Berlin: de Gruyter, 1986).

[21] In addition, since unemployment and sick pay insurance are relatively small programs compared with public pensions and health care, they are likely not a good indicator of the overall development of welfare states.

replacement rates, but also increases of taxes and social contributions, or the addition or deletion of program components or tiers.

The welfare reform debate has limitations not only due to the "dependent variable problem", it also has weaknesses due to the conceptualization and measurement of one the key independent variables: the policy preferences of political parties. First, most studies make a conceptual distinction between parties that prefer to expand the welfare state and those that prefer to dismantle it. Even Pierson does not challenge the long-standing assumption that parties have such widely divergent preferences. He argues that parties' policies converged due to a combination of fiscal pressures for retrenchment, which restricted pro-welfare state parties, and electoral obstacles against dismantling, which constrained anti-welfare state ones. However, the assumption is that, if these pressures or constraints had not existed, parties would have enacted the policies that reflected their true policy preferences. Since in majoritarian democracies anti-welfare state parties were only weakly constrained by opposition from welfare state constituencies, the United Kingdom and New Zealand provided good examples of preference-driven reforms. As Pierson points out, "New Zealand and the UK stand out as cases where there was little inclination or necessity for compromise in the pursuit of neoliberal goals".[22] Huber and Stephens also argues that "... only the governments in New Zealand and the United Kingdom were able to implement deep, system-shifting cuts".[23] By conceptualizing political parties either as welfare state maximizers or as welfare state minimizers, current studies miss many observable variations in the

[22] Paul Pierson, "Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies," in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001), 438.

[23] Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001) 307.

contemporary politics of welfare state reform. Some "pro-welfare state parties" do not prefer a general and costly expansion of social programs, but specific and inexpensive improvements of the status quo. In addition, some "anti-welfare state parties" do not prefer a comprehensive and deep roll-back of social benefits, but targeted and limited reductions. The literature on welfare state reform thus assumes that the differences in parties' policy preferences are much bigger than they really are.[24]

Second, even though existing studies conceptualize the independent variable as *party preferences*, they operationalize it as *party ideologies*. Most scholars rely on the dichotomy of leftist and rightist parties and argue that the former prefer expansion and the latter regression.[25] They thus assume that parties' policy preferences flow directly from their political ideologies. For example, Huber, Ragin and Stephens argue that leftist parties prefer welfare state expansion due to "[t]he commitment of social democracy to the correction of inequalities created by the market".[26] But since there is more variation—both cross-nationally and intertemporally—in policy preferences than in political ideologies, inferring the former from the latter produces both incomplete categories and inaccurate categorizations. For example, all leftist parties may be committed to correct market inequalities, but they may pursue this commitment through different policy

[24] In addition, many parties do not hold consistent preferences across policy fields. A party in government may be in favor of large cutbacks to unemployment or sick pay benefits, but at the same time stand for the maintenance or expansion of public pension or health care benefits.

[25] Some scholars add centrist parties as a third category in order to capture the latters' moderate policy preferences.

[26] Evelyne Huber, Charles Ragin, and John D. Stephens, "Social Democracy, Christian Democracy, Constitutional Structure and the Welfare State," *American Journal of Sociology* 99, no. 3 (1993): 740.

changes. In addition, leftist parties' ideologies may remain broadly stable over time, but their preferences with regards to welfare state reform may shift significantly.[27]

**Typologies of Welfare State Change**

By focusing on replacement rates as opposed to social spending, scholars such as Korpi/ Palme and Allan/Scruggs significantly improved the study of the impact of parties on welfare state change. Nonetheless, as the recent growth of literature on the "dependent variable problem" in welfare state research shows, further improvements require additional concepts and measures of welfare state change.[28] In addition, they require a reexamination of the concept of party preferences, which has received little attention so far.[29] In this section, I present a revised typology of welfare state change which seeks to solve some aspects of the "dependent variable problem". Moreover, I use one dimension of this typology—the direction of policy change—to analyze the policy preferences of political parties.

[27] Party ideologies and policy preferences are two different concepts. According to Mair and Mudde, the first captures party identities, or "what parties are", while the second captures policy positions and commitments, or "what parties do" Peter Mair and Cas Mudde, "The Party Family and its Study," *Annual Review of Political Science* 1 (1998).

[28] Christoffer Green-Pedersen, "The Dependent Variable Problem within the Study of Welfare State Retrenchment: Defining the Problem and Looking for Solutions," *Journal of Comparative Policy Analysis* 6, no. 1 (2004); Paul Pierson, "Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies," in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001).

[29] For an exception, see Martin Seeleib-Kaiser, Silke van Dyk, and Martin Roggenkamp, "What Do Parties Want? An Analysis of Programmatic Social Policy Aims in Austria, Germany, and the Netherlands," *Zentrum für Sozialpolitik Working Paper*, no. 1 (2005).

**Table 2.** ***Existing Typologies of Welfare State Change***

| | *First Type* | *Second Type* | *Third Type* |
|---|---|---|---|
| Pierson (2001) | Re-commodification<br>*Improve work incentives* | Cost Containment<br>*Reduce budget deficits*<br>*Reduce level of government spending* | Recalibration<br>*Rationalize existing programs*<br>*Update existing programs*<br>*Initiate new programs* |
| Weaver (2003) | Retrenchment<br>*Reduce initial pension benefits*<br>*Reduce inflation adjustment in pension benefits*<br>*Raise retirement age*<br>*Increase penalties for early retirement*<br>*Increase years of employment history*<br>*Reduce benefits for upper-income retirees* | Refinancing<br>*Increase payroll tax rates or tax base*<br>*Inject general government revenues*<br>*Include groups who were previously exempt* | Restructuring<br>*Eliminate universal pension tiers*<br>*Mandate employer-provided pensions* |

The typology that I propose builds on Pierson and Weaver's proposals for re-conceptualizing welfare state change. Both authors view recent changes as more diverse and complex than retrenchment and pursue a qualitative approach in assessing policy changes.[30] Departing from his earlier dichtomy of expansion vs. retrenchment, Pierson follows Esping-Andersen's approach of classifying policy changes according to the preferences of the most powerful actors. Pierson distinguishes three types of policy change: recommodification, cost containment and recalibration (see Table 2). The first is associated with liberal forces, the second and third primarily with conservative and social

[30] Paul Pierson, "Investigating the Welfare State at Century's End," in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001), 13.

democratic ones.[31] First, recommodification captures changes that partially reverse the expansion of social programs, either by restricting eligibility or by reducing benefits. Primary objects of recommodification measures are unemployment, labor market and social assistance programs. Second, cost containment includes the changes that are intended to reduce budget deficits and keep taxes and social contributions stable. The main objects of cost containment are the large social programs, especially public pensions and health care. Third, recalibration is the austerity-era equivalent to welfare state expansion during the golden age. This category encompasses both relatively inexpensive benefits or regulations in order to cover new social risks and increases in efficiency that not only save costs, but also enhance social goals. The key areas that are affected by recalibration are child care and long-term care programs. Even though Pierson does not provide an inventory of policy changes for the re-commodification, cost containment and recalibration categories, Table 2 lists a number of examples drawn from Pierson's work.

