Regaining Control of the Social Budgets: Fiscal commitment and social insurance reform in France and Germany 1990-2005

Elena K. Bechberger

Thesis submitted for the degree of Doctor of Philosophy

London School of Economics and Political Science

January 2007

I declare that the work presented in this thesis is my own.

London, 24 January 2007 ______________________________

(Elena Bechberger)

FOR MY PARENTS,

ROSWITHA AND MANFRED BECHBERGER

ABSTRACT

Over the past two decades the corporatist-continental welfare states of France and Germany have come under strong budgetary stress. As social expenditure accounts for around half of public spending in both countries, its retrenchment has been prominent on the political agenda. However, governments seeking to contain social spending face the problem that due to the institutional characteristics of the countries' social insurance programmes, a large share of the social budget is pre-committed and largely outside their control.

This study analyses how France and Germany have dealt with the strong pressures for retrenchment on the one hand, and high barriers for reform on the other between 1990 and 2005. By identifying systematic links between specific institutional commitment devices, cost-containment strategies and outcomes, it sheds light on the causal mechanisms behind the concept of path-dependency. It demonstrates that contrary to common perceptions, the de-facto degree of fiscal commitment in the French and German welfare states differs quite considerably between insurance sectors and individual schemes. These differences have a systematic effect on the degree to which the governments in both countries have regained influence over the determination of spending in these schemes and therefore over their social budgets.

According to the 'old politics' of the welfare state tradition and fiscal institutionalism literature, the nationally distinct actor constellations with regard to corporatist relations and budgetary allocation processes in the two countries should lead to different reform developments. This study challenges these arguments and shows that the motives and influence of the identified actors are strongly mediated by sectoral institutions. This strengthens arguments for a closer combination of both 'new' and 'old' arguments in welfare reform research, as well as for a more differentiated, scheme-specific perspective in analysing path-dependent reform processes and institutional lock-in.

CONTENTS

LIST OF TABLES

LIST OF GRAPHS

LIST OF FIGURES

ABBREVIATIONS

AAH	Allocation aux Adultes Handicapés
AFG	Arbeitsförderungsgesetz
AFRG	Arbeitsförderungsreformgesetz
AGFF	Association pour la Gestion du Fonds de Financement
AGIRC	Association Générale des Institutions de Retraites des Cadres
AnV	Arbeitnehmer-Versicherung
AOK	Allgemeine Ortskrankenkasse
API	Allocation de Parent Isolé
ARH	Agence Régionale de l'Hospitalisation
ARRCO	Association des Régimes de Retraite Complémentaires
ArV	Arbeiter-Versicherung
ASF	Association pour la Structure Financière
ASS	Allocation de Solidarite Specifique
ASSEDIC	Association pour l'Emploi dans l'Industrie et le Commerce
AUD	Allocation Unique Degressive
BA	Bundesagentur (before 2004: Bundesanstalt) für Arbeit
BAPSA	Budget Annexe des Prestations Sociales Agricole
BDA	Bund Deutscher Arbeitgeber
BfA	Bundesversicherungsanstalt für Angestellte
BMAS	Bundesministerium für Arbeit und Sozialordnung
BMGS	Bundesministerium für Gesundheit und Soziale Sicherung
BMWA	Bundesministerium für Wirtschaft und Arbeit
BRDrs	Bundestags-Drucksache
BTDrs	Bundesrats-Drucksache
C3S	Contribution Sociale de Solidarité à la Charge des Sociétés
CADES	Caisse d'Amortissement de la Dette Sociale
CAMIVAC	Caisse d'Assurance Vieillesse, Invalidité et Maladie des Cultes
CAMR	Caisse Autonome Mutuelle de Retraite
CANAM	Caisse Nationale d'Assurance Maladie des Professions Indépendantes
CANCAVA	Caisse Nationale d'Assurance Vieillesse des Artisans
CCSS	Commission des Comptes de la Sécurité Sociale
CDU	Christlich Demokratische Union
CFDT	Confédération Française Démocratique du Travail
CFTC	Confédération Française des Travailleurs Chrétiens
CGC-CFE	Confédération Française de l'Encadrement - Confédération Générale des Cadres
CGSS	Caisses Générales de Sécurité Sociale
CGT	Confédération Générale du Travail
CMU	Couverture Maladie Universelle
CNAF	Caisses d'Allocations Familiales
CNAM	Caisse Nationale d'Assurance Maladie des Travailleurs Salaries
CNARCL	Caisse Nationale de Retraite des Agents des Collectivités Locales
CNAV	Caisse Nationale d'Assurance Vieillesse des Travailleurs Salaries
CNAVPL	Caisse Nationale d'Assurance Vieillesse des Professions Libérales
CNBF	Caisse Nationale des Barreaux Français
CNMSS	Caisse Nationale Militaire de Securité Sociale
CNPF	Conseil National du Patronat Français
CNRACL	Caisse Nationale de Retraites des Agents des Collectivités Locales
COG	Conventions d'Objectifs et de Gestion
COR	Conseil d'Orientation des Retraites
COS	Conseil d'Orientation et de Surveillance
CPR	Common Pool Resource
CRDS	Contribution au Remboursement de la Dette Sociale
CSB	Couverture Sociale de Base
CSG	Contribution Sociale Generalisée
CSU	Christlich-Soziale Union

DGB	Deutscher Gewerkschaftsbund
DM	Deutsche Mark
DRASS	Direction Régionale des Affaires Sanitaires et Sociales
DREES	Direction de la Recherche, des Etudes et de l'Evaluation des Statistiques
DSS	Department of Social Security
DWP	Department of Work and Pensions
EDF-GDF	Electricité de France - Gaz de France
EMU	European Monetary Union
EU	European Union
FDP	Freie Demokratische Partei
FEN	Fédération de l'Education Nationale
FF	Francs Français
FFIPSA	Fonds de Financement des Prestations Sociales des Non Salaries Agricoles
FO	Force Ouvrière
FOREC	Fonds de Financement de la Reformes des Cotisations Patronales de Sécurité Sociale
FR	Frankfurter Rundschau
FRR	Fonds de Réserve des Retraites
FSV	Fonds de Solidarité Vieillesse
GDP	Gross Domestic Product
GG	Grundgesetz
GKV	Gesetzliche Krankenversicherung
GRV	Gesetzliche Rentenversicherung
IEG	Industries Electriques et Gazières
ILO	International Labour Organisation
IRCANTEC	Institution de Retraite Complémentaire des Agents Non Titulaires de l'État et des Collectivités Publiques
KHG	Krankenhausfinanzierungsgesetz
KnRV	Knappschaftliche Rentenversicherung
LFSS	Loi de Financement de la Sécurité Sociale
LVA	Landesversicherungsanstalt
MEDEF	Mouvement des Enterprises de France
MISSOC	Mutual Information System on Social Protection in the Member States of the European Union
MSA	Mutualité Sociale Agricole
NHS	National Health Service
OECD	Organisation for Economic Co-operation and Development
ONDAM	Objectif National des Dépenses de l'Assurance Maladie
ORGANIC	Caisse de Retraite des Commerçants et des Chefs d'Entreprises Commerciales
PARE	Plan d'Aide au Retour à l'Emploi
PAYG	Pay As You Go
PS	Parti Socialiste (Socialist Party)
RATP	Régie Autonome des Transports Parisiens
RMI	Revenue Minimum d'Insertion
RPR	Rassemblement pour la République (Rally for the Republic)
RSA	Risikostrukturausgleich
RVO	Reichsversicherungsordnung
SEITA	Société Nationale d'Exploitation Industrielle des Tabacs et Allumettes
SERPS	State Earning-Related Pension Scheme
SGB	Sozialgesetzbuch
SNCF	Société Nationale des Chemins de Fer
SPD	Sozialdemokratische Partei Deutschlands
SVR	Sachverständigenrat
SZ	Süddeutsche Zeitung
TGAP	Taxe Générale sur les Activités Polluantes
UMTS	Universal Mobile Telecommunications System
UNCAM	Union Nationale des Caisses d'Assurance Maladie
UNEDIC	Union Nationale Interprofessionnelle pour l'Emploi dans l'Industrie et le Commerce

URCAM	Union Régionale des Caisses d'Assurance Maladie
URSSAF	Unions de Recouvrement des Cotisations de Sécurité Sociale et d'Allocations Familiales
VAT	Value Added Tax
VBL	Versorgungsanstalt des Bundes und der Länder
VDR	Verband Deutscher Rentenversicherungsträger
WWII	Second World War

ACKNOWLEDGEMENTS

When I came to the LSE in September 2002 to do my MSc in Public Policy, I would have not imagined that I would stay much longer than the anticipated one year. Over four years later, I do not regret having changed my plans and not having returned to Germany. Instead, I stayed on for the long journey of writing this thesis which has often been a challenging, but overall enjoyable experience. I would not have entered into this project without the help and encouragement of my supervisor Martin Lodge, to whom I am extremely grateful. He has been a fantastic and always approachable adviser throughout, pointing me in the right direction on several occasions when I could not see the wood for the trees, and being immensely helpful in clarifying my argumentation. He always had an open ear for my complaints and doubts, and has supported me in various matters besides the PhD. My second supervisor, Bob Hancké, has offered excellent advice at critical junctures of this project and has made sure that I did not loose the overall perspective when muddeling through details. He was right indeed when he said that I would be grateful one day for his insistence on structural changes, despite the additional work this involved!

Although not officially supervising my thesis, Waltraud Schelkle kindly volunteered several times to comment on my work, and has offered many helpful suggestions and new ways in which to approach the material. I am also grateful to Paolo Benedetti, Patrick Dunleavy, Ed Page and Joachim Wehner for helpful comments. Steffi Walter has been a critical commentator and great help in bringing things to the point. Whitni Thomas bravely tackled the cryptic French of official budget documents when my abilities came to their limits, and has also been an immense help in proofreading. In this respect I am also grateful to Phil Hyde, Sarah McLaughlin and Gareth Patterson. During the course of my studies, I have received financial assistance from the German Academic Exchange Service and the LSE, which has made survival in London somewhat easier and for which I am very thankful.

Many thanks go also to my friends and colleagues, for all their academic and emotional support as well as success in distracting me from the social budget. Sharing work and life with the inhabitants of Y203 has made the last three years great fun, and the friendly words from the staff at Wright's bar have made coming to work in the mornings much more enjoyable. Last but not least, I want to thank Roger Odili for all his support and patience along the way. I hope he knows how much he contributed to the smooth completion of this project.

This PhD thesis is dedicated to my parents, Roswitha and Manfred Bechberger, who have been a constant and boundless source of support and encouragement. I am immensely grateful to them for their trust and willingness to back whatever plans I have formulated in the past. Without them, this study would not have been possible.

1 Introduction

Focus of the Study

In April 1986, Germany was plastered by its Christian-Democratic and Liberal government with 15,000 campaign posters exclaiming "For one thing is certain: your pension!".[1] But during the following two decades, the average pension level for future generations of German pensioners was reduced from 70 to 43 percent of former wages.[2] This is only one example of the widespread political practice to break former spending promises in the social sector – often justified by the pressures resulting from 'unexpected' external circumstances. In the eyes of many commentators this development has contributed to the growing disenchantment with politics visible in many European countries.

Since the 1980s, the mature European welfare states have in fact come under strong budgetary and political stress (Ferrera and Rhodes 2000; Kuhnle 2000; Leibfried 2001; Pierson 2001a; Schmidt 2001). State revenues declined as a consequence of staggering economic growth and rising unemployment since the 1990s. At the same time, spending demands increased due to a growing number of people being dependent on state benefits - the consequences of both high unemployment as well as socio-demographic changes. These increasing demands for social provisions on the one hand, and the declining ability to finance them on the other, have created increasing difficulties for policymakers to 'square the welfare circle' (Bonoli et al. 2000). Consequently, social budget balances – that is, the accounts of all social policy programmes - have increasingly turned negative. As social expenditure accounts for around half of public spending in the EU-15 countries, these negative balances have contributed strongly to the increase of state debt during the same period. Facing this 'context of permanent austerity' (Pierson 2001b: 417), welfare state retrenchment in the sense of cost containment has become an inevitable task for all countries.

At the same time, policymakers face strong barriers for change and their scope to act is often considerably restricted by existing commitments. Public spending in the welfare state is to a large degree pre-committed through laws, contracts and other legal obligations, which drastically limit the scope for policymakers to redistribute or restrain

[1] "Denn eins ist sicher: die Rente!" (Norbert Blüm, Minister for Employment and Social Affairs 1982-1998)

[2] Pensions in the predominant Statutory Insurance Scheme (Gesetzliche Rentenversicherung, GRV)

spending (Ross 1997; Pierson 2001c). In fact, budgets in OECD countries only vary by less than 1 percent of their macro structures annually (see Tsebelis and Chang 2004: 459). In many respects, policymakers are therefore 'heirs before they are choosers' (Rose and Davies 1994: 1) and in a permanent conflict between pressures for change and obligations to fulfil the fiscal commitments of their predecessors. This is particularly true for the social budget, where previous spending commitments play an extremely important role.

This study deals with mature welfare states' dilemma of facing both increasing financial pressures for and strong barriers against reform. While Paul Pierson (1994; 1996) and others working in the 'new politics' tradition have analysed the path-dependent effect of existing institutions and policies, this study investigates not *whether*, but *what forms* of commitment determine institutional and policy 'stickiness'. It then asks what the implications of different degrees of pre-commitment in insurance schemes are for the way policymakers deal with pressures for cost containment in these programmes. Secondly, the study examines what role domestic political factors, political ideologies and processes – the focus of the so-called 'old' school of welfare state research as well as of the fiscal institutionalism literature - play for the direction and form of policy changes. Who are the supporters of cost containment and who are the opponents, and does their respective influence in the policymaking process have an impact on reform outcomes?

The main social insurance programmes in two corporatist-continental welfare states, France and Germany, form the basis for this research. Given their institutional characteristics, these programmes should according to the 'new politics' literature be particularly resistant to change. Contrary to this expectation, this study demonstrates that the de facto degree of fiscal commitment in the two countries differs quite considerably between sectors and individual insurance schemes, and that certain institutional elements are often not as committing as commonly perceived. It furthermore shows that overall in both France and Germany the degree of fiscal commitment has been reduced between 1990 and 2005, which has increased the leverage of the central governments over social spending. But the study also identifies a systematic reform-blocking effect of high degrees of fiscal commitment in both countries: policy sectors with an initially higher degree of fiscal commitment see a smaller degree of institutional and programmatic change. By identifying systematic links between specific commitment devices, cost containment strategies and outcomes, the study illuminates the causal mechanisms behind these path-dependent developments.

According to the 'old politics' of the welfare state tradition and the budget literature, France and Germany differ considerably with respect to the motives and the influence of various political actors in social and fiscal policy reform processes. Accordingly, this should lead to nationally or temporarily distinct reform processes in the two countries. This study challenges these arguments and shows that the motives and influence of the identified actors are strongly mediated by sectoral institutions. Depending on the respective institutionalisation of fiscal commitment, even a worsening of the financial situation in insurance schemes can be in the interest of retrenchment advocates; moreover, the relative position of actors in insurance schemes can lead to unexpected coalitions between generally opposing interest groups. The study furthermore finds strong evidence that despite nationally distinct actor constellations, similar institutional constraints in individual social insurance sectors lead to similar reform processes in both countries. This strengthens arguments for a closer combination of both 'new' and 'old' arguments in welfare reform research, as well as for a more differentiated, scheme-specific perspective in analysing path-dependent reform processes and institutional lock-in.

Research Background

The question of how mature welfare states that belong to 'corporatist-continental' and 'social-democratic' welfare families (see Esping-Andersen 1990) deal with increasing financial pressures has been the subject of an extensive series of research. In line with the literature about the convergence effects of globalisation on state spending and taxation (Rodrik 1997; Garrett 2001; Genschel 2002), many scholars anticipated a convergence in fiscal policies and a 'social dumping' of taxes and social security contributions as a consequence of the increased market integration and common monetary policy in EMU (e.g. Steinmo 1994; George and Taylor-Gooby 1996; Standing 1997; Scharpf 1997; Ferrera et al. 2001). As a result they predicted a massive scaling back of welfare provision in those countries with above average social expenditure. In contrast, the 'models of capitalism' literature argues that increasing internationalisation does not necessarily undermine the possibilities for distinct national economic and social policies because of mutual interdependencies between production and welfare regimes (see Hall and Soskice 2001; Mares 2001; Estevez-Abe et al. 2001). What we know today is that there is no general downward trend in social expenditure (see Castles 2004), and that countries have found very distinct ways of dealing with the financial pressures. How these divergent developments can be explained, however, is still very much subject of debate.

The most challenging theoretical argument against undifferentiated 'race-to-the-bottom' arguments has been made in the 'new politics of the welfare state' literature based on the work of Paul Pierson (1994; 2001b). This literature explains the persistence of welfare state spending even in times of austerity with the strong countervailing factors that push for the maintenance of social spending in mature welfare states. Pierson identified two main sources of the welfare state's political resilience, of which the first one is 'institutional stickiness'. The first aspect of this stickiness is that welfare programmes are characterised by 'increasing returns', which means that the exit costs – i.e., the cost of switching from one policy to some previously plausible alternative – rise with time (Arthur 1994; Pierson 2000a). Policies create political constituencies that benefit from the continuation of these policies and these groups strongly resist potential cutbacks. Since they are likely to be better organised and informed than the general tax payer who would benefit from lower taxes (Bonoli et al. 2000), these tend to be highly influential in their opposition to change. Therefore, institutional change is typically incremental and path-dependent as incumbent decisionmakers are constrained by the actions of their predecessors, even though they may have the formal authority to enact change (North 1990; Rose and Davies 1994). A second aspect of institutional stickiness concerns formal and informal 'veto points' in a political system in the form of institutional arrangements such as federalism, bicameralism or coalition governments. Since veto points increase the number of players whose agreement is necessary for reform, they limit the potential for institutional change (Tsebelis 2002). In addition to these arguments of institutional stickiness, the new politics of the welfare state literature has also paid strong attention to the electoral incentives of politicians (Pierson 1994; Ross 1997; Scharpf and Schmidt 2000). Assuming that policymakers are seeking to avoid blame, the success of retrenchment advocates will vary with the chances for lowering the visibility of reforms – which, again, depends mainly on the design of political institutions and the resulting concentration of political power.

Identifying the importance of both structural and actor-centred factors for welfare state reforms, the 'new politics' literature has made an important contribution to the analysis of divergent retrenchment patterns. It provides a theoretical framework for explaining why mature welfare states under strong and similar pressure for welfare state reform respond differently to these challenges depending on their institutional settings and the extent of past commitments. Institutional stickiness and blame avoidance impede a race-to-the-bottom as a response to pressure. Consequently, 'what we can observe are efforts to renegotiate and restructure the welfare state but not to dismantle it' (Pierson 2001b: 14). But while the existing retrenchment literature offers an encompassing framework for explaining institutional resistance and the incentive for politicians not to pursue retrenchment, it has difficulties to explain the successful cutback initiatives and policy change which are arguably underway also in countries with apparently high barriers for reform. In most West European welfare states, the reform of social programmes has been on top of the political agenda for the last two decades and has lead to considerable changes in welfare provisions. These reform and retrenchment patterns cannot be explained by the strong abilities of welfare constituencies and institutional impediments alone. A number of welfare reform scholars have therefore criticised the 'new politics' approach for lacking the explanatory power to analyse the ongoing reform processes (e.g., von Kersbergen 2000; Green-Pedersen and Haverland 2002; Natali and Rhodes 2004a).

