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Theories Explaining Welfare State Change

Mainstream welfare state theory encompasses three sets of explanatory approaches.¹ The approach most relevant in explaining welfare state expansion has been the ‘parties matter’ theory. According to this theory, it is the parties in power which largely determine welfare state development (Huber and Stephens 2001; Garrett 1998). More recently, political institutions – for example, the existence of ‘veto players’ (Tsebelis 2002) and the specific party competition – have moved to the forefront in explaining welfare state resilience in times of fiscal austerity (Pierson 2001). Finally, globalisation has brought socio-economic variables back into focus which had already dominated welfare state research up to the 1970s (Wilensky 1975, 2002). In this chapter we will demonstrate that these approaches cannot adequately explain the dual transformation of the German welfare state which we have witnessed over the past three decades. In general, these theories are better equipped to explain welfare state continuity than they are in ‘specifying the conditions under which major institutional change does occur’ (Hering 2002, p. 4; Seeleib-Kaiser 2003). Therefore, we will develop a social-constructivist approach, which, as our empirical analysis in the following chapter will show, can help us understand and explain the dual transformation.

5.1 Political and institutional explanations

Do parties matter?
The central argument of the classical ‘parties matter’ theory has been that conservative or liberal parties tend to focus on fighting inflation, whereas social-democratic parties privilege fighting unemployment (Hibbs 1977). Although there have been some disputes over the specific variables, it
has been argued that the key factor explaining the expansion of – and variance among – modern welfare states has been the relative strength of social democracy and/or organised labour (Shalev 1983; Korpi 1983). In general, the ‘parties matter’ theory is based on class analysis, whereby the various political parties represent particular class interests. However, refined analyses have shown that Christian Democrats have also been key players in social policy expansion (Kaufmann 1988; Boswell 1993; Castles 1994). Consequently, both Social Democrats and Christian Democrats have been identified as ‘social state parties’ (*Sozialstaatsparteien*) (Schmidt 1998, p. 168). According to Kitschelt (2001), there is no incentive in such a constellation of party competition for either the Christian Democrats or the Social Democrats to push for painful social policy changes, because either party would be punished by the electorate if it chose to implement such a strategy unilaterally. Comprehensive policy change could then only be accomplished by a grand coalition of the two welfare state parties. Consequently, unilateral policy change would most likely follow a path of incremental reforms.

In light of the empirical evidence presented in the previous chapter, and contrary to these theoretical arguments, we have, in fact, seen the use of unilateral initiatives to retrench certain social policies. Before the federal elections of 1983, both the Christian Democrats and the Liberals (FDP) explicitly demanded and implemented substantial cutbacks. In particular, the reductions of the replacement ratios and the restrictions on the eligibility criteria, implemented by the Christian-Liberal coalition government during the 1980s and 1990s within the unemployment insurance programme, were heavily opposed by the Social Democrats.² The 1998 federal elections did not prevent the conservative coalition from enacting the far-reaching Labour Promotion Reform Law of 1997/98, despite staunch opposition from the Social Democrats. For some time it seemed that different social policies determined politics. Based on the work of Lowi (1972), it has been argued that it would be easier to implement painful changes in social policy programmes that would most likely affect only certain groups, such as the unemployed. It would be much harder to cut programmes that insure against social risks that would eventually affect everyone equally, such as old age (Heinelt 1993; Seeleib-Kaiser 1994). Many analysts assumed that reforms of the old-age insurance scheme could only be achieved by a broad consensus among the two welfare state parties. Accordingly, one might point to the fact that the 1992 Pension Reform was enacted with the support of both parties (Nullmeier and Rüb 1993). But by the mid-1990s the unilateral approach also extended into the realm of pension politics (Hinrichs 1998, 2001).