Like Pierson, Weaver differentiates among three types of policy change: refinancing, retrenchment, restructuring (see Table 2). However, Weaver does not distinguish these reform types by the goals and motivations of actors, but by the "repertoire of potential options" that exists in social programs.[32] Pension systems, for example, offer a large variety of adjustment options which fall into three broad classes: governments can choose to cut pension benefits or change the eligibility rules

[31] Pierson sees recalibration as most central in Continental welfare states in which conservative forces are strongest Paul Pierson, "Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies," in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford: Oxford University Press, 2001), 427.

[32] R. Kent Weaver, "Cutting Old-Age Pensions," in *The Government Taketh Away*, ed. Leslie A. Pal and R. Kent Weaver (Washington, DC: Georgetown University Press, 2003), 43-44.

(retrenchment), increase revenue sources (refinancing) or merge, add or delete program tiers (restructuring). Table 2 lists Weaver's inventory of policy changes. Even though these options of change were drawn from the area of pensions, many of them also apply to other social insurance systems and social programs.

**Table 3.** ***A Two-Dimensional Typology of Welfare State Change***

| | *Direction of Change* | |
|---|---|---|
| *Target of Change* | *Reinforcement* | *Destabilization* |
| Revenue | Refinancing | Defunding |
| | *Increase of revenue sources (e.g. general taxes, contributions, user payments)*<br>*Shifts between different sources of revenue (e.g. from contributions to general taxes)*<br>*Broadening of the revenue base (e.g. increase of assessed earnings, increase of number of contributors)*<br>*Build-up of reserves* | *Reduction of revenue sources (e.g. general taxes, contributions, user payments)*<br>*Limitation of revenue sources (e.g. caps on general taxes, contributions, user payments)*<br>*Narrowing of the revenue base (e.g. reduction of assessed earnings, reduction of number of contributors)*<br>*Use of reserves* |
| Expenditure | Recalibration | Retrenchment |
| | *Limitation of benefit expansion*<br>*Maintenance of benefits and services*<br>*Reversal of benefit and service cutbacks*<br>*Re-listing of benefits and services*<br>*Minor benefit cutbacks*<br>*De-listing of minor benefits and services*<br>*Retirement age increases*<br>*Budget limits*<br>*Price controls and reductions*<br>*Updating of public tiers* | *Major benefit and service cutbacks*<br>*De-listing of major benefits and services*<br>*Retirement age reductions*<br>*Lifting of budget limits*<br>*Lifting of price controls and reduction*<br>*Non-updating of public tiers* |
| Structure | Consolidation | Restructuring |
| | *Abolition of private tiers*<br>*Restriction of private tiers*<br>*Amalgamation of insurance funds*<br>*Harmonization of benefits and contributions* | *Addition of private tiers*<br>*Expansion of private tiers*<br>*Differentiation of benefits and contributions* |

Both typologies are an improvement over the expansion vs. retrenchment dichotomy, and are a useful tool for mapping the diversity of welfare state changes. The key advantage of Pierson's classification is the distinction between two types of cutbacks that capture different *reform directions*: one undermines or reverses social programs (de-commodification), but the other makes the welfare state sustainable (recalibration). The strength of Weaver's typology is the distinction among different classes of *reform targets*: first, the expenditure-side of social programs (retrenchment), second, the revenue-side (refinancing), and the third, the program architecture (restructuring). The disadvantage of these classifications is that they do not separate clearly between *directions* and *targets*. Pierson distinguishes between directions, but mixes the different targets. For example, re-commodification includes both retrenchment and restructuring. By contrast, Weaver differentiates targets, but does not pay attention to direction. For example, refinancing includes only measures that increase revenue and thus reinforce the welfare state, but does not encompass revenue-based reforms that undermine social programs, such as a "hard budget line" on pension spending.[33]

Since the revised typology that I propose is two-dimensional, it combines the strengths of Pierson and Weaver's classifications and avoids some of their weaknesses (see Table 3). First, I distinguish three different *targets of change*: revenue, expenditure and structure. Second, within these categories, I further distinguish reforms by the *direction of change*: reinforcement or destabilization. Thus, welfare state changes that are revenue-based are either reinforcing (e.g. increase in general taxes) or destabilizing (e.g.

[33] John Myles, "A New Social Contract for the Elderly?" in *Why We Need A New Welfare State*, ed. Gøsta Esping-Andersen (Oxford: Oxford University Press, 2002).

fixed ceiling on contribution rates). Similarly, structural changes are either reinforcing (e.g. amalgamation of insurance funds for white-collar and blue-collar workers) or destabilizing (e.g. addition of private tiers to partially replace public tiers). In total, the revised typology contains six different categories of welfare state change: refinancing/ defunding, recalibration/ retrenchment and consolidation/ restructuring.

It would be possible to use these categories of policy change in welfare states to classify the policy preferences of political parties. For example, one party may prefer recalibration and consolidation (but not refinancing or any of the destabilizing changes), and its competitor may prefer only retrenchment (but not defunding or restructuring, or any of the reinforcing changes). However, since many party documents such as policy resolutions, election manifestos and position papers provide only general policy guidelines, the categorization of party preferences according to these specific categories would require much more interpretation than the classification of policy changes. As a preliminary solution, I use only one of the two dimensions of welfare state reform: the direction of change. Even though most party documents list few specific policy measures, the large majority of them contain statements about the direction of welfare state change. For example, many parties state whether they are committed to preserving and defending an existing social program, or whether they are in favor of moving towards a different system. In addition, in most cases, the few specific policy measures that are listed in party documents indicate the party's preferred direction of change.

**Party Preferences and Welfare State Change in Germany, 1995-2004**

The period from 1995 to 2004 was a decade of permanent welfare state reform in Germany. The two biggest sectors that German governments reformed were health care and public pensions (see Appendices A and B for details on the reform measures and the classification of reform provisions and legislation). As shown in Tables 4 and 5, in the past decade governments passed one reform in the health care and pension sectors in almost every year, and sometimes even two reforms per year. The frequency of reforms was unrelated to the partisan composition of German governments. The Christian Democratic Party (CDU/CSU), which held office until 1998, made changes in health care and pensions as frequently as the Social Democratic Party (SPD), which has been in government since 1998.