This thesis addresses two aspects of the 'new politics' approach's shortcomings: first, there is some lack of understanding in the literature about the exact character of the institutional and political elements that create the 'stickiness' of institutions and spending for certain policies. What exactly are the institutional and policy characteristics that lead to reform processes developing in path-dependent ways? What are the factors that enable cost containment measures even in highly pre-committed environments? The explanation for retrenchment processes offered by the 'new politics' literature is that politicians avoid visible and radical cuts in order to avoid blame. But this account does not explain the far-reaching and highly visible reform processes which have taken place in most developed welfare states during the last two decades. Furthermore, it contains various argumentative contradictions: according to Pierson (1994), the concentration of political authority and a low degree of institutional fragmentation should facilitate the development of retrenchment strategies. This positive relationship between concentrated authority and fiscal discipline has also been stressed by the budget literature (Strauch and von Hagen 1999; Buti and Sapir 2002). At the same time the 'blame avoidance' logic (Weaver 1986) posits that politicians have strong incentives to avoid cutbacks especially in areas in which they have concentrated power, as this in turn concentrates responsibility such that cutbacks might lead to electoral backlashes. This means that policymakers should refrain from retrenching in areas in which they have the power to act, while they cannot act in those areas in which they seek to cut back. But if this is true, how can we explain ongoing welfare state reforms and cost containment measures? Attempts to closer examine the effect of organisational structures and authority to act on changes in welfare policy have so far been rather limited. Bonoli, George and Taylor-Gooby raise this question, but arrive at the same contradiction of effects as outlined above: if governments control finances directly, they are in a strong position to retrench – but as conversely concentrated power also concentrates accountability, they tend to refrain from attacking exactly those schemes (see Bonoli et al. 2000: 140ff.). Kittel and Obinger (2003), focusing specifically on the effects of contribution-financed social insurance programmes, also point to this unresolved question:

> "If the organisation of welfare programmes is delegated to external institutions such as social insurance funds, financial problems are likely to be visible at a fairly early stage because demands for additional funding from the government budget must be made publicly. Hence cost pressures might be more likely to be tackled in a technical and problem-oriented way. In contrast, if social expenditures are hidden in the government budget, vested interests may have much more leeway to block reform because they can more easily embark on policies of blame avoidance. However, this conflicts with the argument that tax-financed systems are easier to change because they are more open to government discretion" (Kittel and Obinger 2003: 42).

These contradictions show the limitations of existing theories in explaining contemporary retrenchment developments. The concept of institutional change and lock-in as outlined in the new politics literature consequently needs further specification.

This study contributes to the existing historical-institutionalist literature by providing such a specification. In its analysis of welfare reform processes, it identifies the elements of social insurance schemes that create institutional and political stickiness, and demonstrates their effect on fiscal welfare reforms. In contrast to former studies on the effect of political macro-structures (e.g., the number of veto players on the central state level, coalition governments, federalism, or electoral institutions, see Huber et al. 1993; Swank 2001; Siegel 2002) on the development of welfare spending and the likelihood of reform, its focus lies on identifying micro-level causal mechanisms between alternative institutional designs and reform developments (see Hacker 2005; Starke 2006). For this purpose it analyses the degree to which social insurance institution and policies are in fact affected by pre-commitment on four dimensions, which are the administrative and budgetary regulations of the insurance schemes as well their respective revenue structures and benefit regulations.

The results show that the assumption of general high degrees of fiscal pre-commitment in the French and German social insurance schemes is not correct. Instead, the degree of de facto commitment in both countries differs considerably between sectors and individual insurance schemes. Contrasting measurements of pre-commitment in 1990 with those in 2005 shows that in both countries the central governments have reduced fiscal pre-commitments during this period and have therefore regained control over their social insurance budgets. In this context, the study identifies systematic links between degrees of commitment on the individual four dimensions in 1990 and the extent and form of cost containment strategies in the subsequent 15 years: high degrees of pre-commitment on the administrative and spending dimension are rarely affected by successive reforms, whereas commitment on the budgetary and revenue dimensions has been reduced more strongly. These results demonstrate that specific institutional and policy elements create more effective fiscal commitment and institutional 'lock-in' as others, which helps to shed light on the causal mechanisms behind path-dependence.

The second criticism on which this study focuses is the apparent failing of the retrenchment literature to take into account the so-called 'old' arguments of welfare reform analyses. Pierson and other 'new politics' scholars have argued that class-based power resources approaches (Stephens 1979; Korpi 1979; 1983) and partisan arguments (Iversen and Cusack 1998; Hicks and Kenworthy 1998; Garrett 2001) have contributed to the explanation of divergent welfare state growth, but fail to explain welfare state retrenchment. But an increasing number of scholars have argued that these explanatory factors, particularly the role of trade-unions and corporatist relationships, are still important elements in reform processes and should not be ignored (e.g., Scarbrough

2000; Reynoud 2000; Béland 2001; Jochem and Siegel 2003). In some countries, the social partners have played an important role in negotiated reforms, so-called 'social pacts', which, in some cases, have contained cutbacks in welfare benefits (Ebbinghaus and Hassel 2000; see Siegel 2005 for a sceptical view). The proponents of the 'old' arguments argue that in order to explain welfare reforms it is important to identify who the advocates of retrenchment are, and how these actors pursue their motives.

The aim of this study is to assess the explanatory power of the different arguments put forth in the debate on welfare state reform. For this purpose, it contrasts the 'old politics' arguments on the importance of interest group strength and party ideology and arguments from the budget literature with the institutional arguments of the 'new politics' literature. The first argument emphasises the role of corporatist actors and corporatist institutions in welfare reform processes. There has been a revival of power-resource arguments in the 'neo-corporatism' and 'social pacts' literatures, which underlines the importance of social partner positions and involvement for the explanation for the success or failure of social policy reforms (e.g., Crouch and Streeck 1997; Ebbinghaus and Hassel 2000; Rhodes 2001; Jochem and Siegel 2003). The social partners play an important role in the management of the insurance schemes in both France and Germany, but the detailed effects of corporatist institutions on expenditure developments and the extent of retrenchment measures are still not adequately understood. As the two countries differ considerably with regard to the mode of interactions between the social partners and the degree to which they are consulted in social policymaking processes, we should expect nationally distinct effects on reform processes. But the study shows that that the effect of corporatist relationships on insurance reforms is strongly mediated by the existing institutions and very distinctive for the individual schemes. Despite nationally distinct actor constellations, similar institutional constraints in social insurance sectors lead to similar reform processes in both countries: the specific position of the social partners in individual insurance schemes strongly affects their policy positions and can lead to them finding common ground despite strong conflicts on the national level.

The second argument with which the 'new' and 'old' politics hypotheses will be contrasted derives from the literature on the effects of budgetary institutions and processes on fiscal policy (e.g., von Hagen and Harden 1996; Poterba and von Hagen

1999; Buti and Sapir 2002). This literature analyses the relative position and strength of retrenchment advocates in governments and its implications for expenditure developments. Although highly relevant, the hypotheses and results of the budget literature have so far been rarely connected to the analysis of social expenditure developments and welfare reforms. Also with respect to this literature, we should expect nationally distinct reform processes in France and Germany as the position of the French finance minister in the policymaking process is said to be much stronger than is the case for its German counterpart (see von Hagen 1992; von Hagen and Harden 1996). But similar to the effect of corporatist relations, the study finds strong evidence that both the motivations of the retrenchment advocates in government and their influence on reform processes depend strongly on the specific institutional and programmatic characteristics of individual insurance schemes: the higher the financial stake of the central government in insurance schemes, the stronger is its interest for self-motivated intervention in the schemes.

The third argument discussed in this study stresses the effect of different party ideologies on welfare reform outcomes and on overall social expenditure cutbacks (e.g., Schmidt 1996 and Cusack 1999). The traditional hypothesis has been that leftist parties have more expansionary tendencies with regard to fiscal policies because of their strong links with unions and other labour institutions who favour social spending. In contrast, conservative parties are expected to be more capable of restricting public spending and to resist pressures to expand social protection. Whether such arguments matter when strong external economical and financial pressures restrict the scope of policymakers, is a matter of debate. The study finds no evidence in the French and German reform processes which would support such a causal connection, but instead can only detect a procrastinatory effect of left-wing governments on the timing of retrenchment measures.

In addition to the question which factors influence welfare state reform, there has been much debate about what 'welfare retrenchment' exactly means and how it can be measured. Welfare retrenchment is not synonymous with the mere cutting back of social expenditure, but also encompasses reforms that according to Pierson (1994: 17) "restructure welfare state programmes to conform more closely to the residual welfare state model, or alter the political environment in ways that enhance the probability of such outcomes in the future". Different from previous studies, this analysis employs a definition of 'institutional change' that encompasses both these direct and future implications of policy measures as well as their effect on the future likelihood of change.

By measuring the extent of retrenchment through the implications of political decisions for the degree of pre-commitment of policies, it is not only possible to assess both immediate and future implications of these decisions, but also to incorporate manifestations of less visible changes. These are an important element often overlooked by studies that focus on expenditure developments or institutional and programmatic changes. As publications about institutional analysis underscore, the common perception of institutional change is often too narrow to capture all retrenchment processes in welfare states (Hacker 2004; Streeck and Thelen 2005). One example is the cutback of social programmes by not adapting them to changing economic and social circumstances, a policy of so-called 'political non-decisions' (see Alber 1982: 204). Similarly, Hacker (2004; 2005) as well as Streeck and Thelen (2005) point to the fact that crucial policy changes can derive not only from large-scale legislative reform, but also from a series of incremental, semi-autonomous processes. Instead of directly attacking the formal operations and structures of institutions, policymakers "may seek to shift those institutions' ground-level operation, prevent their adaptation to shifting external circumstances, or build new institutions on top of them. These are strategies for change that are little studies and even less well understood" (Hacker 2004: 3). By employing a more encompassing definition of welfare state reform, this study sheds light on some of these issues.

Methodology

To study the effects of fiscal pre-commitment on welfare reform, this analysis draws on two comparative case studies of the main social insurance schemes in France and Germany. Because social insurance schemes represent the strongest form of budgetary and political commitment in welfare states, it concentrates on the main social insurance schemes in the three sectors pensions, health and unemployment. Together, they account by far for the largest share of total social expenditure in the two countries and are also their fastest growing component. The ability to control spending in these schemes is therefore of central importance for policymakers seeking to regain control over their social budgets.

The analysis of two cases suggests possible problems of over-determination, as a number of independent variables are tested on only a very limited number of cases. The study avoids this problem by separately analysing the main schemes in the three insurance sectors: all of these schemes have different characteristics with regard to fiscal commitment, and for each of the schemes the effect of these commitments in times of fiscal austerity is analysed individually. This means that effectively seven different cases are analysed (the main insurance schemes in each of the three sectors, plus additionally the supplementary pension insurance schemes in France). In order to show that the fiscal commitment framework is also useful to explain developments in welfare states with very different institutional characteristics, the results of the study are furthermore contrasted with a short analysis of reform developments in the UK during the same time period (see Chapter 8).

In order to assess the degree of policy pre-commitment in the individual insurance schemes, the analysis uses an index which measures fiscal commitment on four different dimensions of these schemes: the administrative structure of insurance schemes and their degree of managerial independence, the extent of their budgetary independence and extent of fiscal constraints imposed on them, their revenue structure, and finally, their spending structure in terms of contribution-based eligibility and reciprocity. Some aspects of this index have been comparatively analysed or measured before in the context of welfare state analysis, as for example the representation of social partners in social insurance administration (e.g., Mosley et al. 1998) or the share of contribution financing in financing welfare provision (e.g., Kittel and Obinger 2003). In contrast, other aspects – particularly those on the budgetary dimension – have not been subject to a comprehensive comparative analysis before. Data had therefore to be collected from a wide variety of primary and secondary sources (see below). The measurement of the respective degrees of fiscal commitment in the schemes is carried out by assigning ordinal values for each dimension. The values on the four dimensions are successively aggregated, which provides a measurement of the overall degree of fiscal commitment in insurance schemes.

Similar methodological approaches have been applied in regulatory analysis or the fiscal institutionalism literature (see Cukierman et al. 1992; von Hagen 1992; Gilardi 2002), but the attempt to empirically assess the institutional stickiness of welfare programmes by taking into account not only procedural barriers, but also factors which generate political transaction costs, is unique. It is however important to stress that a truly objective measurement of fiscal commitment is difficult to achieve, as institutional characteristics are 'always only constraints but no determinants of actions' (see Pierson 2000b: 810). The applied measurement approach is useful in this respect as it makes it possible to assess the extent to which actions are constrained, to compare degrees of commitment between insurance schemes and also to measure change over time. The analysis of reform processes in the French and German insurance schemes furthermore provides strong evidence that the index is indeed an effective indicator for institutional stickiness.

The empirical evidence for the study is drawn from various sources: the information about the specific institutional, administrative and budgetary regulations stems from statutes and other publications of the specific insurance schemes, the Social Security Codes and government as well as academic publications. Data published either directly by insurance institutions, by the statistical or audit bodies of the national governments as well as the Organisation for Economic Co-operation and Development (OECD) is used to analyse changes in revenue structures as well as the impact of policy changes on spending. Changes in benefit regulations are analysed by using mainly legal information from the Social Security Codes but also from comparative sources such as ILO or MISSOC as well as secondary literature. Press statements, parliamentary minutes and newspaper articles form the basis for the analysis of the positions of interest groups and political parties as well the political debates accompanying reform processes.

Case Selection:

The case-study based research design applied in this study is best suited to analyse the causal mechanisms behind the social insurance reform processes, as it is necessary to capture the complexity of the institutional and programmatic structures as well as reform measures which are focus of this research project. A case-study design furthermore allows for the necessary in-depth comparisons of the political forces as well as reform debates behind these measures. The two cases selected are France and Germany, two countries whose welfare states belong to the group of corporatist-continental schemes as classified by Esping-Andersen (1990). The new politics literature predicts that this group of welfare states should be particularly affected by the counter-pressures for change: while tax-based universal and liberal welfare systems usually centralise policy formation and implementation within governmental institutions, corporatist-continental welfare systems, which are mainly contribution-financed, decentralise authority over their social insurance schemes to networks of quasi-public administrative bodies comprised of labour, business and the government. Those administrative bodies often also dispose of independent budgetary authority and an off-budget status. The emphasis of the spending structure is on maintaining class differentials, closely linked to occupational status and with a high degree of contribution-based reciprocity. Through these institutional features, policymakers have purposefully committed budgetary resources as well as themselves to certain policies in order to achieve higher credibility and to limit their successors' scope for policy change. It should consequently be difficult for retrenchment advocates to access these funds.

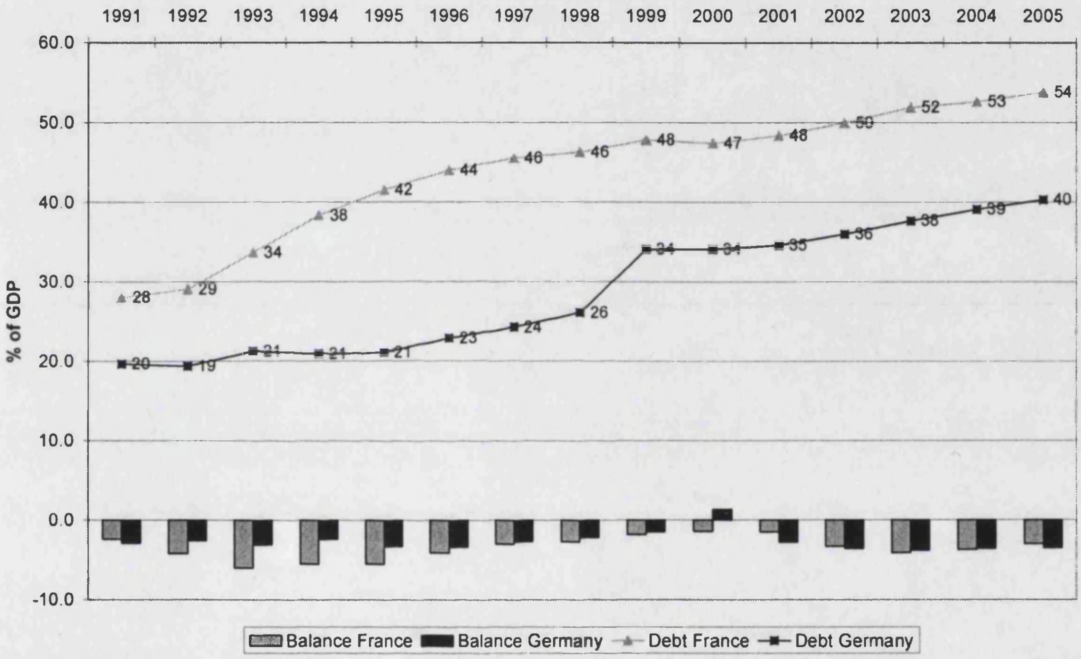
Both Germany and France share these institutional features of their social insurance schemes. At the same time, however, the two countries differ with regard to their framework of corporatist relationships as well as the respective institutional strength of retrenchment advocates in their budgetary processes, factors that have been particularly stressed by the 'old politics' and the budget literature. With regard to party politics, the ruling party changed twice in both countries from right-wing to left-wing ones and back during the analysed period from 1990-2005. This makes them also suited for the analysis of partisanship arguments and we should expect time-specific effects if the hypotheses about the influence of party ideology are correct.

France and Germany faced similar external as well as internal financial pressures during the period under study. After 1990, strong financial pressures developed in France and Germany as both countries struggled with economic adaptation processes and domestic financial challenges. Besides these domestic pressures, both countries also faced external constraints as they needed to comply with restrictive deficit and debt criteria if they wanted to join the European Monetary Union by 1999.[3] Initially, France had been hit harder by economic difficulties and increasing unemployment, which had a negative effect on tax revenues while simultaneously increasing state expenditure. Those developments peaked in 1993 when the central government deficit reached a record level of 6 percent of GDP. The situation subsequently improved and the general government deficit was cut by an average of 0.9 points of GDP in the following four years, and in 1997 the important Maastricht-limit of 3.0 percent was achieved. But the

[3] Besides price and currency stability and moderate interest rates, the 1991 Maastricht Treaty required from countries to avoid excessive deficit positions (defined against a reference value for deficits of 3 percent and for gross public debt of 60 percent of GDP).

weak economic recovery in the mid-1990s was only short-lived (see OECD 2000). In the wake of a new economic slowdown, fiscal policy was relaxed again after 2001 and the Maastricht deficit criteria were repeatedly missed. In 2004 the government started new consolidation efforts, but the fiscal improvement remained moderate and deficits were again high with 3.6 percent of GDP in 2004 and 3 percent in 2005 (see OECD 2005a: 44). Overall, the indebtedness of the French state increased from 28 percent of GDP in 1991 to a staggering 54 percent in 2005 (see Graph 1-1).

Graph 1-1 Central Government Balance and Overall Debt in France and Germany as Percentage of GDP 1991-2005



Source: OECD 2005b, Economic Outlook, Statistical Annex

While the situation had been more positive for Germany at the end of the 1980s, reunification in 1990 and a subsequent economic slowdown also led to a quick deterioration of public finances. Massive transfers to the new Eastern Länder took their toll on government finances, a development which was augmented by a strong increase in unemployment as economic growth staggered from 1993 onwards. In an effort to meet the Maastricht criteria, budget deficits were reduced. In 2000 the overall balance even turned positive, although this was due to unusually high economic growth and high but nonrecurring state revenues from the sale of UMTS licenses. But the financial recovery was short-lived and deficit targets were repeatedly missed again. This was also due to the fact that income tax reductions, intended to boost investment and spending, were not sufficiently offset on the spending side (see OECD 2006a: 27). The effect on public finances was dramatic: central government debt doubled from 20 to 40 percent of GDP between 1991 and 2005 (see Graph 1-1). According to the Maastricht definition, which also takes sub-national government debt into account, the debt of the German state even increased by 28 percentage points to 68 percent of GDP during this period.