**Table 4.** ***Directions of Change in German Health Policy, 1995-2004***

| | *Reform Law* | *Reinforcement* | *Destabilization* |
|---|---|---|---|
| 1996 | Contribution Reduction Act | | X |
| 1997 | Health Insurance Reorganization Act/ Health Insurance Financing Act | X | |
| 1998/ 1999 | Health Insurance Solidarity Act/ Part-Time Employment Act | X | |
| 2000 | Health Insurance Reform Act | X | |
| 2001 | Health Insurance Harmonization Act | X | |
| 2001 | Pharmaceutical Cost Containment Act | X | |
| 2001 | Drug Prices Adjustment Act | X | |
| 2002 | Hospital Reimbursement Act | X | |
| 2002 | Contribution Stabilization Act | X | |
| 2003 | Health Care Modernization Act | X | |
| 2003 | Dentures Financing Act | X | |

**Table 5.** ***Directions of Change in German Pension Policy, 1995-2004***

| | *Reform Law* | *Reinforcement* | *Destabilization* |
|---|---|---|---|
| 1996 | Growth & Empl. Promotion Act | X | |
| 1997 | Pension Reform Act 1999 | | X |
| 1998 | Social Insurance Correction Act | X | |
| 1999 | Budget Consolidation Act | | X |
| 2001 | Old-Age Provision Act | | X |
| 2001 | Reserve Fund Act | | X |
| 2002 | Contribution Stabilization Act | | X |
| 2003 | Budget Law | | X |
| 2003 | Social Insurance Reform Act | | X |
| 2004 | Sustainability Act | | X |
| 2004 | Retirement Income Act | | X |

Not only the frequency, but also the direction of change was unrelated to the party in government. In the health care sector, the CDU/CSU moved briefly towards destabilization in 1996, but returned to reinforcement in the following year (see Table 4).[34] The SPD continued to go in this direction: since 1998 the Social Democrats have enacted a long series of reinforcing changes in health care. In the pension sector, the CDU/CSU made the initial move towards destabilization in 1997. Even though the SPD reversed the Christian Democrats' destabilizing changes in 1998, and thus before these were implemented, a year later it followed the CDU/CSU's shift. After 1999, the Social Democrats stayed on this reform path: they passed an uninterrupted series of policy changes that destabilized Germany's public pension system. The *directions of change* in German health and pension policy thus clearly diverged in the 1995-2004 period.

[34] As shown in Appendix A, the Health Care Structure Act of 1993, which preceded the Contribution Reduction Act of 1996, led to reinforcement. For a discussion of the politics of health care in Germany during the first half of the 1990s, see Vandna Bhatia, *Political Discourse and Policy Change: Health Reform in Canada and Germany* (Ph.D. Dissertation: McMaster University, 2004); Vandna Bhatia and William D. Coleman, "Ideas and Discourse: Reform and Resistance in the Canadian and German Health Systems," *Canadian Journal of Political Science* 36, no. 4 (2003).

The breakdown of reforms by the *targets of change* provides additional evidence of differences across policy sectors (see Tables 6 and 7): German governments focused mostly on the expenditure-side of the health care system, but on both sides of the pension system. In the health care sector, they put limits on the budgets of providers and repeatedly lowered drug prices. More recently, in 2003, the government led by Chancellor Gerhard Schröder increased employee contributions, co-payments and user fees. By contrast, in the pension sector, the Schröder government capped social contributions, reduced general taxes and depleted the reserve fund. In addition, it repeatedly cut the benefit level, reducing pensions for most retirees by more than 10 percent, and for many by more than 20 percent. To conclude, German governments *recalibrated* (and more recently, also *refinanced*) the health care system, but *defunded* and *retrenched* the pension system.[35] The analysis of the structural changes shows that German governments *consolidated* the health care system, especially by breaking down the barriers between the risk structure compensation schemes in Western and Eastern Germany, which led to more convergence of contribution rates across the nation. By contrast, the government led by the Social Democrats *restructured* the pension system, for a first time in 2001 and for a second one in 2004. In order to partially replace the deep cutbacks in public pensions, it introduced a new individual account tier in 2001. For the same reason, the Schröder government enacted a second private pension tier in 2004.

[35] The development of the German health care system thus conforms to Pierson's notion of recalibration, which characterizes conservative welfare states. But the changes in the pension system come closest to the notion of re-commodification, which is typical for the liberal regime.

**Table 6.** ***Targets of Change in German Health Policy, 1995-2004****

| | *Reform Law* | *Revenue* | *Expenditure* | *Structure* |
|---|---|---|---|---|
| 1996 | Contribution Reduction Act | R | D | |
| 1997 | Health Insurance Reorganization Act/ Health Insurance Financing Act | R | R | R |
| 1998/ 1999 | Health Insurance Solidarity Act/ Part-Time Employment Act | R | R | R |
| 2000 | Health Insurance Reform Act | | R | |
| 2001 | Health Insurance Harmonization Act | | | R |
| 2001 | Pharmaceutical Cost Containment Act | | R | |
| 2001 | Drug Prices Adjustment Act | | R | |
| 2002 | Hospital Reimbursement Act | | R | |
| 2002 | Contribution Stabilization Act | R | R | |
| 2003 | Health Care Modernization Act | R | R/D | D |
| 2004 | Dentures Financing Act | R | | R |

*R=reinforcing changes, D=destabilizing changes

**Table 7.** ***Targets of Change in German Pension Policy, 1995-2004****

| | *Reform Law* | *Revenue* | *Expenditure* | *Structure* |
|---|---|---|---|---|
| 1996 | Growth & Empl. Promotion Act | R | R | |
| 1997 | Pension Reform Act 1999 | R | R/D | |
| 1998 | Social Insurance Correction Act | R | | |
| 1999 | Budget Consolidation Act | | D | |
| 2001 | Old-Age Provision Act | D | D | D |
| 2001 | Reserve Fund Act | D | | |
| 2002 | Contribution Stabilization Act | R/D | | |
| 2003 | Budget Law | D | | |
| 2003 | Social Insurance Reform Act | D | D | |
| 2004 | Sustainability Act | D | D | |
| 2004 | Retirement Income Act | D | D | D |

*R=reinforcing changes, D=destabilizing changes

On the surface, the developments in German health and pension policy in the 1995-2004 period seem to confirm the argument that political parties do not matter in welfare state change. Since both the Christian Democrats, a rightist party, and the Social Democrats, a leftist party, chose the same direction in each of these welfare state sectors, party preferences do not seem to make a difference. But the divergence within Germany's

conservative welfare regime puts this argument into question: since the directions of change differed in health care and public pensions even though these sectors were confronted with similar pressures and affected by similar constraints, cross-sectoral variations in policy preferences potentially had an impact. One could still argue that even the leftist Schröder government enacted destabilizing changes in pension policy because high socioeconomic pressures left it with little choice; and that even the rightist government led by Chancellor Helmut Kohl adopted reinforcing reforms in health policy because high popular support constrained its reform options. But this argument would be inconsistent given the cross-sectoral similarities with regards to pressures and constraints. Thus, non-partisan explanations do not suffice to account for the divergence of directions in Germany's health care and pension sectors.

A solution for the puzzle of divergence within regimes requires a look beneath the surface of the leftist vs. rightist party dichotomy. Specifically, it involves an empirical analysis of the variations of policy preferences across parties, across sectors and over time. The key questions are the following: do parties in government succeed in enacting welfare state changes that reflect their policy preferences, or do they fail to get their preferred choices? If they succeed most of the time, the empirical evidence suggests that parties do matter. But if they mostly fail, it suggests that non-partisan factors create pressures and constraints that restrict partisan reform attempts.

**Table 8.** ***Party Preferences and Health Policy Change in Germany, 1995-2004****

| *Year* | *Christian Democrats* | *Social Democrats* | *Policy Change* |
|---|---|---|---|
| 1995 | Reinforcement | Reinforcement | — |
| 1996 | Reinforcement | Reinforcement | **Destabilization** |
| 1997 | Reinforcement | Reinforcement | Reinforcement |
| 1998 | Reinforcement | Reinforcement | Reinforcement |
| 1999 | Reinforcement | Reinforcement | — |
| 2000 | Reinforcement | Reinforcement | Reinforcement |
| 2001 | Reinforcement | Reinforcement | Reinforcement |
| 2002 | Reinforcement and Destabilization | Reinforcement | Reinforcement |
| 2003 | Reinforcement and Destabilization | Reinforcement | Reinforcement |
| 2004 | Reinforcement and Destabilization | Reinforcement | Reinforcement |

*Underlined=party in government, bold=outliers

**Table 9.** ***Party Preferences and Pension Policy Change in Germany, 1995-2004****

| *Year* | *Christian Democrats* | *Social Democrats* | *Policy Change* |
|---|---|---|---|
| 1995 | Reinforcement | Reinforcement | — |
| 1996 | Reinforcement | Reinforcement | Reinforcement |
| 1997 | Reinforcement and Destabilization | Reinforcement | **Destabilization** |
| 1998 | Reinforcement and Destabilization | Reinforcement | Reinforcement |
| 1999 | Reinforcement and Destabilization | Destabilization | Destabilization |
| 2000 | Destabilization | Destabilization | — |
| 2001 | Destabilization | Destabilization | Destabilization |
| 2002 | Destabilization | Destabilization | Destabilization |
| 2003 | Destabilization | Destabilization | Destabilization |
| 2004 | Destabilization | Destabilization | Destabilization |

*Underlined=party in government, bold=outliers

Tables 8 and 9 display the preferences of the Christian Democratic Party and the Social Democratic Party with regards to health care and pension reform in the 1995-2004 period. The preference classification is based on a large number of party documents, including election manifestos, coalition agreements, position papers by parliamentary

parties or party executives, policy resolutions passed at party conventions, and draft laws introduced in parliament.[36] Even though the categories of reinforcement and destabilization are relatively broad, a clear, dichotomous classification was not always possible since parties were sometimes internally divided about the direction of change in the welfare state. Party documents reflected these divisions.

In the health policy sector, the Social Democrats held consistent preferences between 1995 and 2004: they were committed to reinforcing Germany's comprehensive and solidaristic public health care system (see Table 8). Most recently, the SPD put forward a proposal (dubbed "citizens' insurance") that would expand signifantly both the base of contributors and the basis of assessed earnings. By contrast, the CDU/CSU's health policy preferences changed significantly after 2001. Some factions of the party, especially within the CDU, currently stand for privatizing dental care and for shifting responsibility from the state to individuals. But other intra-party factions, especially Bavaria's CSU, are committed to defending the existing health care system. These divisions led to conflicting preferences about the direction of change. Recent party documents contain proposals both for reinforcing and destabilizing changes.

The analysis of parties' preferences in pension policy show that conflicting ideas about the direction of change are most likely a temporary phenomenon (see Table 9). In the pensions sector, the CDU/CSU had heterogenous preferences for a brief period of time (1997-1999). Some factions of the Christian Democratic Party, most importantly Helmut Kohl, the party leader, and Norbert Blüm, the leader of the CDU's largest state-level organization, were strongly committed to reinforcing the existing pension system by

[36] References are available upon request.

injecting additional revenues from general taxes. But other factions, especially the leadership of the CDU/CSU parliamentary party and the CDU's employer group, pushed for deep benefit cutbacks and for caps on contribution rates and general taxes. However, in recent years these intra-party conflicts were resolved in favor of destabilization. The SPD also shifted its preferences from reinforcement to destabilization, but did so more rapidly than the CDU/CSU.

Did the parties who governed Germany in the 1995-2004 period succeed or fail in enacting welfare state changes that reflected their policy preferences? Tables 8 and 9 show that the SPD and the CDU/CSU were highly successful. In both the health care and the pension sector, German governments were able to choose their preferred policies in 7 out of 8 reform years. In the health policy sector, the Social Democrats preferred reinforcing changes and were also able to enact such changes between 1998 and 2004. The record of the CDU/CSU, which governed Germany until 1998, was mixed. The Christian Democrats preferred reinforcing changes, but were successful in enacting these only in 1997. In 1996, they chose destabilizing changes in health policy (including a large cutback in sick pay and the partial de-listing of dental care), which conflicted with their preferences. Two factors—a non-partisan and an intra-party one—explain this outlying case: first, the strong fiscal pressures in the run-up to European Monetary Union (EMU), and second, the growing political pressures from the CDU/CSU's employer faction. In the pension sector, the SPD preferred reinforcing changes in 1998 and destabilizing ones between 1999 and 2004. In every case of policy change, the Social Democrats were successful in moving to their preferred direction. Like in health care, the Christian Democrats' record of success in pensions was mixed. Even though there were growing

fiscal and intra-party pressures in 1996, the CDU/CSU was still successful in passing reinforcing changes. But in 1997, the party chose to enact a large and destabilizing benefit cutback. However, in that year, the party's pension policy preferences had shifted to a combination of reinforcement and destabilization. This partial outlier can be explained by the same two factors that I mentioned above: the urgent need to consolidate government budgets before the qualifying year for EMU and pressures from intra-party factions.