The Financial Situation of the Social Budgets

A major cause of this severe deterioration in the French and German public finances was increasing deficits in the countries' public social insurance schemes, which constitute by far the largest share of the social budget. In 1991, social expenditure accounted for nearly 40 percent of total government spending in both countries.[4] This illustrates how significant the financial situation of the welfare state is in determining the situation of overall public finances. In both countries, the financial situation in the social insurance schemes deteriorated strongly after 1990, and besides a short-lived recovery at the end of the 1990s, the balances have been continuously negative since (see Graphs 1-2 and 1-3). Cost containment in these schemes has therefore been on top of the political agenda since the beginning of the 1990s.

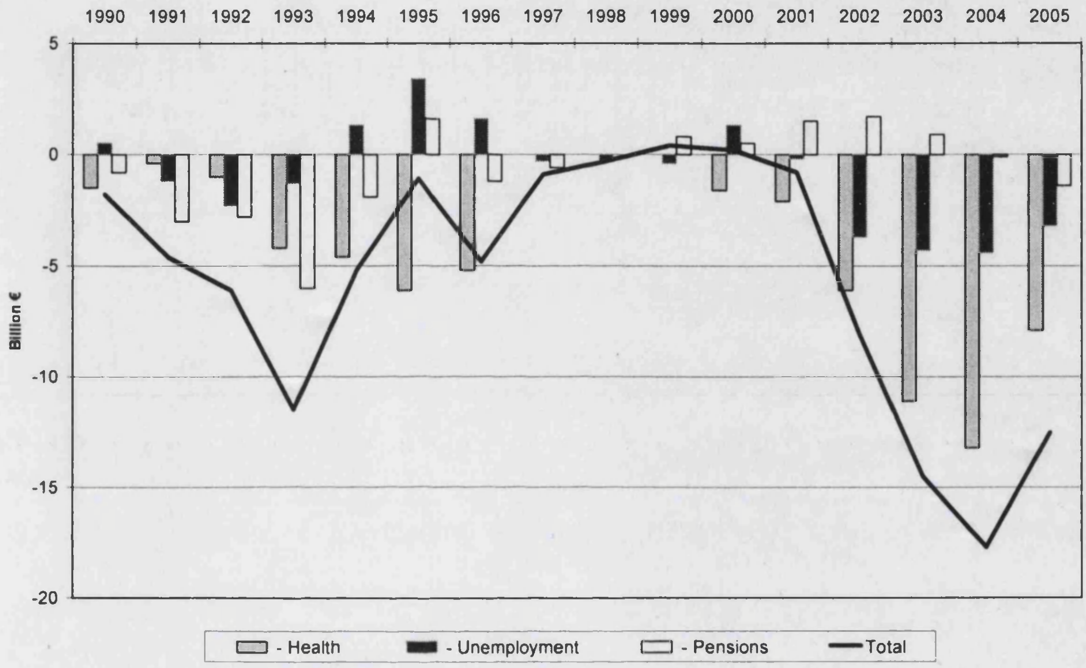
In France, Prime Minister Edouard Balladur's (1993-95) efforts to balance the budget had focused on reducing social spending, and included a major pension reform in 1993 and various austerity measures in the healthcare system. But while the financial situation in the unemployment insurance scheme improved strongly in 1994, other social budget deficits, particularly in the health sector, continued to grow, and Balladur had to resign as a result of public pressure in 1995. When President Chirac appointed his successor, Alain Juppé (1995–97), he announced that, in line with the aim to reduce budget deficits below the Maastricht threshold, a major focus of the new government would again be the reduction of social spending (see Levy 2000: 340). But attempts to continue and intensify the first reform steps undertaken by Balladur resulted in massive strikes and the government was forced to back down. Early elections in 1997 brought a new left-wing government under Prime Minister Lionel Jospin (1997-2002). Benefiting from the improvement of the economic situation, his government was initially more successful in balancing the social insurance accounts, and even achieved overall positive results in 1999 and 2000. But the success was short-lived and with slowing economic growth the deficits returned on a bigger scale than ever before. With the new conservative government in 2002, headed by Prime Minister Raffarin (2002-2005),

---

[4] Data from OECD 2006b.

further attempts to deal with the structural deficits were undertaken and wide-reaching pension and health reforms were enacted in 2003 and 2004. Expectations regarding the mid-term effects of these reforms had been high, but despite a slight improvement of the situation in 2005, insurance spending remained a major concern for the government – particularly as demographic developments were predicted to further worsen the situation in the medium and long term.

Graph 1-2 Balance Main Insurance Schemes France 1990-2005



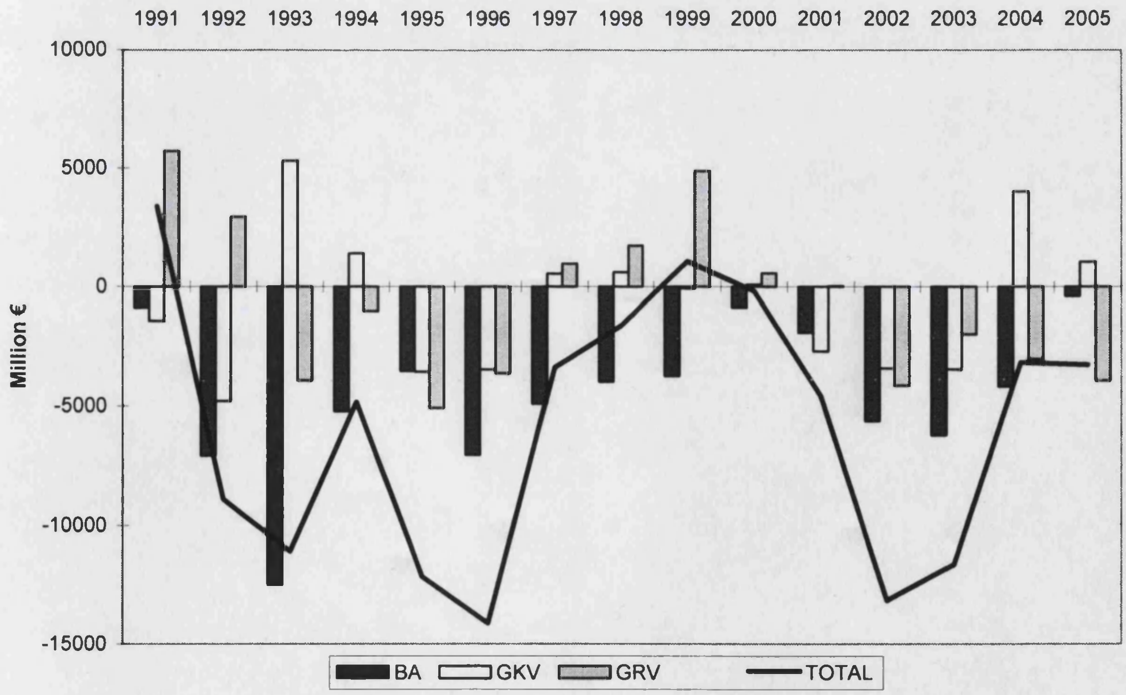
Source: Direction de la Sécurité Sociale; UNIstatis (Unedic)
Note: Health and Pensions encompasses all schemes in this sector belonging to the Régime Général; Unemployment exclusively encompasses UNEDIC

In Germany, increasing deficits in the social budget also became a pressing political issue after 1991. Not only did these deficits contribute to overall debt levels and thus posed a threat to the goal of meeting the Maastricht criteria, but the government often had to cover social insurance deficits with subsidies. At the beginning of the 1990s the public insurance schemes had been burdened with massive extra spending as schemes were expanded to East Germany after unification. After 1992, however, the focus shifted towards curbing expenditures. A first attempt to address the spiraling costs was the 1993 'Consolidation Programme' which was intended to save up to €13 bn annually.[5] But the reduction of deficits was only short-lived and the three main social

[5] Spar-, Konsolidierungs- und Wachstumsprogramm (SKWP).

insurance sectors reported record deficits of €14 bn in 1996. With its 'Programme for Growth and Employment' announced in April 1996, the Kohl government (1982-98) wanted to reduce spending by the unprecedented amount of €38 bn, one third of which was to be achieved by cuts in social insurance programmes. The hope was that this would allow the combined social insurance contribution level, which had risen from 35 per cent of gross wages in 1989 to 41 per cent in 1996, to be pushed below 40 percent (BMAS 1996; Clasen 1997b: 73). This reform programme, combined with a coinciding short-term economic upturn, resulted in an overall positive balance for the three insurance sectors in 1999. But this overall positive result was only achieved as surpluses in the health insurance counterbalanced the high deficits of the Federal Employment Agency. This fiscal recovery was again short-lived and deficits in 2002 nearly reached the record levels of 1996, increasing pressures on the Red-Green government under Chancellor Schröder (1998-2005) to contain spending. Although the fiscal situation improved in 2004 due to positive balance of the health insurance schemes, it remained difficult overall when Schröder's government was replaced by the Grand Coalition between CDU/CSU and SPD under Chancellor Merkel in 2005.

Graph 1-3 Balance Main Social Insurance Schemes Germany 1991-2005



Source: Geschäftsberichte BA; BMGS; VDR Rechnungsergebnisse
Note: GKV balance includes Risk Equalisation Process from 1995 onwards

In sum, France and Germany are two countries with very high pressures for cost containment in their social insurance schemes. This makes it possible to control for this factor as a possible alternative explanation for differences in reform developments. According to 'new' politics arguments, the institutional characteristics of the public insurance schemes in both countries should create very high barriers for change. This should therefore result in only very limited retrenchment measures in both countries despite the strong financial pressures. But this assumption is challenged by arguments from the 'old' politics of welfare state research and the literature on budget processes, which highlight differences between the two countries: France and Germany differ with respect to the involvement of social partners in social policymaking and interaction patterns between employers and unions. While in Germany consensual decisionmaking between the social partners and the government has a long-standing tradition, the French corporatist relations are usually highly conflictual and the social partners are not always consulted in policymaking processes. Besides their differences in corporatist relations, the two countries differ furthermore with respect to the strength of retrenchment advocates in their governments. As identified by the budget literature, the position of the French finance minister in policy decisions is much stronger than in Germany. Due to those differences, we should see stronger cost containment in France than in Germany and not a similar degree of 'lock-in' as the 'new politics' argumentation states. These contrasting arguments leave many open questions with regard to how to explain social policy reforms in the times of fiscal austerity prevalent between 1990 and 2005.

Outline

Chapter *two* outlines the different competing theories of welfare state retrenchment in more detail. It firstly discusses how institutional and policy design can cause the development of intentional and unintentional commitment to spend for particular purposes, and identifies the various elements in welfare states which create fiscal pre-commitment. Based on this discussion, it develops hypotheses about the likely development of social insurance reforms in both France and Germany during the period of fiscal austerity prevalent after 1990. Those hypotheses are then contrasted with 'old politics of the welfare state' theories as well as with those of the fiscal institutionalism literature, according to which we should expect nationally and temporarily distinct reform developments in the two countries. All these hypotheses are successively confronted with social expenditure developments in the two countries between 1990 and

2005, which seem to indicate that the French and German welfare states are indeed 'frozen' due to their high degrees of fiscal pre-commitment.

Chapter *three* presents a four-dimensional approach to measure the degrees of fiscal commitment in social insurance schemes. This is applied in Chapter *four* to the main healthcare, pension and unemployment insurance schemes in France and Germany in 1990 – the point in time after which financial pressures in both countries started to increase considerably. The analysis shows that the de facto degree of fiscal commitment in the two countries differs quite considerably between sectors and individual insurance schemes. These outcomes are then contrasted with the commitment scores of the schemes in 2005, which provides first evidence about the reform developments: while in both countries governments seem to have regained influence over the determination of social insurance spending, there are considerable differences between insurance schemes which indicate a systematic effect of institutional lock-in. These results illustrate the necessity of a further in-depth, sector-specific analysis of the reform developments in the two countries.

Chapters *five, six and seven* investigate the developments in the French and German pension, health and unemployment insurance sectors from 1990 to 2005. The chapters assess to what extent the differences in the overall commitment scores between the schemes, but also the differences on the individual programme-specific dimensions of this commitment, mattered for reform processes and outcomes in the respective sectors. Furthermore, they analyse the predominant modes of change and the implications of reforms for the degrees of fiscal commitment. Finally, they assess the role of corporatist relationships, the institutional strength of retrenchment advocates in government and party politics in the reform developments.

Chapter *eight* draws the results of the sectoral analyses together and provides a comparative assessment to what degree 'new' and 'old' arguments as well as those of the budget literature are suited to explain the observed reform patterns. It then contrasts these results with a short analysis of reform developments during the same period in the UK, which has a welfare state with very different institutional characteristics compared to the two corporatist cases France and Germany.

Chapter *nine* summaries the results of the thesis and outlines their implications for welfare state and fiscal policy research. It furthermore discusses the future implications of the identified social insurance reform patterns for social risk protection and public spending control.

Part I

2 Explaining Social Policy Reforms in Times of Fiscal Austerity

There is no lack of variety regarding theories trying to explain differing developments of welfare states in times of fiscal pressures. They have been tested on an array of different cases in a large number of studies, applying varying methods from comparative case study designs to large-n statistical analyses. But as outlined in Chapter 1, there still exist many contradictions about the influence of institutional and actor-centred factors on welfare reforms, particularly when it comes to the explanation of divergent developments between countries of the same 'welfare family'.

The following chapter will present some of the most prominent welfare reform theories, and will specify the respective hypotheses regarding the likely development of social insurance reforms in France and Germany between 1990 and 2005. The first part of the chapter deals with what has become known as the 'new politics of the welfare state' theories. The chronological reversal of starting with 'new' theories before the 'old' ones is deliberate, as firstly the pioneering 'new politics' literature is not as new anymore as the term suggests (see e.g. Pierson 1996), and as secondly this approach has become the most widely accepted one for explaining reforms during periods of fiscal austerity. This chapter specifies the concept behind the institutional lock-in arguments of this literature, and identifies commitment devices in policymaking. Subsequently, it describes what role such commitment devices play in welfare states and formulates hypotheses regarding the likely reform development in social policy programmes with a high degree of commitment. As both the French and German social insurance schemes are generally characterised as particularly strongly affected by pre-commitment and resulting institutional lock, we should accordingly expect similar developments in the two countries' social insurance schemes.

The second part of the chapter presents theories which, instead of focusing on institutional factors which hinder reforms, explain divergent welfare reform processes by stressing the motivations and influence of political actors in decisionmaking processes. The first of these theories is one of the most prominent representatives of the 'old' theories of welfare state research, and is based on the so-called 'power-resources approach'. It stresses the involvement and positions of the social partners in social policymaking as factors explaining divergent welfare developments. This seemingly 'old' theory is of interest for this study as in the last few years a series of new literature has been published stressing the revival of 'social pacts' and 'neo-corporatism' and their importance for explaining the success or failure of social policy reforms. This chapter specifies the hypotheses resulting from this literature for the French and German cases. In contrast to the hypotheses derived from the 'new politics' arguments, those based on the involvement and policy positions of corporatist actors should lead us to expect different outcomes in France and Germany as the two countries differ considerably in this respect.

The second theory outlined is derived from the 'fiscal institutionalism' literature, which stresses the relative strength of cost containment advocates in the governmental budget allocation process as an explanatory factor for fiscal policy outcomes. Although highly relevant to the analysis of social spending developments, this literature has been widely ignored by the existing welfare reform research. The following chapter applies the arguments of the fiscal institutionalisms to the French and German cases, and outlines the resulting hypotheses regarding the development of social insurance reforms. Also according to this approach we should expect divergent developments in the two countries, as France and Germany differ with regard to their respective budget allocation processes.

The third theory outlined, the so-called 'partisanship theory', is another prominent representative of the 'old' politics of the welfare state research. This theory stresses the effect of different ideologies of the ruling party (usually distinguished on a continuum between left and right-wing policy positions) on fiscal and social policies. The hypotheses which can be derived from the partisanship arguments predict a varying extent of cost containment measures in each country coinciding with changes of government. In contrast, this study argues that such effects over time should not be visible as the extent of pre-commitments and fiscal pressures has limited the extent of political scope to such a degree that governments regardless of their political ideology are forced to follow the same reform paths.

The third part of this chapter contrasts these divergent reform predictions with social expenditure developments in France and Germany over the analysed period. This indicator of social insurance developments in the two countries between 1990 and 2005 seems to strengthen the 'new politics' arguments, but also opens up a series of further analytical questions.

2.1 Institutional Design and the Creation of Commitment

The creation of credible commitment is said to play an important role for winning sufficient political and public support in policymaking and policy implementation and to therefore be important for the understanding of institutional design (Shepsle 1991; Horn 1995). The various forms and degrees of institutionalised commitment and its effect on subsequent policy reforms are also the underlying aspects of the 'new politics of the welfare state' literature (Pierson 1996; 2001a). This literature argues that welfare reforms are typically incremental and path-dependent as decisionmakers are constrained in their actions by previous commitments made by their predecessors: although having the formal authority to act, policymakers face institutional as well as political barriers for change as social policies are characterised by increasing returns (see below). In order to better understand the underlying mechanisms of these 'lock-in' effects and the resulting path-dependent reform processes, the following section of this chapter identifies the various forms in which policy commitment can be institutionalised and subsequently what role such commitment devices play in welfare states in particular.

Although the creation of credible commitment is often important in policymaking, it is also well known that it is difficult for governments to acquire such credibility and to establish lasting commitments. The greatest difficulty in creating commitment is to overcome the so-called problem of 'time inconsistency', which arises if politicians announcing a certain policy today feel it necessary to deviate from the policy at some point in the future or if these policies can be easily overruled by successive governments. In order to create credible commitment, it thus has to be ensured that (a) the government or it successors will not easily deviate from policy paths, and (b) institutions will stick to the purpose and the policies they have been built for. As will be further outlined below, there are two main ways of creating a commitment device in politics: first, commitment can be created through legal or institutional barriers which make changes to the status quo difficult. Second, commitment can result from the creation of transaction costs which make the deviation from a chosen policy path costly – not only for people affected by those policies, but also for the decisionmakers.

Creating Commitment via Legal and Institutional Barriers

If a majority government can easily overrule decisions by the former government it is hard to make credible commitments. The most direct way to solve this problem of credibility for the current legislators is to arrange political institutions in a way that makes it impossible or at least very costly to exercise discretionary authority, on both the legislative as well as the administrative level (Shepsle 1991; Horn 1995). Although it is difficult to make policies completely resistant to future changes, there two ways in which the continuation of a certain policy – in most of the cases equivalent to the continuation of spending for a certain policy – can be made more likely: either via institutional *structures*, or via specific decisionmaking *procedures*.

(1) Creating Commitment via Independent Agencies

A structural way of enhancing the credibility and commitment of public policies is the institutionalisation of an independent authority which regulates and administers a certain policy, guaranteeing independence from momentary majorities and political stability (see Moe 1989; Shepsle 1991; Dixit 1996; Majone 1997). There are two main arguments why delegation can be a means of making policies more credible. Firstly, it is said that specialised administrative agencies can implement policies more efficiently and effectively than general government administrations as they develop more detailed rules and expertise, which reduces complexity and uncertainty (North 1990; Ferejohn 2002).

The second argument, more important with respect to the time inconsistency problem, is that independent agencies are more credible due to the different incentive structures of their personnel. Since independent agencies do not suffer - at least not as much as government officials - from the short time-horizon imposed by the electoral cycle, their capacity to credibly commit themselves to pursue certain policies is much greater than that of democratically accountable and elected bodies (Gilardi 2002). The institutional delegation of power makes it credible that the legislators do not reverse decisions in the following election period and adds to the durability of policies (Weingast 1990; Miller 2000). Furthermore, the establishment of an independent institution also creates commitment in the way that the actors involved will develop an interest in protecting this institution. Due to their organisational self-interest, the associated stakeholders will defend their institutional autonomy, their authorities and the provision of sufficient organisational resources which will make successive reforms of institutions and the policies connected to them more difficult (see North 1990; Macey 1992; Scharpf 2000).

(2) Creating Commitment via Veto Points and Automation

Another way of creating commitment is via the establishment of specific decisionmaking procedures which create veto points and therefore make policy change harder to achieve (Tsebelis 1995; 2000). This can, for example, be achieved via the fragmentation of decisionmaking processes (see Shepsle 1991: 256ff.). In fiscal policymaking, the fragmentation of political processes is common and the number of veto players (that is, the number of actors which can influence the decisionmaking process and their relative position to the finance minister) as well as the number of veto points (that is, the sequence of voting on the budget) are decisive factors for the outcome of budgetary bargaining processes (von Hagen and Harden 1996; Alesina and Perotti 1999; Hallerberg 2000). Many countries follow a 'bottom-up' approach in the annual budget process, in which the total size of the budget is determined after collecting spending requests from all ministries and following bilateral discussions between the finance minister and each of the spending ministries. This creates fiscal commitment as each spending minister is able to defend his or her spending portfolio and fiscal policy changes are more difficult to achieve. Another way of creating fiscal commitment is to set up specific financing funds dedicated for a specific purpose. These funds create procedural commitment as decisions regarding such funds are often outside regular decisionmaking processes and involve additional veto players (Patashnik 2000).

A different way of creating commitment via decisionmaking procedures is to avoid subsequent political decisions about an issue altogether once a decision has been taken. This can be achieved via the automation of decisionmaking processes (see Horn 1995), which means that policies which were originally subject to a new decisionmaking process after a certain period of time (for example, fiscal policies in the annual budget process) are excluded from this process by adapting them automatically according to certain socio-economic criteria (for example, economic growth, demographic development, tax revenues or inflation rates). Such automated adaptation processes create fiscal commitment as they avoid political decisions, but also "degrade the budget process to a mere forecast of exogenous developments" (von Hagen 2002: 270).

Creating Commitment via Political Costs

Besides structural and procedural ways of tying the hands of policymakers, there is another dimension to the creation of political commitment: the formalisation of policies through legislation not only creates institutional barriers for those seeking to change them, but also makes non-compliance more visible and hence more politically costly (see Shepsle 1991; Drazen 2000). Political programmes are characterised by increasing returns, which means that the costs of change rise over time as people make commitments based on existing policies (Pierson 2000a). Institutions, once established, create groups of stakeholders which strongly influence future reform processes – not only due to their say in the decisionmaking process, but also in shaping public opinion. The creation of an institution also creates an audience which monitors the performance of this institution and imposes 'audience costs' onto those who seek to change the institution itself or the related policies (Scharpf 1997; Lohmann 2003). Politicians face the danger of losing support if they pursue unpopular changes and therefore face political costs when they interfere with the status quo. "In path-dependent processes, individual and organisational adaptations to previous arrangements may make a course reversal not only difficult but also unattractive" (Pierson 2000b: 810).

Particularly in policy areas which have direct implications on the financial situation of its beneficiaries (and in which people have adapted their plans according to existing policies), resistance to change will be particularly high and blame-avoiding politicians do not have interest in attacking existing policies (Weaver 1986; Pierson 1996; Ross 2000). These behavioural aspects – or 'political costs' – of policy programmes are an important source of commitment besides the formal aspects of institutions and processes. But in this context it is important to stress that the creation of commitment is not always intentional. Particularly the development of such political costs is often a by-product of other political decisions and has originally not been anticipated to the full extent (see below).

2.1.1 Fiscal Commitment in the Welfare State

The creation of credible commitment via institutional barriers and political costs as outlined above has played a very important role in the development of welfare states. This has been particularly the case in policy areas which focus on providing some form of income security when no labour market income can be achieved (due to illness, disability, unemployment, or old age). In these policy areas, the design of policy programmes has in most countries in Western Europe taken the form of the pooling of risks in public insurance schemes. Particularly the specific social insurance design characteristic of the so-called corporatist-continental welfare states has – as will be outlined in the following paragraphs – many features of institutionalised fiscal commitment as discussed in the first part of this chapter. Although welfare states are always a mixture of various forms of insurance, assistance and universal social protection schemes, this study will therefore focus in particular on such insurance schemes as the strongest form of budgetary and political commitment. The following section of this chapter will outline in more detail why the deliberate creation of commitment played an important role in the development of social insurance schemes in Western Europe and in what forms this commitment has been institutionalised. It will furthermore discuss to what extent this commitment has been intentional.

2.1.1.1 Political Commitment and the Development of Social Insurance Schemes

Besides the aim of coping with changing social circumstances and (later on) to promote solidarity and social cohesion (Clasen 1997a; Pierson 1998), the development of social insurance programmes in Western Europe also served a power-political goal. At the end of the 19th century, the working class – an expanding social, economic and political power – became an increasing risk for the ruling conservative and liberal elites in developed Western European countries. In order to deal with intensified class conflicts, the integration of the working class into the existing social and political order became thus a major task for governments. In order to gain control over the groups threatening the social order and political system, social conflicts were moderated through the introduction of representative institutions for the working class, and by an increasing state intervention in the provision of benefits to workers (see Alber 1982; Flora 1986). Particularly in Germany, the pioneer in social insurance legislation, benefit provision served as means to an authority-stabilising end (Zöllner 1982; Olk and Riedmüller 1994). In creating benefit expectations for the workers, the intention was to generate the conservative attitude within the working classes which should make them stakeholders and supporters of the existing political system.

> "Anybody who has before him the prospect of a pension, be it ever so small, in old age and infirmity is much happier and more contented in his lot, much more tractable and easy to manage. Just compare the difference between a private servant...and an imperial servant: the latter will put up with much more..., as he can expect a pension" (Chancellor Otto von Bismarck, Statement regarding the Imperial Message 1881).

But in order to convince the working classes that the state would also live up to its benefit promises, the creation of credible commitment was necessary. The following paragraphs will outline in what respect the corporatist-continental social insurance model characteristic for both France and Germany incorporates more commitment-creating elements than other social policy schemes.

2.1.1.2 Credible Commitment through Legal and Institutional Barriers

Differences regarding the institutional design and governance structures of social insurance programmes are important characteristics in the classifications of different 'welfare regimes' (see Titmuss 1968; Esping-Andersen 1990; Ferrera 1996): the 'corporatist-continental' model is a system of social protection mainly based on compulsory insurance schemes. It is broadly an institutionally fragmented system, with separate institutions for different social groups and a focus on status protection. The social insurance funds are often self-governed by executive committees which include representatives of employees, employers and the government, and resemble semi-public agencies. Contrary to this, other countries rely on a model of 'national insurance' usually managed by the central government with little involvement from the social partners. [6] Both the so-called 'liberal' welfare state regimes usually found in the Anglo Saxon world as well as the 'social-democratic' countries of Scandinavia are characterised by such state-centred, uniform and integrated institutions. These two welfare families differ mainly in the structure of their benefit provision.[7]

Through the creation of semi-independent social insurance organisations administered by employers and employees, policymakers in corporatist-continental countries intended to give their social policies higher credibility and to reduce resistance by socialists and trade union activists. In fact, early opposition by the workers representatives against the social insurance plans changed to increasing support as soon as it was ensured that administration would be kept separate from the central state and would be self-administered by the workers and employers (Hennock 1987; Clasen 1997a).

[6] The expression 'the social partners' is in the following used to describe both employee and employer representatives, regardless of their de facto degree of voluntary co-operation in the area of social policy.
[7] In the 'liberal' welfare states public benefit provision is in most cases universal, marginal and means-tested. In contrast, the Scandinavian countries adopted an institutional redistributive model which provides generous universalistic services. Other scholars have identified a fourth, Southern-European group (see Ferrera 1996), which is characterised by a strongly fragmented benefit provision which can be very generous, but also highly selective.

Besides this institutionalist commitment via the administrative structure of the insurance organisations, corporatist-continental welfare states are also characterised by a high degree of procedural commitment as the administrative semi-independence often goes hand in hand with the separation of spending authority from the central state (see Radner 1978). In mainly tax-financed welfare states, questions concerning the social budget are dealt with in the general budgetary process and are therefore subject to the role played by the finance minister and the other actors involved in the budget process. In mainly contribution-based systems on the other hand, authorities regarding social expenditure often lie outside the scope of the finance minister but instead with the related social ministries or independent social insurance institutions. A functional argument for taking the main share of social security provision out of the general state budget is that benefit rates are mainly determined by law and therefore, at least theoretically, represent fixed costs (see Radner 1978). But the assignment of budgetary control to the social partners has also been an important element creating necessary and credible political commitment. The budgetary autonomy of social insurance schemes not only increases the number of veto players involved in financial decisions, as the social partners become actors in the budgetary decisionmaking process, but also strongly reduces interventionist powers by the government. This is supposed to avoid the usage of contribution revenues for any other purpose than the payment of insurance benefits. Social insurance spending becomes therefore, to a certain degree, detached from the influence of changing parliamentary majorities and therefore from being challenged by conflicting distributional interests, which creates fiscal commitment (von Hagen 2002).

2.1.1.3 The Creation of Transaction Costs

While social-democratic as well as liberal welfare states finance their welfare provisions mainly via taxes, social insurance revenues in corporatist-continental regimes are predominantly acquired in the form of contributions. Nullmeier and Rüb (1993: 92) identify various intentions behind this form of revenue generation, such as the creation of solidarity between the insured through the common raising of funds. From a revenue generating perspective, contributions are politically easier to introduce (and successively to increase) as taxes, as workers are more willing to accept a lower net wage if there is a perceived link between contributions and benefits (Schokkaert and Van Parijs 2003). But most importantly, the financing of social insurance benefits via contributions has served the purpose of creating political credibility. Entitlements gained from contribution payments often enjoy a high degree of legal protection which creates a high degree of transaction costs and therefore a high degree of fiscal commitment. Furthermore, earmarked contributions ensure an independent revenue basis for the insurance schemes and reduce incentives for policymakers to intervene in the financing of the schemes, as the funds do not compete with other spending purposes.

But also very important is the creation of political costs as a result of contribution financing: the spending structure of social policies determines the creation of strong stakeholder groups that have adapted their behaviour according to expectations linked to the benefits provided, and the interference with existing benefit regulations is seen as a direct attack on 'earned' benefits. The political costs of change associated with the financing and benefit structure have risen with the development of the social insurance system from basic protection against poverty to status-securing provision: the strong link between contribution payments and benefit entitlements and the marginal role of redistributive elements in corporatist-continental welfare regimes creates strong political support for the system within the dominating middle classes of society, as insured provide for their own needs rather than those of others (see Taylor-Gooby 2005: 666). As Nullmeier and Rüb (1993: 84) put it, the 'technical form of benefit provision becomes a political function'. This creates strong fiscal commitment on the spending dimension.

2.1.1.4 The Trade-Off between Commitment and Flexibility

While the previous sections of this chapter have analysed the different elements creating the lock-in of spending in welfare states and the political intentions of doing so, the question remains whether the implications this fiscal commitment has for future policymaking were really intended or maybe rather an unintended side effect of making social insurance accountable and universal. In other words, is there an inevitable trade-off between commitment and flexibility when designing policies and institutions?

On the one hand, there is strong evidence that policymakers were indeed aware of the distributional consequences of their actions (see Baldwin 1990). As noted, decisions regarding the institutional separation and transfer of administrative authority to social partners were taken by ruling elites in the hope of maintaining political control. These policymakers laying the foundation stones of the insurance schemes could however not have anticipated the future fiscal implications of the created commitment due to the immense growth of these programmes in the following decades. Overall, spending of social security schemes rose dramatically between 1900 and the mid-1970s and continued to grow more moderately in the following years (see Alber 1982: 60). In 2001, the average public expenditure on social security amounted to 24 percent of GDP in EU-15 (see OECD 2004a). In comparison, social insurance spending had accounted for 3 percent in 1930 and 13 percent in 1974 (see Flora 1986: XXII). Due to the particular institutional and financing structure of corporatist-continental welfare states which creates high commitment for policymakers with regard to social insurance spending, this means that today a relatively large fraction of public expenditures is non-negotiable in the short-run as it is bound by legislation (see Molander 2000). The administrative, budgetary, revenue and spending structures of the welfare state therefore have important implications for fiscal policy as a whole.

Successful political commitment does not only help to achieve credibility in the first place, but as a consequence also locks in spending and restricts policy scope in the future. While successful political commitment has been beneficial in the building up of a comprehensive social protection, it causes problems if the economic, social or financial circumstances change and the 'yoke of prior commitments' hinders necessary adaptations to new conditions (Steuerle and Kawai 1996). It is then that the inherent trade-off between commitment on the one hand and flexibility on the other becomes visible. This leads to the paradox that politicians are often the victims of their own success: the better they manage to entrench certain policies through institutional structures, the harder it becomes to adapt these policies to changing socio-economic circumstances. As Shepsle (1991: 256) puts it: governance (the capacity to commit to policies) and representation (the capacity to respond to majorities) are sometimes at odds (see also Cox and McCubbins 2001). While in the public choice and regulation literatures, the inability of governments to commit themselves to stick to certain policies is the main problem, for governments facing the necessity to reform or to adjust their budgets it is the opposite: their main problem is the lack of flexibility and the resulting inability to un-commit (see Levy and Spiller 1994).

2.1.2 The Effect of Fiscal Commitment: Frozen French and German Welfare States

As outlined above, there are various elements which create barriers for change in policy programmes: legal and institutional obstacles can hinder wide-reaching reforms, while also the political costs associated with reforms can lead to inertia. The approach behind the 'new politics' of welfare state research stresses the path-dependent effects of such barriers of change, which only allow for incremental change even in times of strong reform pressures such as continuing financial difficulties.

The view that both the German and French welfare states should be highly resistant to change in this respect has during the last decade been dominant in the literature (Esping-Andersen 1996; Ferrera and Rhodes 2000; Bonoli 2000; Pierson 2001a; Huber and Stephens 2001; Schmidt and Scharpf 2001). Although both countries experienced severe financial difficulties in their social insurance schemes and pressures to contain spending in the last 15 years, they belong to the family of corporatist-continental welfare states which should be particularly susceptible for the effects of 'lock-in'. This is the case as many of their institutional structures and regulations represent commitment devices as outlined above. The German and French public insurance schemes in the three sectors pensions, healthcare and unemployment are all administered by social partners (in some cases with participation by the government), and have the legal status of public, semi-independent organisations. This creates institutional barriers for change, and therefore creates commitment as state interference is made more difficult. The sectoral schemes are furthermore occupationally fragmented, which creates additional veto points as decisionmaking processes can be influenced by a large number of actors. Contribution-based financing gives the institutions an independent revenue base which leaves budgetary decisions often outside the influence of the legislator or the government. This creates a further legal barrier against successive policy changes. Finally, the specific benefit structure of the schemes creates high political costs for those seeking to curtail allowances: people rely on spending promises in essential areas such as healthcare, pensions and wage replacement in case of unemployment. Contribution-based financing creates entitlements and those entitlements create high legal transaction as well as political costs.

All these elements together create a high degree of pre-commitment which makes changes to the status quo difficult. Accordingly, we should in both countries only see a very limited reaction to financial pressures in the form of retrenchment measures and structural reforms. Instead, we should observe a continuation or even increase of spending (financed via higher contribution rates, loans or increasing subsidies from the general government budgets) and only very limited structural reforms in both France and Germany.

H1: Due to high degrees of fiscal pre-commitment and therefore high barriers for change in the French and German social insurance schemes, we should see only limited cost containment measures in both countries.

2.2 Dealing with Fiscal Commitment under Financial Pressure: Why France and Germany Should Differ

As outlined in Chapter 1, the 'new politics' approach has been criticised for over-stressing barriers for change while neglecting the sources of pressures for reform and the related question of whether such factors can explain divergent reform paths. This part of the chapter will therefore outline two of the most prominent theories which stress the relative positions and strength of political actors as explanatory variables for the success or failure of retrenchment initiatives, and will specify the resulting hypotheses for the French and German cases. The first one focuses on the specific role of corporatist actors in social policymaking, the second one on the institutional strength of retrenchment advocates in budgetary allocation processes.

2.2.1 Corporatism and Welfare State Restructuring: The Role of the Social Partners in Social Policy Reforms

One important explanation for the growth and development of welfare states is the so-called 'power-resource approach'. At its heart is the assumption that the ability of organised labour to mobilise its supporters in the fight for more social rights played an essential part in the development of welfare states (Stephens 1979; Korpi 1979, 1983; Shalev 1983; Esping-Andersen 1985; Baldwin 1990). The class-struggle between the unions and their left-wing political allies on the one side, and the employers and their right-wing political supporters on the other should, according to these theories, play an essential role in explaining the development of welfare states.

2.2.1.1 Diminishing Importance of Class-Struggles or the Revival of Social Pacts?

The assumptions of the power-resource approach have been challenged by the representatives of the 'new politics' literature, which argue that new groups of actors have replaced the old class-related forces and now play the dominating role in shaping social policy reform outcomes (Pierson 1996, 2001a; Immergut 1998; Bonoli et al.

2000). They stress that the constituencies of the welfare state are no longer automatically associated with the unions but are deeply rooted within the middle classes – particularly in the corporatist-continental welfare states due to status-maintaining benefit provision (Goodin and Le Grand 1987; Baldwin 1990; Esping-Andersen 1990). The proponents of the 'new' politics of welfare state research therefore reject the power resources approach as 'old' as it is in their eyes not longer applicable in times of retrenchment.

In recent years however, a number of defenders of those allegedly 'old' arguments have emerged which challenge Pierson's view that the importance of organised labour in shaping welfare outcomes has shrunk. In contrast, they argue that the influence of the social partners in welfare reforms does indeed contribute to the explanation of welfare state retrenchment processes (see Scarbrough 2000; Reynoud 2000; Béland 2001). A series of literature has stressed the revival of 'social pacts' and 'neo-corporatism' and their importance for the explanation of the success or failure of social policy reforms (Schmitter and Grote 1997; Traxler 1997; Crouch and Streeck 1997; Hassel 1998; Teague 1999; Ebbinghaus and Hassel 2000; Fajertag and Pochet 2000; Rhodes 2001; Jochem and Siegel 2003). According to this literature, the ability of both workers and employer representatives to agree with the state on substantive welfare state reforms is a major factor explaining the failure or success of cost containment programmes. 'Neo-corporatism' in this context means that in agreeing necessary reforms between each other, the social partners can prevent the unilateral intervention of the state (Crouch 1996). So if we are assuming that the relationship between the social partners and the state as well as their policy positions does matter, what should we expect to be the effect on welfare reforms in France and Germany?

2.2.1.2 At Opposite Ends: Corporatist Relationships in France and Germany

The role of the social partners in the political economy of both France and Germany has been a well-studied subject, and most of these studies come to the conclusion that the respective positions of the two countries could not be more different: locating both countries within the possible spectrum of consultation as well as co-operation between the state and both union as well as employer representatives, France and Germany are positioned on opposite ends. In Germany, corporatist consultations are seen as an essential element of policymaking, which gives the social partners an important role in economic as well as social policymaking (Müller-Jentsch 1995; Ruysseveldt and Visser

1996a; Streeck and Hassel 2004). This element of power-sharing between the state and the social partners, combined with strong elements of federalism and a strong central bank, became so essential after WWII that Katzenstein (1987) developed the expression of the 'semi-sovereign state' – a state which, due to its lack of unilateral enforcement powers, was forced to co-operate with the social partners, and often abstained from direct intervention in economic and social policy areas. One factor contributing to the ability of the social partners to reach stable agreements has been the fact that the organisation of both workers' and employers' interests are very centralised: on the workers side, the different sectoral unions are united on federal level by the top association DGB (*Deutscher Gewerkschaftsbund*), and also the employers are centrally organised in the BDA (*Bundesvereinigung der Deutschen Arbeitgeberverbände*). Furthermore, union density in the workforce has been comparatively high (see Visser and Ruysseveldt 1996: 387).