**Conclusion**

My analysis of more than 20 welfare state reforms in Germany in the past 10 years showed that the direction of change differed significantly between the health policy and pension policy sectors: German governments passed a long series of reinforcing reforms in health care, but an equally long series of destabilizing reforms in pensions. I argued that this pattern of *diversity within regimes* cannot be explained by the key explanatory factors in the welfare state literature: socioeconomic pressures ("austerity") and popular support ("maturation"). I further argued that an explanation of this striking diversity within Germany's conservative welfare regime requires an analysis of the role of political parties, which in the past decade was largely neglected in the literature on welfare state reform.

This paper showed that party preferences had an impact on welfare state change in Germany. In 7 out of 8 years in which policy changes were made—both in health care and pensions—the major party in government was able to achieve its preferred reform direction (reinforcement or destabilization). The diversity of directions in health care and

pensions, and also governments' high reform success rate in each of these sectors, leads to two counterfactual hypotheses. First, if the Christian Democrats and Social Democrats had preferred the destabilization of Germany's health care system, they would have been able to defund, retrench and restructure it. High popular support for health care would not have prevented them from enacting such destabilizing changes. Second, if the CDU/CSU and SPD had wanted to reinforce the pension system, they would have been able to refinance, recalibrate and consolidate it. High socioeconomic pressures on the welfare state would not have precluded the choice of the reinforcement option. In short, the German case suggests that even in an era of fiscal austerity and welfare state maturation, governments likely have a much wider range of options than assumed by most of the welfare state literature. Therefore, the policy preferences of political parties likely have a bigger impact than previously thought.

This paper raises two issues for further research. First, more work on reconceptualizing and remeasuring welfare state change is necessary. Recent efforts to use changes in replacement rates in addition to changes in expenditure go in the right direction, but there is clearly a need to go beyond replacement rates and identify and categorize from the ground up the welfare state changes made by legislation. The revised typology presented in this paper was based on only two social programs in a single welfare regime. More revisions will be needed to allow it to "travel" across regimes and across policy sectors. Second, the measurement of the concept of political parties needs to be re-examined. So far, scholars focused predominantly on differences between leftist and rightist party families and relied on broad expert judgements to classify parties as leftist or rightist. However, my analysis showed that the policy preferences of leftist and

rightist parties may be similar, but that each party's preferences may differ substantially across policy sectors. It is therefore necessary to develop conceptual tools for analyzing the empirical variations of parties' policy preferences. In this paper, I relied on the broad distinction between reinforcement vs. destabilization. More fine-grained analyses of party preferences are clearly required.

**Appendix A.** ***Health Care Reforms in Germany, 1995-2004***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Status Quo: Health Care Structure Act 1993 (1992) | *Revenue*<br>Extension and increase of co-payments for pharmaceuticals, increasing revenues by an estimated .6 billion Euros per year in the short-term (1993)<br>*Expenditure*<br>Introduction of budget caps for hospitals, physicians, dentists and other health care providers, reducing expenditures by an estimated 1.7 billion Euros per year in the short-term (1993)<br>Reduction of prices for the services of physicians and dentists, reducing expenditures by an estimated .9 billion Euros per year in the short-term (1993)<br>Change of hospital financing system<br>*Structure*<br>Introduction of risk structure compensation system to narrow the differences in health insurance contribution rates<br>Introduction of competition among health insurance funds by giving members more freedom of choice | *Revenue (Reinforcing)*<br>Increase of co-payments<br>*Expenditure (Reinforcing)*<br>Budget cutbacks<br>Price reductions<br>*Structure (Reinforcing)*<br>Harmonization of contributions<br>Amalgamation of insurance funds | Reinforcing<br>(Recalibration and Consolidation) |

**Appendix A.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Contribution Reduction Act (1996) | *Revenue*<br>Reduction of health insurance contribution rate from 13.4 percent to 13 percent (1997)<br>Increase of co-payments for pharmaceuticals, increasing revenue by an estimated .3 billion Euros per year in the short-term (1997)<br>Increase of co-payments for health spa treatments<br>*Expenditure*<br>Reduction of sick pay benefit level from 80 percent to 70 percent, reducing expenditures by an estimated .9 billion Euros per year in the short-term (1997)<br>Cutbacks of health promotion benefits, reducing expenditures by an estimated .6 billion Euros per year in the short-term (1997)<br>Cutbacks of health spa benefits, reducing expenditures by an estimated .4 billion Euros per year in the short-term (1997)<br>De-listing of dental surgery and dentures for persons under the age of 18 and for future generations (born after 1978), reducing expenditures by an estimated .2 billion Euros per year in the short-term (1997)<br>De-listing of vision care benefits (glasses frames), reducing expenditures by an estimated .1 billion Euros per year in the short-term (1997)<br>*Structure*<br>— | *Revenue (Reinforcing)*<br>Shift from contributions to user payments<br>*Expenditure (Destabilizing)*<br>Major benefit cutbacks<br>De-listing of major benefits<br>*Structure*<br>— | Destabilizing<br>(Refinancing and Retrenchment) |

**Appendix A.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Health Insurance Reorganization Act (1996)/<br>Health Insurance Financing Act (1997) | *Revenue*<br>Increase of co-payments for pharmaceuticals, medical aids and ambulance transportation<br>Annual wage-based adjustment of co-payments for pharmaceuticals, hospital stays, preventive medical checkups, rehabilitation benefits and transportation costs, increasing revenues by an estimated .2 billion Euros in the medium-term (1998-2000)<br>Introduction of automatic increases of co-payments when health insurance contribution rates increase<br>Introduction of an annual hospital surcharge paid by all insured persons (1997-1999)<br>*Expenditure*<br>Loosening of budget limits for hospitals, physicians and dentists<br>De-listing of a number of medical aids (e.g. bandages, shoe lifts), reducing expenditures by an estimated 1 billion Euros per year in the short-term (1997)<br>Change from percentage-based subsidies for dentures by fixed subsidies<br>Spending limits for, and de-regulation of, the coverage of certain services and benefits (e.g. home care, health spa treatments, ambulance transportation, medical aids)<br>*Structure*<br>Temporary increase (1999-2001) in risk structure compensation payments from the health insurance funds in the Western federal states to those in the Eastern ones by an estimated .6 billion Euros in the short-term (1999), leading to an increase in the contribution rate by .1 percentage points | *Revenue (Reinforcing)*<br>Increase of contributions and user payments<br>*Expenditure (Reinforcing)*<br>Minor benefit cutbacks<br>De-listing of minor benefits<br>Budget limits<br>Price reductions<br>*Structure (Reinforcing)*<br>Harmonization of contributions | Reinforcing<br>(Refinancing, Recalibration and Consolidation) |