In contrast, corporatist relationships in France are characterised as weak, adversarial, and ideologically charged (Freyssinet 1993; Ruysseveldt and Visser 1996b; Goetschy 1998; Crouch 1999). "Industrial relations became [after WWII] as they had been in the 1920s and 1930s, a nonexistent arena, or one of uncompromising conflict, with codeterminative and tripartite institutions of the immediate postwar years being reduced to residual status" (Crouch 1999: 439). Traditionally, the position of French unions has been institutionally weak - one reason being the low density of union membership particularly in the private sector industries (see Goetschy 1998; Ebbinghaus and Visser 2000). At the end of the 1980s, French unions only organised less then 10 percent of the workforce, which was the lowest number in Europe (Levy 2000: 326). Another factor reducing the ability of not only the unions, but also of the employer representatives to build stable industrial relations was the fact that both the employer as well as worker representation was extremely fragmented, leading to conflict not only between the different interest groups but also within them. In France, the unions were extremely divided regarding their policy positions which often created inner-institutional opposition – which was barely the case in Germany (although also here some employer associations held more extreme views than others, they usually acted unified via the BDA).[8] Since 1945, the employers have been represented via the Conseil National du

[8] Of the five unions granted representative status by the French state, the CFDT is generally considered the more moderate force, while the CGT and FO are more radical left-wing and CFTC, CGC-CFE, FEN somewhere in the middle.

Patronat Française (CNPF; in 1997 changed to MEDEF[9]), at the same time a business and industrial relations association (see Ruysseveldt and Visser 1996b: 90-93). Despite the unitary organisation, employers' interests were also highly fragmented and the CNPF rarely advocated its own policy positions, but instead merely represented an instrument to jointly confront the unions.

Due to the resulting difficulties of reaching stable bargains, the French government regularly intervened in the regulation of employment relations and affiliated areas, such as social policies. Often it was also the state that had to force the social partners to enter bargains in case social conflicts intensified. The results of collective agreements were therefore in most instances rather 'end-of-conflict agreements' (Freyssinet 1993: 268) instead of stable compromises between the two sides. In contrast to Germany, the French state never took the role of the neutral referee while delegating regulatory roles to the social partners: "Not that the state does not have the authority, self-confidence and neutral reputation. On the contrary: the barrier to central social pacts is the paternalism of the French state and its traditional distrust of organised interests" (van Waarden 2003: 18). Corporatist relationships have therefore been extremely weak, which distinguishes France strongly from Germany.

2.2.1.3 On the Same Page: The Social Partners and Social Insurance Administration

But despite the fact that the nature of industrial relations has traditionally been very different between the two countries, paradoxically we find the social partners playing similarly important roles in the area 'where industrial relations systems and welfare state regimes come together' (Crouch 2001: 113): the social insurance schemes. Besides co-determination on company level as well as wage bargaining autonomy, self-administration of the social insurances by the social partners has been an important element of German corporatism (see Trampusch 2002). The 'delegation of public responsibility' (Streeck 2005: 139) by the state to the social partners in the welfare state contributed to a constructive relationship between the representatives of the employers and the workers, particularly as social insurance provision became an essential part of wage bargains and allowed for consensus between the two sides (Mares 2001; Wood 2001). In contrast, the presence of the French unions in all main insurance schemes is rather surprising given their weak position in industrial relations. But also this has been interpreted as a sign of their weakness – the continuation of union involvement in the

[9] Mouvement des Enterprises de France.

management of the insurance schemes after WWII serving "as testimony to its lack of seriousness" (Crouch 1999: 439). But as will be shown in the following analysis of the administrative and budgetary authorities of the social partners in the French insurance schemes, their involvement is often not without 'seriousness' - particularly in the unemployment and supplementary pension insurance schemes (see Chapter 3).

What France and Germany have further in common is a very high degree of public support for the administration of the insurance schemes by the social partners. In both countries, the maintenance of formal self-administration "operates as a proxy for a very strong form of solidarity that tends to define social benefits almost as a 'property right'" (Clasen and Clegg 2003: 372). Despite low union membership in France, the potential of the unions to mobilise the public against planned welfare reforms is very large (see Smith 2005). In contrast, unions in Germany dispose of institutionalised and formalised incorporation in policymaking processes, which reduces the necessity and likelihood of strikes. Besides the strong public support for the maintenance of self-administered social insurance schemes, the social partners in both countries should also have a strong interest in maintaining the existing system. One reason is the safeguarding of the commitment vis-à-vis their constituents which have a high financial stake in the insurance schemes. But the management role in the insurance schemes not only guarantees the involved actors a voice in policy debates, but also provides them with resources. In this respect, the French trade unions seem particularly keen to maintain their position as administrators of the social insurance schemes as they dispose of few independent resources due to their low membership (see Palier 2001). The role in social security administration legitimises their involvement in policy discussions and furthermore provides them with a great number of jobs for their members: to run the various national and regional funds of the different social insurance branches, employers as well as unions field around 35,000 part-time administrators each (see Financial Times, 5 September 1995).[10] The French employers also have an interest in the maintenance of the self-administered social insurance system, as it provides them with the possibility to exert influence on the unions as well as to participate in decisions regarding the usage of resources which are provided by them to a large share. But

[10] Particularly the Force Ouvrière, representing mainly public sector workers, has been strongly represented in the social insurance administration – it held the presidency of the National Health Insurance Fund (CNAM) from 1967, before losing it for the first time in 1996 to the more moderate CFDT. This has been a consequence of re-introduced parity in the social administration funds in 1995, as the employers supported the more moderate representative of the CFDT in the election of the health funds president.

compared to the unions, their interest in the maintenance of self-administration should be more limited.

Shared management of the social insurance programmes by the social partners is also deeply rooted within the German welfare system. Despite increasing costs and fiscal difficulties, there is continuously high support from both sides – the unions as well as the employers – for the maintenance of the system (see BDA 1998, 2004; DGB 2004a). Both sides strongly value the beneficial side-effects of a stable and predictable social relationship, which "makes an exit [...] a social and wage-political 'high price option'" (Döhler 1994: 153). Besides the benefits of a symbolic participation of employers in the provision of social insurance, there are also economical reasons for the employers to support the co-managed insurance schemes. As Groser (1994) points out, a shift away from the existing contribution-financed schemes towards increasing tax financing would have implications for wage bargaining. He argues that contribution financing comes cheaper for employers as companies do not finance their contributions out of their profits, but pass on the costs to the consumers. The important role that the distinctive German social policies play for its 'co-ordinated market economy' (Hall and Soskice 2001) therefore creates support also among employers for certain social policies (see Mares 2001). Furthermore, social insurance schemes in which the employers are present offers them the opportunity to use those for their own economic interests: by participating in the administration and regulation of the programmes, it enables them to influence the adaptation of policies according to their needs. One major example has been the use of the social insurance schemes to enable a comfortable exit from the labour market for low productivity groups in order to smooth processes of economic adaptation (Hassel 1998; Crouch 1999). Generally, there should therefore be strong resistance by both sides of the social partners in Germany if there are attempts by the government to reduce administrative or budgetary independence.

2.2.1.4 The Effect of Corporatist Relations on Social Insurance Reforms

To sum up, France and Germany are two countries in which the social partners play a significant role in the management of social insurance programmes, and in both countries there is strong support for the maintenance of this form of administration – both from the wider public, as from the social partners themselves (in France particularly from the union side). But the countries are also extremely different regarding the mode of interactions between the social partners and the state, as well as the degree of social partner consultation during policymaking processes. Based on these very different class-dynamics, what should we expect to be the outcomes in Germany and France regarding welfare reforms in times of fiscal austerity?

Based on the above outlined assumption that the divergent modes of corporatist interaction in France and Germany matter for reform processes, we should see more commitment-breaking in France on the administrative and budgetary dimension than is the case in Germany. Due to the ability of the German government and social partners to reach mutually acceptable reform agreements, there should be a greater likelihood that the self-administration powers in both budgetary as well as administrative terms would remain untouched. Due to the importance the self-administration plays for all actors involved, it can be expected that the majority of actors has an interest in the preservation of the system. Despite increasing pressures on the system of corporatist interactions due to economic difficulties, it is often assumed that the structures of institutionalised partnership in the 'co-ordinated market economies' should still function and might even experience a revival (Soskice 1999; Hall and Soskice 2001; Thelen 2001; Ebbinghaus 2002a).

In France it can, in contrast, be expected that the government would have a strong interest in depriving the social partners, and in particular the unions, of their independent decisionmaking powers as mutual agreements are not possible. Due to its strong unilateral powers, its scepticism towards the organised private interests and reluctance to co-operate with the social partners, the French state should be strong enough and willing to overrule the interest group if it considers this to be in the public interest (Merrien 1991; Marier 2002). Due to the absence of corporatist decisionmaking traditions, the employers would not join forces with the unions in defending the schemes, which would mean that we should expect a much stronger reduction of fiscal commitment in France than in Germany in the sense of retrenchment measures as well as a reduction of administrative independencies.

H2: Due to the different traditions of corporatist interactions between the social partners and the state, we should see more commitment-breaking in France on the administrative and budgetary commitment dimensions than in Germany.

2.2.2 The Power of the Treasury: Effects of Finance Minister Strength on Social Policy Reforms

Another argument for why we should expect more commitment-breaking in France derives from the literature about the effect of fiscal institutions. A growing body of empirical and theoretical literature in this field suggests that as budgetary rules distribute strategic influence among the participants in the budget process and regulate the flow of information, they have important effects on the outcomes of budgeting processes and successively on the likelihood of cost containment (de Haan and Sturm 1994; von Hagen and Harden 1996; Poterba and von Hagen 1999; Buti and Sapir 2002). Assuming that the different actors try to maximise their share of the budget, the budgetary bargaining process will necessarily lead to conflicts about the size and the shape of the individual spending blocks. But while the so-called 'spending ministers' are said to have an interest in pleasing their constituencies (that is, the beneficiaries of their policies in the electorate and influential stakeholders) and demand more funds for their portfolios, there is one actor in the process – the finance minister – which is usually assigned the role of constraining these demands. Governments which follow a so-called delegation approach transfer authority to this actor who has an encompassing interest in the budget and whose function is to ensure the continuing cooperation of the other policymakers throughout the process (Strauch and von Hagen 1999; Hallerberg et al. 2001). A dominant assumption is consequently that a stronger position of the finance minister vis-à-vis the spending ministers in the annual budgeting process will increase the pressures to contain spending and will successively contribute to a more balanced budget (von Hagen 1992; Alesina and Perotti 1999; Hallerberg 2000; Strauch and von Hagen 2001).

These institutional factors should also have an impact on social budget outcomes: whether it is the finance ministry or a social ministry that is in charge of social insurance reforms should have an important impact on the extent to which these reforms focus on cost containment and the degree to which they break existing fiscal commitment. A predominant position of the finance ministry in welfare reform processes should accordingly lead to more retrenchment measures, while a predominant position of the spending ministries should lead to reforms focusing on the increase of revenues and only moderate cutbacks. Assuming that these assumptions are correct, what should we expect to be the extent of cost containment measures in the French and German social insurance schemes?

Also with regard to their respective budgetary allocation processes, France and Germany differ strongly. While both countries apply a delegation approach in their budgetary allocation procedures and accordingly transfer the role of constraining spending demands to their finance ministers, the French and German finance ministers have very different positions and very different degrees of influence in these processes. Von Hagen (1992) and von Hagen and Harden (1996) have constructed indices which rank fiscal procedures from the most hierarchical to the most collegial. According to von Hagen's initial index of the strength of finance ministries (see von Hagen 1992), the French finance ministry is the strongest of all countries in the EU-12 while the position of the finance minister in Germany is much weaker. Measurements at later points in time confirm these results (see von Hagen and Harden 1996; Hallerberg et al. 2001: 65ff).[11] Regarding the involvement of the different ministries in the social policy reform process, the two countries differ as well: the French finance ministry is strongly involved in decisions affecting the social policy domain (see Quermonne 1991), as it enjoys a superior position to the other ministries. It is generally involved in all major reform processes which have implications for the state finances: "When asked about the importance of the Finance Ministry, the nearly automatic response of civil servants in the Social Affairs Ministry is that nothing gets done without its approval" (Marier 2005: 539). This is again different from Germany, where the involvement of the finance ministry in social policy reform processes is more the exception than the rule. Usually, the labour and social affairs ministry or the ministry of health have been predominant in planning and implementing welfare reforms in co-operation with the relevant parliamentary groups (Horst 1995; Trampusch 2003). According to the assumption that differences in the budgetary allocation process should have an impact on the restrictiveness of budgets and the likelihood of government to follow the goal to contain spending, French welfare reforms should therefore have been dominated more by budgetary considerations than the German ones.

H3: We should expect more commitment-breaking measures on all four dimensions in France than in Germany due to the stronger position of the French finance ministry in the budgetary allocation process as well as welfare reform process, which should increase pressures for cost containment.

[11] The combined index value regarding the 'Structure of negotiations within government' is 16 for France (the maximum value), and 12 for Germany (particularly due to a very low score for 'agenda setting role of minister of finance'), see von Hagen 1992: 69.

2.3 Variation over Time: Why Party Politics Should Matter

Another 'old' theory of welfare state research is the so-called 'partisanship theory' which stresses the effect of different ideologies of the ruling party (usually distinguished on a continuum between left and right-wing policy positions) on fiscal and social policies. The theory that broader political-ideological differences determine different spending levels and therefore also retrenchment processes is often connected with the power-resources approach and has been elaborated mainly in the well-known distinction between different worlds of welfare capitalism by Esping-Andersen (1990). In this tradition, researchers have in the last decade focused on the effect of the political orientation of the ruling party on overall expenditure developments and the likelihood of budget deficits (for an overview see Schmidt 1996 and Cusack 1999), but also on welfare state spending in particular. They have argued that leftist parties have more expansionary tendencies with regard to fiscal policies due to their strong links with unions and other labour institutions which are in favour of social spending, while conservative parties are more able to restrict public spending and to resist pressures to expand social protection.

In both Germany and France, there have been similar political developments in this respect: while at the beginning of the 1990s conservative governments (in Germany led by the *Christian Democrats, CDU*, and in France by the *Rally for the Republic, RPR*) were in power in both countries, the main left-wing parties (in Germany the *Social Democrats, SPD*, and in France the *Socialist Party, PS*) achieved victories in the 1997 elections in France and successively in Germany in 1998. The conservatives (now the *Union for a Popular Movement, UMP)* regained power in France in 2002 again, while this was also the case with the CDU in Germany three years later (although here the victory over the Social Democrats was only marginal and resulted in a grand coalition between the two parties). There has accordingly been no major variation between the two countries regarding a much stronger or longer-lasting influence of either left or right-wing parties, and accordingly we should therefore not see divergent developments between the two countries in this respect. But what we should see according to the assumptions of the partisan theory are variations within the respective countries regarding the extent of cost containment measures during the rulings of the different governments: what we should expect are stronger retrenchment efforts under conservative rule than under left-wing rule in both countries.

But can we still assume that these predictions of partisanship influence are valid in times of extreme financial pressures? Generally, studies about the effects of political party ideologies on public spending have already come to very ambiguous and contradictory results when studying public expenditure developments prior to 1990 - this also being a consequence of the fact that the research methods applied are very sensitive to minor changes in the indices applied or the data used (for an overview see Cusack 1999). Depending on the countries and period analysed, the model specifications and the operationalisation of the various relevant variables, practically all possible outcomes regarding the role of political determinants in explaining the variation of social spending have been presented (for an overview see Kittel and Obinger 2003: 27ff.). The same ambiguous results are true for the analysis focusing particularly on partisanship and social spending: some scholars argued that leftist parties have increased social spending more vigorously than right-wing ones (Garret 2001; Garrett and Mitchell 2001). But Kittel et al. (2000), Hicks and Kenworthy (1998), Iversen and Cusack (1998) and Swank (2001) only find inconsistent, that is, period-specific, or very minor evidence for partisan effects on social spending dynamics (see Kittel and Obinger 2003: 25). Armingeon et al. (2001) even come to the conclusion that leftist parties are more successful in containing social spending, as they appear to be more credible when it comes to retrenchment (see also Kitschelt 2001).

The majority of results though seem to indicate that the room to manoeuvre for parties regardless of their political orientation has become smaller: what we can observe is a 'sharp narrowing of political differences' (Huber and Stephens 2001: 221; Castles 2001; Swank 2001; Kittel and Obinger 2003). It is therefore assumed in this thesis that the various external as well as internal factors exerting pressure on public finances increasingly constrain policymakers in their policy scope and therefore also in their potential to follow distinct ideological policy programmes, as they are fighting against spending per se.

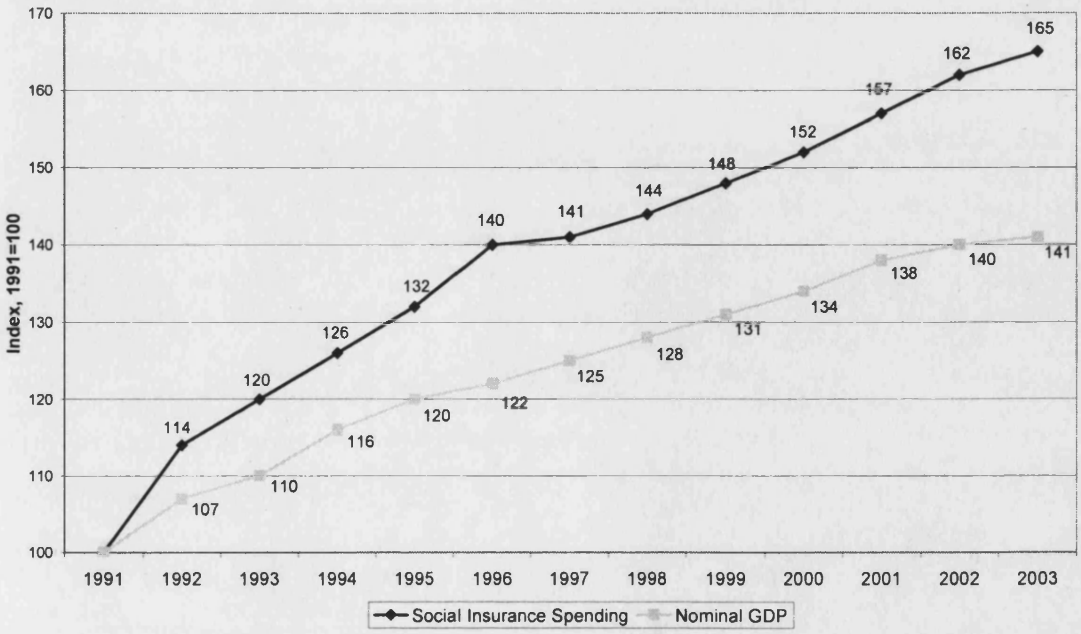
H4: A change of government that brings with it a change in the party ideology of the ruling party should not have an effect on the extent and form of cost containment measures in either France or Germany.

2.4 Old vs. New Politics: Social Expenditure Developments

In order to be able to confirm or reject the hypotheses put forward in the previous section of this chapter, the following questions need to be answered: First, can we observe different reform developments on the national level between France and Germany – or are reform outcomes in the two countries, despite the different class dynamics and governmental forces supporting cost containment, the same? Second, can we observe periods of increased cost containment measures during times of right-wing government rule, and do we vice versa see less cost containment reforms during times of left-wing rule? One possible indicator to answer these questions is to compare the development of social spending in both countries. Did Germany and France curb their social insurance spending to similar degrees, or can we observe differences? Can we observe variation over time in the spending developments in each country which coincides with a change in the political ideology of the ruling party?

As Graphs 2-1 and 2-2 show, we can observe a very similar, continuous growth of social insurance spending in both France and Germany between 1990 and 2005. In Germany, the gap between economic growth and social expenditure growth has been continuously growing between 1991 and 2003: spending of public social insurance schemes as a share of GDP rose from 29.6 percent in 1991 to 34.4 percent in 2003:

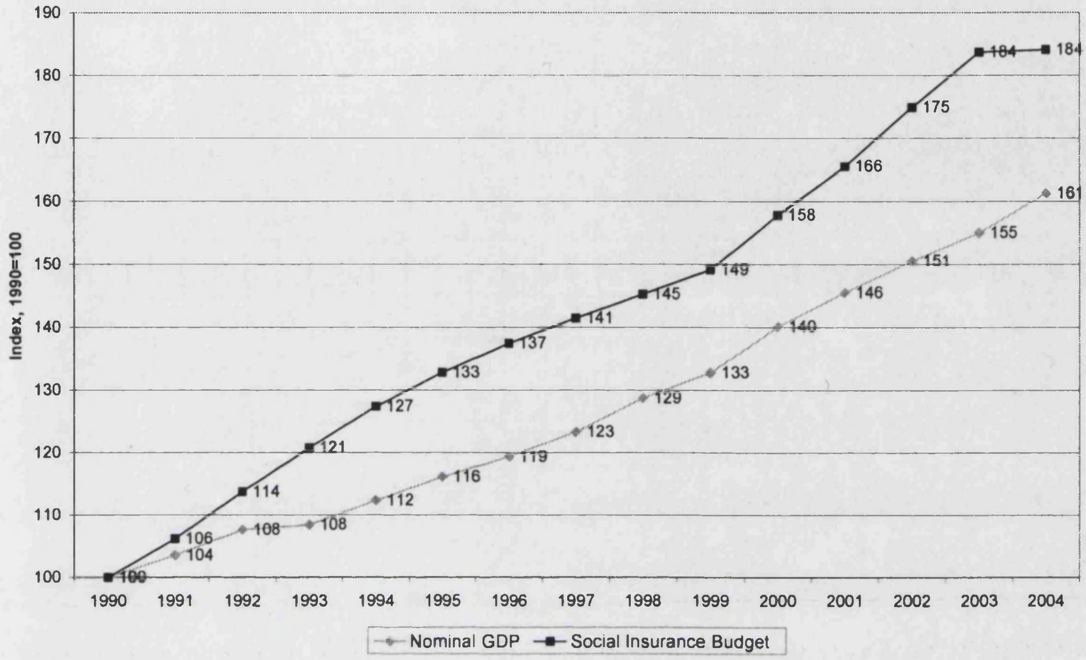
Graph 2-1 Social Insurance Expenditure Growth Germany 1990-2004



Source: Own calculations based on BMAS 2005

The same expenditure pattern holds true for France, where social insurance spending also grew more strongly than the nominal GDP (see Graph 2-2).

Graph 2-2 Social Insurance Expenditure Growth France 1990-2004

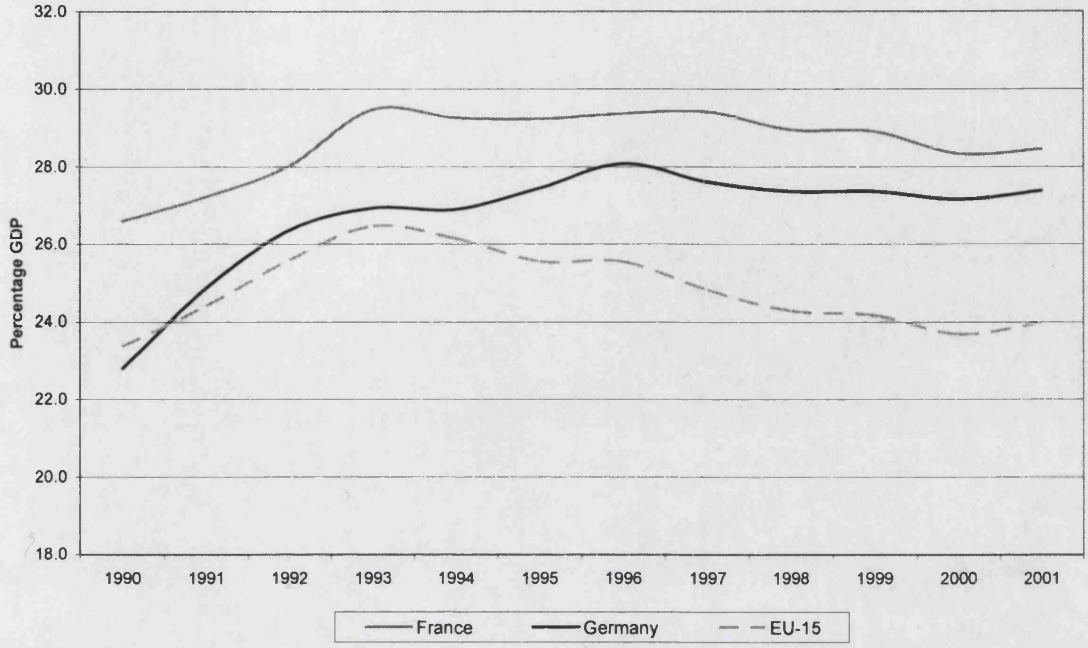


Source: Own calculations based on data from Cour des Comptes, various years

Social insurance spending in France rose from 25.6 percent in 1990 to 29.3 percent in 2004. “Thus, seventeen years after the repudiation of *dirigisme*, the French state absorbs a greater share of the national product than at any time in the post-war period” (Levy 2000: 309). Neither in France nor Germany can we see a dismantling of the welfare state merely based on public social expenditure measurements, but rather a stabilisation since the mid-1990s.

This sets both countries aside from the majority of other EU-15 countries who on average cut back social expenditure (as percentage of GDP) from 1993 onwards (see Graph 2-3).

Graph 2-3 Development of Public Social Expenditure in France, Germany and EU-15 1990-2001



Source: OECD 2004a

The very similar expenditure development in both France and Germany does not seem to confirm Hypotheses 2 and 3, which predicted a stronger cost containment in France. Furthermore, there is no straightforward indication that the different ideologies of the government had any impact on the development of social insurance spending as predicted in Hypothesis 4: in France, we see a period of slower expenditure growth during the left-wing government between 1997 and 2002, while in Germany we also see a stabilisation under the first years of left-wing government rule from 1998 onwards, but this changes again after 2001. Instead, it seems that the French and German welfare states are indeed 'frozen' which confirms Hypothesis 1 that due to the high degrees of fiscal commitment, cost containment measures remain limited in both countries despite the strong fiscal pressures.

But do these observations mean that we see stability in the French and German welfare states? Although the overall expenditure developments seem to confirm the path-dependency arguments of the new politics approach, overall social insurance spending is only one indicator for the development of welfare states. Aggregate spending developments do not capture structural reforms which do not directly impact upon spending in the short term but might do so strongly in the medium and long term. They also say nothing about the distribution of this spending: while the overall level can remain stable, insurance programmes might have been restructured in a way that has reduced the degree of redistribution between the insured or in a way that has moved the benefit structure more towards a residual model of provision. Furthermore, while overall spending might have been maintained or increased it is possible that important cost containment measures have indeed been introduced without which the increase would have been even bigger. Aggregate spending measures also cannot capture "alterations of the political environment in ways that enhance the probability of such outcomes in the future" (Pierson 1994: 17).

Furthermore, the mere observation that spending developments have been fairly similar between the countries on an aggregate level is not enough to reject the 'old' politics and fiscal institutionalism arguments, which might nevertheless have an influence on the respective reform processes. In order to be able to confirm or reject the 'new politics' lock-in arguments, two things are therefore necessary: (1) a more refined measurement of how strong fiscal commitment in the different insurance schemes has really been before fiscal pressures intensified; and (2) a more refined concept of how to assess changes to these insurance schemes. This will be subject of the following chapter.

3 Measuring Fiscal Commitment and Policy Change

The comparison of social spending developments in France and Germany between 1990 and 2005 has shown the continuous growth of spending in both countries despite the increasing financial difficulties during this period (see Graphs 2-1 and 2-2). While this seems to confirm the argument that welfare spending is very 'sticky' in those countries due to the particular characteristics of their welfare states (see Hypothesis 1), the previous chapter has outlined that, firstly, spending patterns are not a sufficient indicator for welfare state change, and, secondly, the assumption that the French and German welfare states are generally prone to institutional lock-in seems too superficial and conflicts with the observation of far-reaching reform processes after 1990.

This chapter presents an approach of how to measure the exact degrees of fiscal commitment in social policy programmes, which is based on the different institutional, procedural and behavioral aspects of political commitment outlined in the first part of the previous chapter (see 2.1). It focuses on fiscal commitment on four dimensions of social programmes, which are their administrative and budgetary regulations as well as their respective revenue structures and benefit regulations. This approach will make it possible to assess the degree to which the decisionmaking scope of policymakers in France and Germany seeking to reform their welfare states and to contain spending in the social budget is – as a result of those pre-commitments – restricted. The chapter furthermore presents a classification of policy change in terms of fiscal commitments: the extent to which policy reforms represent retrenchment is assessed by analysing whether reform measures have the effect of reducing existing degrees of fiscal commitment (by either breaking or avoiding commitments) or whether they have the effect of sustaining these commitments. This approach allows for the incorporation of both immediate as well as future effects of reforms in the analysis of policy change and the extent of retrenchment.

As the main social insurance programmes in the three sectors pensions, health and unemployment account for the predominant share of the social budget in both France and Germany, the following analysis will particularly focus on fiscal commitment in such schemes. The measurement approach is however applicable for the assessment of degrees of fiscal commitment in all forms of social policy programmes.

3.1 Dimensions of Fiscal Commitment in the Social Budget

As outlined in Chapter 2, political commitment can result from a variety of institutional and policy regulations. The approach to measuring fiscal commitment in social policy programmes presented in the following sections is therefore based on four different aspects of such programmes: their administrative structure, their budgetary regulations, their revenue structure, and their regulations of benefit provision.

3.1.1 Formal and Informal Administrative Autonomy

One important element in the – intentional – creation of credible commitment in the corporatist welfare states has been the institutional design of their social insurance institutions. The decisive commitment-creating factor in this respect has been the establishment of institutions with a certain degree of administrative independence from the federal or central state. It is assumed that a greater degree of administrative independence creates a greater degree of fiscal commitment, as an independent administration limits the ability of the central government to influence managerial decisions that strongly impact upon social spending. It also makes it more difficult to impose institutional change that limits this independence, as the actors involved will have an interest in defending their authorities.

How can the degree of administrative independence be measured? A decisive element of administrative independence is the governance structure of the institution. The fewer state representatives are present in the administration, the greater is the degree of administrative independence.[12] In corporatist insurance schemes, the composition of the administrative bodies varies between bipartite institutions in which the state has no representatives and tripartite institutions, in which state representatives are permanent members of the administrative bodies. It can be assumed that a dominance of union over employer representatives further increases fiscal commitment, as their interest in maintaining spending is particularly high.

Another important aspect for determining the degree of administrative independence is not only the formal independence of the institution, but also the degree to which the state can exert indirect influence (here labelled 'managerial independence'). One

[12] It is though necessary to also differentiate between different state representatives: it can be assumed that representatives of state bodies which are not spending carriers have less interest in cost containment than for example representatives of the finance ministry.

relevant factor in this respect is the way top-officials are selected. While the administrative structure can be purely bipartite without any formal state involvement, this state influence can be indirect due to the appointment of top management positions by the government, or a necessary approval of decisions taken by the social partners.

A further factor determining the managerial independence of the administrative institutions is the nature and degree of budgetary and legislative monitoring of administrative decision making. As the main social insurance programmes are public programmes, they are usually subject to some form of legal supervision. But the scope of this supervision can also go much further and include governmental approvals of organisational, financial or administrative decisions. The lesser the institution is subject to monitoring by the government, the greater is the degree of administrative independence and thus of fiscal commitment.

Another factor with – indirect – impact on the degree of the administrative independence of insurance schemes is the degree to which an insurance sector is fragmented into various insurance carriers. This fragmentation can be either geographical, or according to occupational groups or other socio-economic criteria. Fragmented schemes, particularly those split according to occupational criteria, create homogenous beneficiary groups (which also often enjoy specifically generous benefit regulations). The costs of reforms in fragmented schemes are therefore more targeted onto this homogenous group of beneficiaries, which will likely be more able to organise resistance (see Olson 1965). Strong resistance to reforms can also result from the fact that while in bigger, unified schemes small changes can have big financial effects, retrenchment measures in smaller schemes have to be more comprehensive in order to have real fiscal effects. The higher the fragmentation of insurance schemes – measured as the number of special schemes within major social security programmes (see van Kersbergen 1995: 153) – the higher the degree of fiscal commitment should be.

Table 3-1 summarises the indicators for the measurement of administrative independence outlined above, and specifies for each indicator the characteristics of insurance schemes with very high to very low degrees of fiscal commitment.

Table 3-1 Indicators and Measurement of Administrative Independence

Fiscal Commitment	*Very high*	*High*	*Medium high*	*Low*	*Very low*
Institutional Fragmentation of Insurance Sector	Very high number of special schemes (occupational and regional fragmentation)	High degree of occupational or regionally fragmented schemes	Medium degree of occupational or regional fragmentation	Very limited number of schemes (2/3)	Single national insurance scheme
Composition of Administrative Body	Bipartite governing board with equal representation of the social partners	Tripartite Administration with only marginal state representation	Tripartite Administration with equal representation	Tripartite Administration with state majority	No participation of social partners
Selection of Administrators	Autonomous selection of officials by social partners	Autonomous selection by social partners based on suggestions by government	Selection by social partners; approval by government	Governmental appointment in consultation with social partners	Governmental appointment of all officials
Degree of Governmental Supervision	Only legality of actions	Legality of actions, as well as limited organisational and financial decisions	Limited degree of professional oversight	Strong professional oversight; approval of all important decisions	Direct state administration

In modern welfare states, various combinations of degrees of formal and managerial independence exist, which is illustrated in Table 3-2:

Table 3-2 Formal and Programmatic Independence

Managerial Independence	Formal Administrative Independence: *High*	*Medium*	*Low*
High	Bipartite administration, only legal oversight, own appointment of officials, high degree of occupational and regional fragmentation (e.g., German GKV)		State agency, no or very limited involvement of social partners in administration; low degree of governmental oversight and interference (e.g., German VBL)
Medium		Tripartite administration, govt approves top officials, important organizational/ financial decisions need approval (e.g., German BA)	
Low	Bipartite administration, high degree of programmatic oversight, necessary govt approval of top officials (e.g., French CNAM)		Single national insurance, direct state administration (e.g., British NHS)

3.1.2 Budgetary Autonomy and Constraints

The creation of credible political commitment through elements of institutional design has often been accompanied by the creation of 'procedural' commitment, as noted in the previous chapter. With regard to the welfare state, this means that administrative independence of insurance schemes often goes hand in hand with budgetary autonomy of these schemes. As public institutions, the spending of social insurance organisations counts as public expenditure. But while the 'power over the purse' by the legislative is generally an essential element of democracies, not only does the actual budgetary role of national legislatures vary considerably across countries (see Wehner 2006), but a considerable part of the 'social budget' is - despite being public spending - not always subject to the general annual budgetary processes.[13] The intervention of parliament in the social budget often remains limited, and major decisions are often taken in bilateral agreements between ministers and social insurance bodies, or even independently by social insurance institutions themselves.

The 'fiscal institutionalism' literature shows that the institutions governing the budget process are important determinants of a country's fiscal ability to limit expenditure (de Haan and Sturm 1994; von Hagen and Harden 1996; Perotti et al. 1998; Poterba and von Hagen 1999; Strauch and von Hagen 1999; 2001). According to this literature, the decentralisation of budgetary control in welfare states should work against fiscal restriction, that is, make it harder for fiscal policymakers to control expenditures in this field, and therefore create fiscal commitment. Particularly in corporatist-continental welfare states, the number of actors involved in spending bargains is even greater due to the participation of the social partners, which further increases the fragmentation of the process and entrenches the status quo.

As the degree to which social insurance schemes dispose of budgetary autonomy influences the legal and political scope for policy change and cost containment to a large extent, it is the second important aspect to be considered when analysing the degree of fiscal commitment in insurance schemes. In order to measure the impact of budgetary regulations on the scope for successive policy changes, two aspects need to be considered – the first one being the formal decisionmaking powers over the main

[13] The 'social budget' is not a classic institutional budget, but a statistical account of the flows of funds of the totality of all social programmes (Scholz et al. 2000; Bundesregierung 2001). In general, the social budget of a state encompasses all social expenditure at all levels of government as well as of independent social institutions. If publicly mandated, private sector transfers to households can also be included.

budgetary parameters, the second one the extent of budgetary constraints in budgetary allocation and implementation processes.

3.1.2.1 Budgetary Decisionmaking Authority

In order to assess the degree of fiscal commitment resulting from the specific budgetary regulations for social insurance schemes, it is important to assess *who* has the decisionmaking power regarding the formal adoption of a social insurance budget, as well as regarding the decisive budgetary parameters. The first relevant aspect in this respect is whether a social insurance institution has formal budget autonomy, or whether its budget is part of the general state budget. In the latter case, fiscal commitment is low as this means that social insurance spending is subject to the general annual budgeting process, and therefore subject to changing parliamentary majorities which increases the volatility of spending. If an institution has been formally granted budgetary autonomy, it is also relevant whether its budget needs the approval of the government or of an independent public supervisory institution. Again, governmental influence on the budget should lower the degree of fiscal commitment.

But similar to the administrative dimension, formal budget autonomy of insurance schemes does not mean much if all relevant parameters regarding revenues and spending are already pre-determined by other decisionmakers, most likely by the government. Other central elements determining the degree of budgetary autonomy are therefore the degrees to which social insurance institutions have independent decisionmaking power or scope in determining the quantity of revenues for and spending of insurance schemes.

Corporatist-continental social insurance schemes are usually financed through specific social insurance contributions that are earmarked for the insurance institutions rather than through general tax revenues. While the authority to determine tax rates lies with the respective governmental authorities, some social insurance institutions have the authority to determine their own contribution rates, and therefore determine their own revenues. In most cases though, the setting of contribution rates is a legal process and therefore requires a legislative act. In other cases, decisions regarding contribution rates are taken by the government via decree, whereas decisionmaking processes are often automated in the sense that the government is legally bound to adjust contribution rates according to the development of other factors that impact on the fiscal situation of the insurance schemes (e.g., growth rates or unemployment rates). What are the effects of these different decisionmaking procedures on the degree of fiscal commitment? The degree of fiscal commitment is highest when an institution has contribution autonomy, as this means that it can independently decide about the contribution rate and can therefore always ensure a sufficient amount of revenues. In contrast, fiscal commitment is lowest when the decision of how much revenue is assigned to the insurance schemes is taken by the legislator as this makes allocatory decisions subject to the changing preferences of the ruling majority in parliament. Compared to this, automatised decision via decree by the government increases the degree of fiscal commitment when decisions are linked to certain fixed parameters, as it reduces discretion and makes short-term political interventions by the legislature more difficult.

The other decisive parameter for social insurance budgets is decisions regarding the amount of spending. In most public insurance programmes, all relevant spending parameters (e.g., the generosity of benefits and eligibility rules) are defined by public law, and changes therefore require legislative decisions. In some cases, changes can also be implemented via governmental decree. While it is seldom the case that the public insurance institutions decide independently about benefit provisions, they have – to varying degrees – discretion in deciding about additional benefits and do usually determine their administrative budgets. Again, fiscal commitment increases with the degree of autonomous decisionmaking power of the insurance schemes.