**Appendix A.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Health Insurance Solidarity Act (1998)/ Part-Time Employment Act (1999) | *Revenue*<br>Short-term stabilization of the contribution rate at 13.6 percent (1999)<br>Introduction of employers' health insurance contributions for low-wage, part-time employees, increasing revenues by an estimated 1.5 billion Euros per year in the short-term (1999) and 2.2 billion Euros in the medium-term (2002)<br>Elimination of hospital surcharge, reducing revenues by an estimated .35 billion Euros per year in the short-term (1998-1999)<br>Reduction of co-payments for pharmaceuticals, reducing revenues by an estimated. 4 billion Euros per year in the short-term (1999)<br>*Expenditure*<br>Re-listing of subsidies for dental surgery and dentures for persons born after 1978, increasing expenditures by an estimated .1 billion Euros per year in the short-term (1999)<br>Return from fixed subsidies for dentures to percentage-based subsidies<br>Reduction of pharmaceutical prices, lowering expenditures by an estimated .4 billion Euros per year in the short-term (1999)<br>Re-imposition of budget caps for hospitals, physicians and dentists<br>*Structure*<br>Permanent introduction of risk structure compensation payments from the health insurance funds in the Western federal states to those in the Eastern ones | *Revenue (Reinforcing)*<br>Shift from user payments to contributions<br>*Expenditure (Reinforcing)*<br>Re-listing of benefits<br>Budget limits<br>Price reductions<br>*Structure (Reinforcing)*<br>Harmonization of contributions | Reinforcing<br>(Refinancing, Recalibration and Consolidation) |

**Appendix A.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Health Insurance Reform Act (2000) | *Revenue*<br>—<br>*Expenditure*<br>Wage increases in the health care sector limited to wage increases of contribution payers<br>*Structure*<br>Restrictions for members of private health insurances to opt back into the public health insurance funds | *Revenue*<br>—<br>*Expenditure (Reinforcing)*<br>Budget limits<br>*Structure (Reinforcing)*<br>Restriction of private tiers | Reinforcing<br>(Recalibration) |
| Health Insurance Harmonization Act (2001) | *Revenue*<br>—<br>*Expenditure*<br>—<br>*Structure*<br>Transition to a full, nation-wide risk equalization scheme, encompassing health insurance funds in both western and eastern Germany<br>Increase of income ceiling for health insurance contributions in eastern Germany to the west German level | *Revenue*<br>—<br>*Expenditure*<br>—<br>*Structure (Reinforcing)*<br>Harmonization of contributions | Reinforcing<br>(Consolidation) |
| Pharmaceutical Cost Containment Act (2001) | *Revenue*<br>—<br>*Expenditure*<br>General reduction of pharmaceutical prices, lowering expenditures by an estimated 1.5 billion Euros per year in the short-term (2002-2003)<br>*Structure*<br>— | *Revenue*<br>—<br>*Expenditure (Reinforcing)*<br>Price reductions<br>*Structure*<br>— | Reinforcing<br>(Recalibration) |

**Appendix A.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Pharmaceutical Prices Adjustment Act (2002) | *Revenue*<br>—<br>*Expenditure*<br>Reversal of general reduction of pharmaceutical prices enacted in the previous year (2001)<br>Lump-sum payment by the pharmaceutical industry, reducing expenditures by an estimated .6 billion Euros per year in the short-term (2002-2003)<br>Increase of rebates given to the public health insurance funds by pharmacists<br>Introduction of pharmacists' obligation to dispense, as a rule, the cheapest pharmaceuticals with the same ingredients<br>*Structure*<br>— | *Revenue*<br>—<br>*Expenditure (Reinforcing)*<br>Price reductions<br>Budget limits<br>*Structure*<br>— | Reinforcing<br>(Recalibration) |
| Hospital Reimbursement Act (2002) | *Revenue*<br>—<br>*Expenditure*<br>Introduction of diagnosis-related group reimbursement system in hospital funding (2005-2008)<br>*Structure*<br>— | *Revenue*<br>—<br>*Expenditure (Reinforcing)*<br>Price reductions<br>Budget limits<br>*Structure*<br>— | Reinforcing<br>(Recalibration) |

**Appendix A.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Contribution Stabilization Act (2002) | *Revenue*<br>Short-term stabilization of the contribution rate at 13.5 percent (2003)<br>Increase of the income level up to which contributions are payable, leading to higher contribution revenues of about .3 billion Euros per year in the short-term (2003) (estimates of long-term effects unavailable)<br>Increase of income ceiling for persons who want to opt out of public health insurance<br>*Expenditure*<br>Reduction of pharmaceutical prices, lowering expenditures by an estimated 1.4 billion Euros per year in the short-term (2003)<br>Delay of wage increases in the health care sector, reducing expenditures by an estimated .7 billion Euros in the short-term (2003)<br>Cutback of the death benefit by 50 percent, reducing expenditures by about .4 billion Euros per year in the short-term (estimates of long-term effects unavailable)<br>*Structure*<br>— | *Revenue (Reinforcing)*<br>Shifts between contribution payers<br>*Expenditure (Reinforcing)*<br>Budget limits<br>Price reductions<br>Minor benefit cutbacks<br>*Structure*<br>— | Reinforcing<br>(Refinancing and Recalibration) |

**Appendix A.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Health Care Modernization Act (2003) | *Revenue*<br>Increase of employees' health insurance contribution rate by .45 percent, increasing revenue by an estimated 4 billion Euros per year in the short- and medium-term (2005-2007)<br>Increase of pensioners' health insurance contributions by an estimated 1.6 billion Euros per year in the short-term (2004)<br>Introduction of charge for doctors' visits, hospital treatment and follow-up treatment, home care and rehabilitation and increase of co-payments for pharmaceuticals, increasing revenue by an estimated 3.2 billion Euros per year in the short- and medium-term (2004-2007)<br>Increase of federal contributions by an estimated 1 billion Euros per year in the short-term (2004) and 4.2 billion Euros per year in the medium-term (2007), financed by increases in tobacco taxes<br>*Expenditure*<br>De-listing of dentures<br>De-listing of death benefit and maternity benefit, sterilization and over-the-counter drugs, and cutback of vision care (lenses) and in-vitro fertilization, reducing expenditure by an estimated 2.5 billion Euros per year in the short- and medium-term (2004-2007)<br>Reduction of pharmaceutical prices, lowering expenditures by an estimated 1.5 billion Euros in the short- and medium-term (2005-2007)<br>Change from percentage-based surcharge to fixed dispensing fee for pharmacists<br>De-regulation of prices for over-the-counter drugs<br>Reduction of administrative costs in the health care sector, lowering expenditures by an estimated .3 billion Euros in the short- and medium-term (2004-2007)<br>*Structure*<br>Introduction of mandatory supplementary dentures insurance (public or private) with flat-rate contribution | *Revenue (Reinforcing)*<br>Increase of general taxes<br>Increase of contribution rates<br>Increase of user payments<br>Broadening of the revenue base<br>*Expenditure (Reinforcing)*<br>Budget limits<br>Price reductions<br>*Expenditure (Destabilizing)*<br>De-listing of major benefits<br>Major benefit cutbacks<br>*Structure (Destabilizing)*<br>Addition of private tiers | Reinforcing<br>(Refinancing, Recalibration, Retrenchment and Restructuring) |