3.1.2.2 Budgetary Constraints

For assessing the degree of fiscal commitment resulting from budgetary autonomy it is not only important *who* decides about the budget and its different parameters, but also *how* this decision is taken and – subsequently – enforced. In budgeting processes, spending demands by the politicians and bureaucrats at different levels of government generally exceed the available resources. One of the main reasons is the incomplete internalisation of the social costs of spending, also described as the 'Common Pool Resource (CPR) Problem' (Weingast et al. 1981; Ostrom 1990; Perotti et al. 1998; Poterba and von Hagen 1999): it arises when public revenues are mainly generated by general taxes, while the programmes and benefits that the money is spent on target specific social groups and political constituencies. Policymaker misperceive the costs of spending, as they take into account all benefits but only the marginal tax share that affects their constituency, and are therefore likely to demand increased spending (see

Strauch and von Hagen 2001). This leads to an expansive fiscal policy and higher deficits than would be the case were political actors to internalise all of the costs of spending.

Another reason that makes it difficult to constrain spending is that social insurance budgets often have an independent budget status and social insurance spending is often not included in annual spending processes executed by parliament. This is also a consequence of social spending not being determined a priori in budget laws, but instead being based on so-called 'mandatory spending laws', which define to what extent and under what conditions citizens are eligible for benefits (see von Hagen 2004). The overall amount of spending is determined ex post by the number of people eligible for those benefits during the fiscal year, which makes the imposition of a-priori spending constraints difficult. But to varying degrees, social insurance programmes are also financed from tax revenues whose amount is specified in the annual state budget. The regulations of the budgeting process on the central or federal state level do therefore play an important role when measuring the degree of fiscal commitment in the welfare state, as they determine the overall strength of pressures to contain public spending and therefore also the pressures on social expenditure financed via taxes.

Budgetary allocation processes can broadly be distinguished by two main approaches: one way to allocate funds is the so-called 'delegation approach', in which governments transfer authority to the finance minister who has an encompassing interest in the budget and whose function is to ensure the continuing cooperation of the other policymakers throughout the process. In contrast, the so-called 'contract approach' is based on a set of key budgetary parameters negotiated on a collective basis at the start of the budget process, which results in binding fiscal targets for individual sectors. A number of studies about the fiscal effects of these different approaches conclude that the 'contract approach' generally leads to a more restrictive and disciplined fiscal policy (Perotti et al. 1998; Strauch and von Hagen 2001; Hallerberg et al. 2001). The setting of fiscal contracts for each spending ministry is seen as the most effective way to deal with the CPR problem, especially under coalition governments with different spending priorities (Hallerberg 2000). Accordingly, fiscal commitment is low when the budgetary process follows such a contract approach as pressure for cost containment – also for welfare spending – is high. In case the budgetary allocation process follows a delegation approach, pressures to contain spending depend on the formal ability of spending ministers to overrule the finance minister in a cabinet vote. The stronger the position of the finance minister in this respect, the stronger are pressures to contain spending which lowers the degree of fiscal commitment.

But pressures for cost containment in the insurance schemes do not only result from the budgetary allocation processes at the central state level. Even if schemes do not receive any tax revenues and have formal budget autonomy, spending constraints can be exercised by parliament or by the government. One way to do this is to set expenditure ceilings or to impose fiscal targets. In the case of overspending, the relevant minister will then be required to propose spending adjustments and changes in the relevant non-financial laws if these limits are overrun (see von Hagen and Harden 1996). But as has been extensively discussed in the principal-agent and regulation literature (e.g., Niskanen 1971; McCubbins et al. 1987), rules themselves do not count for much if it cannot be ensured that implementing agents comply with the contractual agreements. The effect of fiscal rules also depends to a large degree on fiscal monitoring and, in the case of overspending, the credible and effective enforcement of the budgetary regulations (see Poterba and von Hagen 1999; Strauch and von Hagen 2001).

Furthermore, the rules of deficit coverage have important implications for the fiscal behaviour of welfare institutions. As most social insurance programmes are based on open-ended entitlement, the assigned revenues might not be sufficient to cover expenses and therefore some regulations for the coverage of potential deficits need to be in place. This can be ensured in different ways: internally, an organisation can deal with potential deficits with the building up of sufficient reserve funds. But additional revenues can also be supplied externally: either by the state, by other insurance organisations, or through the private capital market. The question of who has the responsibility for ensuring the financial equilibrium of the respective organisation has implications for the degree of fiscal commitment: it is greatest when sufficient revenues are provided from the outset and internally, that is, if the preventive measures of the insurance schemes such as reserve funds are sufficient to also cope with long-term fiscal difficulties. But often this is not the case, and instead the state covers the deficit. When the guarantees for liabilities by the state are automatic and the additional revenues do not have to be reimbursed by the affected public entity, this also creates a high degree of fiscal commitment. For the state, on the other hand, such regulations make it hard to contain spending as they limit the effectiveness of the budgetary process (von Hagen 2004).

Fiscal constraints for the insurance schemes are strongest if internal deficit regulations are non-existent or insufficient, and if additional revenues have to be approved – which makes it more visible – and refunded in subsequent fiscal years or might not even be permitted at all.

Table 3-3 summarises the indicators for the measurement of budgetary autonomy and constraints outlined above, and specifies for each indicator the characteristics of insurance schemes with very high to very low degrees of fiscal commitment.

Table 3-3 Indicators and Measurement of Budgetary Autonomy and Constraints

Fiscal Commitment	*Very high*	*High*	*Medium*	*Low*	*Very low*
Budgetary Autonomy					
Degree of Formal Budget Autonomy	Full budgetary autonomy	Budgetary autonomy, but approval by independent supervisory institution	Budgetary autonomy, but government approval necessary	Separate budget, but set up by government authorities	No budgetary autonomy; budget is part of state budget
Degree of Revenue Autonomy	Full Contribution autonomy	Contribution autonomy, but limited through certain conditions (e.g., wage dev.)	Formal contribution autonomy, but can be overruled by government	By government, automatised (certain criteria), via decree	Revenues decided annually by parliament
Degree of Spending Autonomy	Autonomous decisions regarding spending parameters	Autonomous decisions within framework set by parliament/ government	Main decisions by parliament; limited discretion for insurance carrier regarding benefits	Decisions by parliament; insurance carrier only determines administrative spending	Decisions exclusively by parliament
Budgetary Constraints					
Budgetary Allocation Process	Delegation approach; very weak role of finance minister; bargains with spending minister	Delegation approach; bargains with spending minister, but strong role of finance minister	Delegation approach; bargains with spending minister, but strong finance minister; strong multi-annual targets	Contract approach; government sets own parameters	Contract approach; tight fiscal parameters linked to economic and fiscal criteria
Enforced Fiscal Targets	No fiscal targets or guidelines; open-ended benefit entitlements	Non-binding guidelines	Fiscal targets; enforcement weak	Fiscal targets; enforcement varies; effects on new fiscal cycle	Strictly enforced fiscal targets
Spending Monitoring	No spending monitoring	Restricted spending monitoring; mainly internally	Restricted spending monitoring by government	Strict spending monitoring by government	Strict spending monitoring by independent institution
Deficit Coverage	Automatic deficit coverage by the central state	State guarantee; non-refundable subsidies/loans	State guarantee; refundable loans	Debts allowed	No deficit coverage; no debts allowed

3.1.3 Revenue Structure

A factor central to 'Bismarckian' social insurance regimes is the financing of benefits mainly via employer and employee contributions. These contributions are earmarked for the specific social insurance purpose they are paid for, and are intended to secure (tax) independent revenues for the social security organisations which do not compete with other spending purposes. Besides this procedural aspect of creating fiscal commitment, there is an important political dimension as citizens build their lives depending on benefit expectations for which they paid contributions. Furthermore, those entitlements often enjoy a high degree of legal protection (Bieback 1997a; Hamisch 2001). Contribution financing also contributes to the reliability of the revenue base of insurance schemes, as contribution increases are often seen as more politically feasible as tax increases due to the perceived link between payments and benefits (Bonoli and Palier 2000). Furthermore it strongly contributes to the legitimacy of the social partners to be involved in the administration of the insurance schemes, as the unions act as representatives of the employees paying contributions and the employer associations as representatives of the contribution-paying businesses. This makes it highly likely that they will oppose changes to the revenue structure that would not only increase the volatility of funds but also deprive them of their role in social policy administration.

To measure the degree of fiscal commitment resulting from the revenue structure of social insurance programmes, the share of contribution revenues compared to other sources is a determining feature.[14] Table 3-4 summarises the revenue categories which are used in the subsequent analysis.

[14] The term 'contributions' does not only refer to earmarked charges paid by employers and/or employees, but also includes contributions paid by other social programme carriers or by the central state instead of the insured ('public contributions'). These payments – although stemming from tax revenues – still have the same entitlement and commitment-creating effect, as they replace wage-related contributions of a particular insured individual. It is furthermore possible to distinguish between 'actual' (that is, real payments stemming from wages) and 'fictitious' contributions: in civil-service schemes or in public companies, contributions to special pension schemes are often not indeed paid out to these schemes, but are only fictitious accounts. The actual benefit payments do in fact stem from taxes (civil service schemes) or company profits.

Table 3-4 Social Insurance Revenue Sources

Revenue Sources
▪ Contributions o Actual contributions - Employers - Employees o Fictitious contributions o Public contributions
▪ Taxes o Earmarked Taxes o Regular Subsidies o Tax-Financing of Insurance-External Benefits o Compensations o Deficit Coverage/Irregular Subsidies
▪ Transfers (from other insurance carriers)
▪ Credits
▪ Investment Income
▪ Other Revenues

With regard to the commitment-creating effect of the revenue structure it is also important to distinguish between the sources of non-contribution revenues. Most social insurance institutions receive a certain share of tax revenues and since taxes do not create entitlements, expenditure cuts should be politically easier to achieve in the future which lowers the legal spending commitment. A further effect that lowers the commitment factor is that a high share of tax revenues creates a strong government influence over the insurance scheme. But it is also necessary to differentiate between various categories of tax revenues: some tax funds assigned to social insurance schemes compensate those for redistributive functions fulfilled by them (e.g., additional child-related benefits; for details see 3.1.4). Such tax payments do not reduce the degree of fiscal commitment, as they are not replacing contribution payments but are paid additionally. The situation is different for tax payments which replace contribution payments and finance general insurance benefits. Such forms of tax-financing reduce fiscal commitment as they reduce the independence of the financing basis of schemes and give the government greater influence.[15]

Another factor important to the revenue structure of social programmes is the existence of financial equalisation processes or mutual contribution payments between different welfare state institutions and programmes. The extent of these fiscal interdependencies

[15] A further tax category with similar commitment-reducing effects is tax resources which have a regulatory background (e.g. taxes on tobacco or alcohol). Such taxes are often earmarked for certain insurance institutions, which insure against the risks associated with the taxed object/service (e.g., health insurance).

can be measured as the share of transfer revenues either paid or received by each social institution. These financial linkages influence the commitment device of the social budget in various ways: on the one hand, strong interdependencies make it difficult to implement more wide-reaching changes without risking the balance of the whole system (see Trampusch 2003). Furthermore, they often disguise the actual financial situation of individual programmes, which makes it difficult for policymakers to correctly assess the situation and to react accordingly. In this sense, higher levels of financial interdependencies increase fiscal commitment as they make it harder to control and reform social expenditure. On the other hand, these financial interlinkages are often an access point for governments seeking to resolve financial problems without intervening directly into the financing or spending structures of the programmes. Budgetary interdependencies offer them the opportunity to solve financial problems through the introduction or expansion of financial equalisation processes, or the changing of mutual contribution or compensation payments between insurance funds. In this sense, financial interdependencies reduce fiscal commitment as they violate the basic actuarial principle that benefits that fall into the scope of functions of a social insurance also have to be financed by this insurance.

Furthermore, revenues can stem from credits taken out on the private capital market, although this possibility is often restricted. Apart from being an unsustainable financing mechanism, a high share of credit financing decreases commitment as it involves interest payments which further drain the already tight budget. Other revenue sources which play a rather marginal role in public insurance schemes are investment or rental incomes, which are summarised under 'other revenues' (see Table 3.4).

To measure the degree of fiscal commitment inherent in a particular revenue structure, a score of '*very high*' is assigned if the share of earmarked revenue sources is above 90 percent of total revenues. As all public insurance schemes analysed in this thesis provide some degree of redistributive measures (see 3.1.4), a contribution share of over 90 percent indicates that all insurance-related spending is financed entirely from earmarked revenues which creates a very high degree of revenue independence for the insurance institution. In contrast, if the share of earmarked revenue sources in a social policy programme is below 30 percent, the degree of fiscal commitment is considered to be '*very low*'. This threshold is set as, in this case, the financing body is predominantly dependent on the assignment of funds from the tax pool which makes it highly dependent from governmental and parliamentary decisions. The intermediate levels of fiscal commitment in the revenue structure are '*high*' (earmarked revenue share between 70 and 90 percent), '*medium*' (between 50 and 70 percent) and '*low*' (between 30 and 50 percent).

3.1.4 Spending Structure

The fourth dimension of fiscal commitment is the specific spending structure of social insurance programmes. As outlined in Chapter 2, the rules and regulations of benefit provisions do not only determine the financial expenses of a programme, but also the costs of its reversibility. These costs of policy change are strongly connected with the degree to which social insurance benefits are connected with individual contribution records. Two aspects are relevant in this respect: the first one is eligibility, which means the extent to which claims for social transfers are based on citizen rights and/or social characteristics as opposed to employment and contribution records. The second aspect of the benefit structure is reciprocity, that is, the degree to which the generosity and duration of benefit payments are directly related to a record of contributions.

A strictly applied insurance principle means that the contribution revenues are used for insurance purpose only and not for wider economic or socio-political goals. This means that (a), only those who paid into the system are eligible for benefits, and (b), those who paid in more contributions will also receive more benefits. In general, these principles apply to private as well as public insurance schemes alike, but public schemes make – to varying degrees – exceptions from all these rules in order to achieve other political goals. Some form of redistribution is already involved in the general insurance principle: all social insurance programmes, also private ones, redistribute resources according to their insurance character (e.g., from non-claimants to claimants, from the young and middle-aged to the old, from the healthy to the sick, from the employed to the unemployed). But public social insurance schemes also redistribute resources in support of various societal groups which are entitled to benefits despite insufficient contribution records. While in a tax-financed system, all citizens subject to taxation pay for these expenses, in a contribution-financed system they are covered only by the contribution payers. Therefore these benefits will be referred to as 'insurance-external benefits'. It can be assumed that the lower the share of such insurance-external provision, that is, the more restricted the circle of beneficiaries is to those people who paid in contributions and the stronger the link between contribution record and benefit generosity, the stronger the degree of fiscal commitment should be. This is not only because contribution-based entitlements enjoy a higher degree of legal protection, but also because political pressures should be stronger if 'earned' entitlements are attacked in welfare reforms.

What indicators are suitable to measure the degree of eligibility and reciprocity in insurance schemes? Due to the different nature of benefits in different insurance sectors, it is partly necessary to consider different indicators for each sector. Regarding eligibility, the essential question is *who* receives benefits. It therefore needs to be determined what the conditions for the receipts of benefits are and how closely they are related to former contribution payments. The main eligibility factor in the pension sector is the mandatory retirement age at which the receipt of a full pension is possible. There might be additional conditions for the receipt of a full pension, such as minimum contribution times. In many schemes, certain times are accounted as contribution times although no contributions have effectively been paid, which lowers the link between contributions and entitlements, and therefore the degree of fiscal commitment. In unemployment insurance schemes, a certain minimum contribution time again tightens the link between contribution record and general benefit entitlements. Apart from these, there might be additional conditions for the receipt of benefits, for example the availability for work or the attendance of qualification measures. In the health sector, certain minimum contribution times might apply before the insurance protection comes into effect. In this sector, many schemes also make major exceptions from the strict application of the insurance principle with the free insurance of non-employed dependents.

Regarding the degree of reciprocity between contribution records and the generosity of benefits, the main question is who receives *how much*. In pension insurance schemes, a specific calculation formula constitutes the essential relationship between contribution payments and benefits and therefore plays the main role in assessing the degree of spending reciprocity. Other factors are the recognition of certain non-contribution times as contribution-equivalent times. It is also important to what extent early retirement impacts on the generosity of benefits: as long as the diversion from normal retirement age is connected with equivalent reductions of the pension payments, the principle of equivalence between contribution payments and pensions is not violated. But for certain societal groups early retirement is possible without these reductions. A further indicator to assess the degree of spending reciprocity is the difference between minimum and maximum benefits (see Esping-Andersen 1990: 69; Kersbergen 1995: 152). The greater these differences in relation to previous earning-based contributions, the greater is the degree of reciprocity. While these aspects affect reciprocity in the sense of equivalence between individual contribution record and the level of benefits ('internal reciprocity'), there is also another aspect of reciprocity that needs to be considered. This second aspect is reciprocity between the absolute value of contributions at the time of payment, and the value of benefits at the time of benefit receipts ('external reciprocity'). Central elements determining the degree of external reciprocity are the regulations regarding the indexation of benefits and successive charges on benefits (e.g., taxes or social contributions). The greater the degree to which the value of benefits (measured as power purchasing parities) reflects the value of contribution payments, the greater is the degree of external reciprocity.

In health insurance schemes, reciprocity is generally weaker due to the particular character of the insurance: although contributions like in the other two insurance types are paid proportionally to the income up to the contribution ceiling, the benefits are independent from income, but instead depend on the individual medical needs of the insured. Furthermore, contribution rates between insurance funds can vary while the provision of services might, due to legal specifications, be the same, which also distorts the principle of reciprocity. Regulations regarding patients' co-payments and possible reductions or exemptions for certain groups of insured affect the generosity and reciprocity of payments. Due to its direct link to former wages, sickness pay is usually the only element in the health insurance that follows the principle of reciprocity.

In unemployment insurance schemes, reciprocity again plays a greater role as benefits are usually calculated as a percentage of former wages. Of importance is therefore the respective replacement rate and reference salary. The benefit development over time also plays a role, as in some schemes benefits are regressive. As in pension insurance schemes, indexation rules and char ges on benefits impact upon the generosity and 'external' reciprocity of benefits. Furthermore, the administrating agencies may provide consultation and placement activities available to every jobseeker, while they are only financed by the insured employees which is an important factor reducing the degree of reciprocity.

Table 3-5 summarises the indicators for measuring the degree of eligibility and reciprocity for each of the insurance sectors.

Table 3-5 Indicators of Fiscal Commitment on the Spending Dimension

	Pensions	Health	Unemployment
Eligibility	▪ Mandatory Retirement Age ▪ Conditions for Full Rate Pension ▪ Accounting of Non-Contribution Times ▪ Minimum Contribution Time	▪ Beneficiaries (Healthcare/Sickness Pay) ▪ Eligible Dependants ▪ Minimum Contribution Time (Healthcare/ Sickness Pay) ▪ Exemptions from Compulsory Insurance	▪ Minimum Contribution Time ▪ Work Availability and other Conditions
Reciprocity	▪ Pension Level ▪ Benefit Inequality ▪ Reduction for Early Retirement ▪ Regulations of Indexation ▪ Charges on Benefits	▪ Patient's Co-Payments ▪ Exemptions or Reductions to Co-Payments ▪ Sickness Pay Benefit Rates	▪ Replacement Rate ▪ Reference Salary ▪ Duration and Benefit Development over Time ▪ Qualifying Waiting Period ▪ Charges on Benefits ▪ Universally available placement activities/active employment policies

3.1.5 Quantifying Fiscal Commitment

In order to arrive at a quantitative measure for the respective degrees of fiscal commitment, categorical values have been assigned on each of the four dimensions considered above. These values range from a maximum of '5', characterising a 'very high' degree of fiscal commitment on the respective dimension, to a minimum of '1', characterising a very low degree of fiscal commitment. Between these extreme scores, degrees of fiscal commitment can be identified as 'very low' (value 1), 'low' (value 2), 'medium' (value 3) or 'high' (value 4). As the purpose behind the measurement exercise is to provide an ordinal indication of how strong fiscal commitment in a particular social policy programme is *compared to other programmes*, the variables are weighted equally for the assignment of commitment scores to the individual dimensions.[16] The aggregation of the respective commitment values on all four dimensions allows for the

[16] For a similar approach in measuring the independence of regulatory agencies see Gilardi 2002.

comparison of the social spending 'stickiness' in various social policy sectors and social policy programmes, as well as for the assessment of the implications of successive policy reforms for this political spending commitment. It is however important to stress that the dimensions cannot be directly summed as they measure different aspects. The objection that some of the indicators used for measuring the degree of commitment should be weighted more strongly than others is though valid, and the issue of how important single elements are for creating fiscal commitment is further discussed in Chapter 4 (see 4.3.1).