**Appendix A.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Dentures Financing Act (2004) | *Revenue*<br>Increase of employees' health insurance contribution rate by .45 percent, increasing revenue by an estimated 4 billion Euros per year in the short- and medium-term (2005-2007)<br>*Expenditure*<br>Re-listing of dentures benefits<br>*Structure*<br>Non-implementation of supplementary dentures insurance with flat-rate contributions | *Revenue (Reinforcing)*<br>Increase of contributions<br>*Expenditure (Reinforcing)*<br>Re-listing of benefits<br>*Structure (Reinforcing)*<br>Abolition of private tiers | Reinforcing<br>(Refinancing, Recalibration and Consolidation) |

*Sources*: Deutscher Bundestag. Dokumentations- und Informationssystem für Parlamentarische Vorgänge (DIP); Deutsche Bundesbank. "Finanzielle Entwicklung und Perspektiven der gesetzlichen Krankenversicherung." *Deutsche Bundesbank Monatsbericht*, no. July (2004): 15-32; Busse, Reinhard, and Annette Riesberg. *Health Care Systems in Transition: Germany*. Copenhagen: WHO Regional Office for Europe, 2004.

**Appendix B.** ***Pension Reforms in Germany, 1995-2004***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Status Quo: Pension Reform Act 1992 (1989/1991) | *Revenue*<br>Variable contribution rate (automatic adjustment to expenditure growth); indexation of federal contributions to contribution rate growth, slowing the increase of the contribution rate in the long-term (projected at 21.4 instead of 22.4 percent in 2010)<br>Increase of federal contributions by an estimated 1-3.5 billion Euros per year in the medium-term (1992-2000) and 7 billion Euros per year in the long-term (2010)<br>*Expenditure*<br>Stabilization of the benefit level at 70 percent of net wages in the long-term (for average earner with 45 years of contributions)<br>Retirement age increase for the unemployed, for women and for persons with long insurance histories from 60/63 to 65 years (phased in between 2001 and 2012)<br>Reduction of education credits from 13 to 7 years<br>*Structure*<br>Transfer of West Germany's public pension insurance scheme to the former East Germany, increasing federal contributions by an estimated 1.1 billion Euros per year (Pension Extension Act, 1991) | *Revenue (Reinforcing)*<br>Increase of contribution rates<br>Increase of general taxes<br>*Expenditure (Reinforcing)*<br>Maintenance of benefits<br>Retirement age increases<br>Minor benefit cutbacks<br>*Structure (Reinforcing)*<br>Harmonization of benefits<br>Harmonization of contributions | Reinforcing<br>(Refinancing and Recalibration) |

**Appendix B.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Growth and Employment Promotion Act (1996) | *Revenue*<br>Smaller increase of the contribution rate from 19.2 to 20.3 percent (instead of 20.9), and earlier due date for monthly pension contributions<br>Reduction of federal contributions by an estimated 0.6 billion Euros per year in the medium-term (1997-2000) and 2.7 billion Euros in the long-term (2010)<br>Reduction of the reserve fund by 2.2 billion Euros<br>*Expenditure*<br>Earlier and faster phasing-in of retirement age increase for the unemployed, for women and for persons with long insurance histories (phased in between 1997 and 2001 for the unemployed and between 2000 and 2004 for women and long-term contributors)<br>Slower convergence of East German pension benefits towards the West German level through a change in the indexation rule, reducing expenditures by an estimated 0.35 billion Euros in the short-term (1996)<br>Reduction of expenditures on medical rehabilitation by an estimated 1.5 billion Euros per year in the medium-term (1997-2000) and 2.5 billion Euros in the long-term (2015)<br>Further reduction of education credits from 7 to 3 years<br>*Structure*<br>— | *Revenue (Reinforcing)*<br>Increase of contribution rates<br>*Revenue (Destabilizing)*<br>Reduction of general taxation<br>Use of reserves<br>*Expenditure (Reinforcing)*<br>Limitation of benefit expansion<br>Retirement age increases<br>Budget cuts<br>*Structure*<br>— | Reinforcing<br>(Refinancing and Recalibration) |

**Appendix B.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Pension Reform Act 1999<br>(1997) | *Revenue*<br>Increase of federal contributions by an estimated 7.5 billion Euros per year in the medium-term (1998-2001) and 5 billion Euros in the long-term (2020)<br>Short-term stabilization of the contribution rate at 20.3 percent, preventing an increase to 21 percent (1998)<br>*Expenditure*<br>Reduction of the benefit level from 70 to 64 percent of net wages in the medium- and long-term (65 percent level reached in 2010)<br>Retirement age increase for the disabled from 60 to 63 years (phased in between 2000 and 2012)<br>Early retirement age increase for the unemployed and women from 60 to 62 years (effective in 2012)<br>Reform of disability pensions, leading to expenditure reductions of an estimated 3 billion Euros per year in the long-term (2010)<br>*Structure*<br>— | *Revenue (Reinforcing)*<br>Shift from contributions to taxes<br>*Expenditure (Reinforcing)*<br>Retirement age increases<br>*Expenditure (Destabilizing)*<br>Major benefit cutbacks<br>*Structure*<br>— | Destabilizing (Refinancing, Recalibration and Retrenchment) |
| Social Insurance Correction Act<br>(1998) | *Revenue*<br>Increase of federal contributions by an estimated 6.8 billion Euros per year in the short-term (1999) (estimates of long-term effects unavailable)<br>Increase of employer contributions for part-time employees in the amount of 1.5 billion Euros per year in the short-term (Part-Time Employment Act, 1999)<br>Short-term reduction of the contribution rate from 20.3 to 19.5 percent (1999)<br>*Expenditure*<br>Restoration of the 70 percent benefit level<br>*Structure*<br>— | *Revenue (Reinforcing)*<br>Shift from contributions to taxes<br>Broadening of contributors<br>*Expenditure (Reinforcing)*<br>Reversal of benefit cutbacks<br>*Structure*<br>— | Reinforcing<br>(Refinancing) |

**Appendix B.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Budget Consolidation Act (1999) | *Revenue*<br>Short-term reduction of the contribution rate from 19.5 to 19.1 percent (2000)<br>Reduction of federal contributions by an estimated 3.5 billion Euros per year in the medium-term (2000-2003) (estimates of long-term effects unavailable)<br>*Expenditure*<br>Reduction of the benefit level from 70 to 67 percent of net wages in the short-term (2000-2001)<br>*Structure*<br>— | *Revenue (Destabilizing)*<br>Reduction of contribution rates<br>Reduction of general taxes<br>*Expenditure (Destabilizing)*<br>Major benefit cutbacks<br>*Structure*<br>— | Destabilizing<br>(Defunding and Retrenchment) |
| Old-Age Provision Act (2001) | *Revenue*<br>Long-term contribution rate ceiling of 20 percent, preventing an increase to 20.6 percent (2020)<br>Short-term stabilization of the contribution rate at 19.1 percent, preventing an increase to 19.4 percent (2002)<br>Reduction of federal contributions by an estimated 1.3 billion Euros per year in the medium-term (2002-2005) and 3 billion Euros in the long-term (2020)<br>*Expenditure*<br>Further reduction of the benefit level to 64 percent of net wages in the medium- and long-term (65 percent level reached in 2010)<br>Combination of social assistance with a new mean-tested basic pensions for persons 65 years or older (15 percent higher than social assistance benefits), leading to estimated expenditures of about .4 billion Euros per year<br>*Structure*<br>Addition of a voluntary individual account tier with tax subsidies and direct subsidies of an estimated 10 billion Euros per year | *Revenue (Destabilizing)*<br>Limitation of contribution rate increases<br>Reduction of general taxes<br>*Expenditure (Reinforcing)*<br>Updating of public tiers<br>*Expenditure (Destabilizing)*<br>Major benefit cutbacks<br>*Structure (Destabilizing)*<br>Addition of private tiers | Destabilizing<br>(Defunding, Retrenchment, Restructuring) |

**Appendix B.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Reserve Fund Act (2001) | *Revenue*<br>Reduction of the reserve fund by 3 billion Euros (2002)<br>*Expenditure*<br>—<br>*Structure*<br>— | *Revenue (Destabilizing)*<br>Use of reserves<br>*Expenditure*<br>—<br>*Structure*<br>— | Destabilizing<br>(Defunding) |
| Contribution Stabilization Act (2002) | *Revenue*<br>Short-term stabilization of the contribution rate at 19.1 percent (2002), preventing an increase to 19.9 percent (2003)<br>Increase of the contribution rate from 19.1 to 19.5 percent (January 2003)<br>Reduction of federal contributions by an estimated 0.7 billion Euros per year in the short-term (estimates of long-term effects unavailable)<br>Increase of the income level up to which contributions are payable, leading to higher contribution revenues of about 1 billion Euros per year in the short-term (2003) (estimates of long-term effects unavailable)<br>Reduction of the reserve fund by 4.7 billion Euros (2003)<br>*Expenditure*<br>—<br>*Structure*<br>— | *Revenue (Reinforcing)*<br>Increases of contribution rates<br>Broadening of the revenue base<br>*Revenue (Destabilizing)*<br>Reductions of general taxes<br>Use of reserves<br>*Expenditure*<br>—<br>*Structure*<br>— | Destabilizing<br>(Refinancing and Defunding) |

**Appendix B.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Budget Law (2003) | *Revenue*<br>Reduction of federal contributions by 2 billion Euros per year (beginning in 2004)<br>*Expenditure*<br>—<br>*Structure*<br>— | *Revenue (Destabilizing)*<br>Reduction of general taxes<br>*Expenditure*<br>—<br>*Structure*<br>— | Destabilizing<br>(Defunding) |
| Social Insurance Reform Act (2003) | *Revenue*<br>Reduction of the reserve fund by about 5 billion Euros (2004)<br>Short-term stabilization of the contribution rate at 19.5 percent, preventing an increase to 20.5 percent (2004)<br>*Expenditure*<br>Reduction of the benefit level from 70 to 67 percent in the short-term (2003-2007) due to a one-year delay of benefit adjustments and an increase of pensioners' long-term care insurance contributions<br>*Structure*<br>— | *Revenue (Destabilizing)*<br>Use of reserves<br>*Expenditure (Destabilizing)*<br>Major benefit cutbacks<br>*Structure*<br>— | Destabilizing<br>(Defunding and Retrenchment) |

**Appendix B.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Sustainability Act (2004) | *Revenue*<br>Long-term stabilization of the contribution rate at 20 percent (2020) and 22 percent (2030), preventing an increase to 21.6 percent (2020) and 24.3 percent (2030)<br>Short-term stabilization of the contribution rate at 19.5 percent, preventing an increase to 20.5 percent (2004)<br>Reduction of federal contributions by up to an estimated 0.3 billion Euros per year in the short-term (2005-2007) and 7.9 billion Euros in the long-term (2030)<br>Increase of the reserve fund by an estimated 3 billion Euros in the medium-term (2004-2008)<br>*Expenditure*<br>Reduction of the benefit level from 67 percent (2005) to 59 percent in the long-term (2030)<br>Early retirement age increase for the unemployed from 60 to 63 years (phased in between 2006 and 2008)<br>Reduction of education credits<br>*Structure*<br>— | *Revenue (Destabilizing)*<br>Limitation of contribution rate increases<br>Reduction of general taxes<br>Use of reserves<br>*Expenditure (Reinforcing)*<br>Minor benefit cutbacks<br>Retirement age increases<br>*Expenditure (Destabilizing)*<br>Major benefit cutbacks<br>*Structure*<br>— | Destabilizing<br>(Defunding and Retrenchment) |

**Appendix B.** ***(continued)***

| *Reform Law (Year)* | *Specific Reform Measure by Target* | *Reform Measures by Target and Direction* | *Reform Direction (Reform Types)* |
|---|---|---|---|
| Retirement Income Act (2004) | *Revenue*<br>Shift from TEE to EET taxation system for public and private pensions<br>Increase of tax subsidies for occupational pensions by 1800 Euros per year and improvement of portability<br>*Expenditure*<br>Further reduction of the benefit level from 67 percent (2005) to as low as 52 percent in the long-term (2030)<br>*Structure*<br>Addition of a second, voluntary individual account tier ("Rürup pension"), allowing tax-free contributions of up to 8000 Euros per person per year and leading to tax reductions in the short-term of up to an estimated 2.5 billion Euros (2005-2007) and about 6 billion in the medium-term (2010)<br>Reduction of certification requirements for tax-subsidized individual pensions | *Revenue (Destabilizing)*<br>Reduction of general taxes<br>*Expenditure (Destabilizing)*<br>Major benefit cutbacks<br>*Structure (Destabilizing)*<br>Addition of private tiers | Destabilizing (Defunding, Retrenchment and Restructuring) |

*Sources*: Deutscher Bundestag. Dokumentations- und Informationssystem für Parlamentarische Vorgänge (DIP)

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