3.2 Three Strategies of Welfare Reform: Sustainment, Reduction and Prevention of Fiscal Commitment

While the previous section of this chapter dealt with the question of how to measure degrees of fiscal commitment in insurance schemes at a given point in time, another important question is how we should assess the impact of reforms on such fiscal commitment. What are the different modes of policy change possible in policy areas with a high degree of spending commitment, and what is the impact of these changes on future commitments?

The following paragraphs present a categorisation of different reform steps under conditions of financial pressure. These steps differ mainly between the sustainment of existing commitments in spite of financial pressures, or alternatively of either the reduction of these commitments (which has immediate or medium-term effects) or the avoiding of new commitments (which has long-term effects). This categorisation will help to assess the impact of reforms carried out on all four commitment dimensions and will make it possible to not only evaluate to what degree commitment has been sustained or reduced on those dimensions, but also to assess what modes of change have primarily been chosen.

3.2.1 Sustaining Fiscal Commitment

In accordance with the blame-avoidance arguments of the 'new politics' literature, the most straightforward solution for policymakers facing the dilemma between high spending commitments and strong fiscal pressures would be to sustain the existing commitment in spite of those pressures in order to avoid negative political consequences. This can be achieved in two ways: firstly, by increasing the revenues for the programmes either through raising contribution rates, or by subsidising the system through external revenues. Secondly, it can be achieved by reducing spending through 'tightening' of spending commitments. This encompasses all expenditure reducing reforms that do not negatively affect the reciprocity of the system, that is, that do not break the initial relationship between contribution payments and benefits as one of the central elements of fiscal commitment. This can be achieved either by retrenchment of 'insurance-external' measures or by the shifting of beneficiaries with insufficient contributions into other, tax-financed programmes. Alternatively, non-contributory benefits can be financed via taxes. Another way of reducing spending in programmes, while sustaining fiscal commitment, is to shift beneficiaries into other contribution-based insurance programmes facing fewer financial difficulties. Table 3-6 specifies the possible ways of sustaining fiscal commitment separately for each of the four analytical dimensions.

Table 3-6 Sustaining Fiscal Commitment

Administrative Independence	
The independent administrative competencies of the social partners are sustained or expanded	▪ No changes to status quo ▪ State withdraws from administrative bodies in insurance schemes ▪ Insurance schemes gain management authorities ▪ The degree of state supervision is reduced
Budgetary Independence	
The degree of budgetary independence is sustained or expanded	▪ No changes to status quo ▪ Insurance schemes gain more formal budgetary independence ▪ Social partners gain authorities in determining spending or revenues ▪ Fiscal constraints are reduced
Revenue-Structure	
Spending commitment is sustained through the increase of revenues for the system	▪ Increasing the contribution rate ▪ Broadening the contribution base ▪ Making hitherto non-covered employed liable for mandatory insurance ▪ Increasing the ceiling of earnings subject to contributions ▪ Increasing/introducing regular subsidies out of general taxation to public schemes ▪ Creation of tax-financed reserve funds ▪ Utilising parts of an increased contribution rate to build up a fund reserve
Spending-Structure	
Spending commitment is sustained through - the tightening of the link between contribution record and benefit eligibility, - or by shifting beneficiaries into other insurance or tax-financed programmes	▪ No changes to status quo ▪ Tightening of eligibility criteria for non-contributory benefits ▪ Retrenchment of non-contributory benefits (in terms of generosity or duration) ▪ Financing of insurance-external benefits via taxes (often connected with tightening of eligibility rules) ▪ Transfer of insured risks into another contribution-based insurance sector ▪ Transfer of insured with insufficient contributions and/or redistributive benefits (e.g., pensions based on child-caring times) to a tax-financed system

3.2.2 Reducing Fiscal Commitment

The other solution for policymakers facing the dilemma between high spending commitments and strong fiscal pressures is to reduce spending commitments in order to balance spending and receipts. The most obvious way of reducing spending is to alter the benefit regulations of the schemes by either reducing the generosity of benefits or by tightening eligibility rules. As this means that entitlements and spending expectations based on former programme regulations would not be fulfilled, such changes will be labelled '*commitment-breaking*'. This can range from minor changes to annual adaptation regulations to major cutbacks of current and future benefit entitlements.

Just to distinguish between the keeping and breaking of commitment exclusively on the spending side of programmes would however not sufficiently capture the complexity of the reform processes underway. The reduction of fiscal commitments can also be achieved by changes to the administrative, budgetary and revenue dimensions. Changes on all of these dimensions have important implications for the welfare provision system as such, and lead to an internal transformation of the system and its insurance logic. These 'hidden politics of social policy retrenchment' (Hacker 2004) are not visible by merely focusing on changes to the formal institutional structure of welfare states or the quantity of social spending.

One form of such 'hidden' commitment reduction is the curtailment of the independent revenue base of social insurance funds. This can take the form of cutbacks of formerly earmarked tax subsidies, or can be executed more indirectly via the replacement of contribution revenues with tax revenues. A reduction of fiscal commitment on the revenue dimension also takes place if funds are channelled away from insurance funds – either into other social programmes, or back into the central budget. The replacement of contribution with tax revenues furthermore reduces fiscal commitment as it indirectly increases the control powers of the government. Such changes to the revenue structures of insurance schemes should also be labelled '*commitment-breaking*' as they attack not only the basic insurance principle of earmarked contribution payments (that is, the contributions paid by the insured go in full to the insurance scheme and are not used for other purposes), but also worsen the financial situation of the schemes even further which makes the retrenchment of benefits more likely in the future.

A further way of reducing fiscal commitment in the welfare state is to make changes to the independent budget status of social insurance schemes and to increase the expenditure control through the central government. Such changes do not directly 'break' commitments as they do not affect the relationship between contributions paid to the insurance schemes and benefits received by the insured, but they reduce the scope for the managers of the insurance schemes to take independent budgetary decisions of how to cope with the financial situation. This reduction of the institutional barrier against governmental involvement will be labelled as '*commitment-restraining*'. The policy options available to the government to restrain fiscal commitments range from changes to the general approach in budgetmaking to a fixation of annual expenditure adaptations in individual programmes. Commitment is further reduced if fiscal constraints are increased – either through the introduction of fiscal targets, or through changes in the deficit coverage mechanisms of the schemes (either via a reduction of internal deficit coverage mechanisms or the abolition of state guarantees). But fiscal constraints can also be increased more indirectly, for example through the introduction of competitive elements as in the creation of quasi-markets or the introduction of other incentives for cost-efficient behaviour.

Finally, a reduction in the degree of fiscal commitment can be achieved through changes in the administration of the social insurance system that increases managerial control by the government over the schemes. Again, this does not directly break existing spending commitments but reduces the institutional barrier against governmental involvement and successive changes in the insurance schemes. Such changes to the administrative independence – both formal as well as managerial – of the insurance schemes are labelled '*commitment-controlling*'. This can be achieved either through a stricter monitoring of the behaviour of the administrative agents or via a reduced role for the social partners altogether. Table 3-7 summarises the different options for reducing fiscal commitment on each of the four analytical dimensions.

Table 3-7 Reducing Fiscal Commitment

Administrative Independence: 'Commitment-Controlling'	
The control by the government over the implementation of social security programmes is increased through changes in institutional and administrative structures and procedures	▪ Creating new institutions for closer spending monitoring ▪ Increasing state influence in administrative bodies ▪ Introducing fiscal incentives for cost-efficient behaviour
Budgetary Independence: 'Commitment-Restraining'	
Budgetary control over expenditure and revenues overall and in specific social security programmes is increased through changes in institutional and administrative structures and procedures	▪ Increasing budgetary control of the parliament (pre-defined budget for social spending) ▪ Moving from delegation to contract approach in budgetmaking ▪ Abolishing contribution autonomy of institutions ▪ 'Depoliticizing' expenditure policies: fixing the level of benefits, their annual adjustment and minimum reserve requirements ▪ Introduction of competition and/or creation of 'quasi-markets'
Revenue Structure: 'Commitment-Breaking'	
The independent financial basis of the insurance programmes is reduced	▪ Funds are directly channelled away from social insurance budgets into other public, non-insurance budgets ▪ Formerly earmarked funds are cut back ▪ Contribution revenues are used to finance new non-insurance tasks ▪ Contribution financing is replaced by tax financing
Spending Structure: 'Commitment-Breaking'	
Entitlements based on former programme regulations are not fulfilled	▪ Suspending automatic benefit indexation and/or changing the indexing formula ▪ Reducing/eliminating derivative/auxiliary benefits ▪ Increasing co-payments ▪ Changing the benefit formula ▪ Raising the standard retirement age (with effect for older currently insured generations) ▪ Increasing benefit reductions for early retirees ▪ Reducing benefit duration ▪ Tightening eligibility criteria

3.2.3 Avoiding Fiscal Commitment

There is a further option available to policymakers seeking to limit the extent of fiscal commitments that does not affect existing commitments, but rather reduces them in the medium and long term. This can be achieved by either avoiding new commitments or by shifting the insurance of social risks to the private sector. Such changes will slowly phase out existing schemes and can thus lead to a gradual, but considerable, transformation of the existing system of social protection.

One way of avoiding the creation of future fiscal commitments is to change the revenue structure of the social programmes by shifting towards tax financing - either within the public insurance programme itself, or through a gradual shift of social protection towards complementary or supplementary tax-financed programmes. Another, more radical form of 'commitment-avoiding' takes place when the insurance of social risks is transferred away from a public, contribution-based system into private or occupational insurance schemes. While the already existing entitlements are usually legally protected, this means that commitment towards future generations is avoided. Table 3-8 summarises these reform measures which have effects on fiscal commitment in the medium and long term.

Table 3-8 Avoiding Fiscal Commitment

"Commitment-Avoiding"	
The creation of future entitlements and spending expectations is limited or avoided through - changes in revenue structures - changes in benefit regulations for future beneficiaries - shifting the insurance of social risks into tax-financed programmes or into the private sector	▪ Financing the insurance of social risks increasingly on the private market ▪ Introducing compulsory private and occupational insurance schemes, either by mandating participation or by creating incentives ▪ Introducing supplementary tax-financed/privately financed programmes ▪ Raising the standard retirement age (for young or future generations of insured)

3.2.4 Conclusions

This chapter has presented an analytical approach to measure the exact degrees of fiscal commitment in social insurance schemes. This approach includes not only institutional structures, administrative responsibilities and benefit regulations of the schemes, but also highlights the importance of budgetary responsibilities, budgetary constraints and revenue structures for the extent to which insurance schemes are shielded from successive institutional and policy changes. The chapter has also outlined the reform options available to policymakers facing a high degree of fiscal commitments in times of fiscal austerity: they can either maintain those commitments by channelling additional revenues into the schemes, or they can focus on the spending side of the schemes by either reducing existing commitments or avoiding future ones.

A widespread conclusion in the welfare state reform literature of the last decade has been that the corporatist-continental welfare state schemes are 'laggards' in terms of cost-containing reforms, as the generally high degrees of fiscal commitment in their social insurance schemes have sheltered them from retrenchment efforts (Esping-Andersen 1996; Ferrera and Rhodes 2000; Bonoli 2000; Pierson 2001b; Huber and Stephens 2001; Scharpf and Schmidt 2001). Both France and Germany, two representatives of this welfare state type, are said to have been particularly immune to reform efforts. The resilience of the German welfare state against cost containment efforts is explained by its strong interlinkages with the economic and corporate governance system of the country, its strong public support in the middle-class dominated German society and its particular organisational structure dominated by insurance schemes administered by the social partners (Scharpf and Schmidt 2000; Mares 2001). In France, the strong public support for social insurance provisions due to status-maintaining benefit structures and a union-dominated administration of insurance schemes are believed to be important barriers to reform which lead to a 'frozen' social security landscape (for a critical view see Vail 2004). But how strong have the institutional and political barriers for reform inherent in the German and French welfare state structures really been, and what have been the effects on reform processes? These questions will be the subject of the following chapter.

4 Variation and its Effects: Fiscal Commitment in France and Germany 1990-2005

Having established the analytical framework for measuring fiscal commitment, this chapter measures the degree of fiscal commitment in three social insurance sectors (healthcare, pensions and unemployment) in France and Germany in 1990. This is the point in time before financial pressures in both countries started to increase considerably (see Graphs 1-2 and 1-3).[17] The measurement of fiscal commitment in these social policy sectors gives a good indication to which degree the decisionmaking scope of policymakers seeking to contain spending in the social budget is restricted, as spending in the three insurance sectors accounts for 81 percent of total social spending in France, and 83 percent in Germany. [18] The chapter also assesses whether there is evidence that the degrees of pre-commitment in the insurance schemes do indeed create a lock-in of institutions and spending and therefore hinder changes even in times of severe financial pressures.

The measurement of the respective values of fiscal commitment in the three insurance sectors is based on two in-depth case studies outlining the administrative, budgetary and financial structures of the main public insurance schemes (as summarised in Appendices I and II). Complementary social insurance schemes will only be taken into account if they are public, compulsory and a major element of the social protection in a specific sector. The individual commitment scores for the insurance schemes are assigned according to the categories specified in the previous chapter (see Tables 3-1 – 3-5).

The analysis shows that there are considerable differences in the degree to which spending in social insurance schemes was pre-committed in 1990, and fiscal commitment in specific sectors differed furthermore strongly between the two corporatist-continental countries. These results cast doubts on the stereotype of the German and French welfare states being generally 'frozen' to comparable degrees and open up new perspectives for the analysis of reform developments. The fiscal commitment scores of the individual schemes in 1990 are then contrasted with the respective scores measured in 2005 (see Appendices I and II). This comparison shows a

[17] In the case of Germany, all descriptions and quantitative measures provided refer to the situation after unification; some measurements therefore refer to 1991 instead of 1990, as this is often the first year for which numbers for the whole of Germany are available.
[18] Data for Germany: BMGS 2005; for France: CCSS 2005.

reduction in the overall degrees of fiscal commitment in both countries, which indicates structural change and a regaining of fiscal control by the governments in both countries during this period. But in contrast to the assumptions outlined in Hypotheses 2 and 3, we do not observe a stronger reduction of fiscal commitment in France than in Germany.[19] The contrasting of the respective measurements in 1990 and 2005 shows that insurance schemes with an initially higher degree of fiscal commitment are more likely to maintain this commitment. Instead of cross-national we can therefore observe cross-sectoral variation, which indicates that sectoral and programme-specific differences do matter more for reform processes than country-specific factors.

4.1 Fiscal Commitment in the French Welfare State

The welfare state that evolved in France after World War II had all the standard characteristics of a conservative-corporatist welfare regime in which social insurance programmes played a central role (Flora 1986; Esping-Andersen 1990; 1996). In the period between 1945 and 1970, a specific set of non-state agencies were established with the aim to cover each French citizen against the main social risks. Since then, the system of '*Sécurité Sociale*' was divided into a number of different sectors *(branches)*: healthcare, old age, family and unemployment insurance. These sectors were further fragmented into different schemes (*régimes*) covering different occupational groups. In addition to this set of compulsory basic schemes existed a further set of – often compulsory – complementary programmes. Those without access to employment-related schemes had to rely on government-administered basic protection schemes – generally referred to as *'Solidarité Nationale'* (for an overview see Table 4-1).

The French pension system consisted of three pillars, of which the first two – the basic social security schemes, and the complementary schemes – were under public law and compulsory, and therefore subject of this analysis (for an overview of all pension schemes see Figure 5-1 in the next chapter).[20] The first (public and mandatory) pillar was constituted by the pension scheme of the Régime Général, the CNAV (which covered the greater part of salaried private sector workers, which was about 65 percent of insured), and more than 600 special schemes. The second pillar was constituted by

[19] See 2.2.1 and 2.2.2.

[20] The third pillar of the French pension system was represented by supplementary and voluntary funded saving schemes within a professional framework. In 1990, about 31 percent of French households were participating in such a scheme.

two compulsory complementary schemes: *AGIRC* (Association Générale des Institutions de Retraites des Cadres) for higher paid staff and *ARRCO* (Association des Régimes de Retraite Complémentaires) for lower-level *cadres.* These two schemes played an important role in the financing of old age provisions: in 1997, their share amounted to nearly a third of all public pension spending.[21]

Table 4-1 The Institutional Structure of the French Welfare State

Four blocks of basic schemes: La Sécurité Sociale in 1990

(1) ***Régime General*** (for employees in industry and trade, covering some 60 percent of the population); four branches: Sickness, Pensions, Family, Occupational Accidents

(2) ***Régime Agricole*** (for farmers and employees in the agricultural sector)

(3) ***Régimes Autonomes or Régimes des Professions non salariées non agricoles*** (for self-employed not in the agricultural sector, covering approx. 10 percent of the population); these groups decide for themselves the scope of coverage and the level of contribution paid; currently: cover the same risks as the Régime Général, with different levels of contribution; usually less generous benefits, but lower level of contributions

(4) ***Régimes Spéciaux*** (mainly for civil servants and employees of the public and para-public sector, nearly 20 percent of population)

Le régime d'Assurance Chômage:

Unemployment Insurance is a separate scheme

Complementary Schemes :

Les Régimes Complémentaires (Complementary Pension Insurance Schemes): managerial staff demanded a supplementary pension scheme, as the ceiling on earnings taken into account for contribution did not enable them to draw retirement pensions related to the level of their own salaries; supplementary pension scheme for higher paid staff established in 1941; later extended to nearly all occupational groups and made compulsory

(1) ***Private Insurance Companies :*** Commercial enterprises regulated by the Insurance Code.

(2) ***Les Institutions de Prévoyance Collective***: Provident institutions, covering more than 20 million people; are under private law and are run jointly by unions of employees and employers; regulated under the Social Security Code and authorised by the ministry of employment and solidarity

(3) ***La Mutualité:*** The mutual insurance associations are non-profit bodies, legally and financially supervised by the state through the Mutual Insurance Code.

Solidarité Nationale: Means-tested schemes administered by the central state or regional and local administrations

(1) *Solidarity funds:* Provision of non-contributory benefits

(2) *Aide Sociale:* Means-tested and discretionary payments for social care

(3) *Revenue Minimum d'Insertion (RMI):* Provides, under certain conditions, a means-tested minimum income

[21] The financing shares in 1997 were: Régime general: 33.2% , other basic schemes: 38.9%, ARRCO and AGIRC: 28%; Source: Comptes de la Sécurité Sociale 1998.

Compared to the pension sector, the French health insurance sector was much more centralised. In 1990, three main health insurance schemes covered 96 percent of the population, of which the health insurance scheme of the Régime General (the *National Sickness Fund, CNAM*) was the by far the most important (it covered salaried employees in commerce and industry, pensioners, unemployed, and their dependents, which was about 84 percent of the French population).[22] The unemployment insurance sector was even more centralised with only one scheme, the UNEDIC (*Union Nationale Interprofessionnelle pour l'Emploi dans l'Industrie et le Commerce)*, covering all French private sector employees.

Due to the very high degree of occupational fragmentation and the large number of very small special schemes – particularly in the pension sector – a restriction of the scope of the analysis is necessary. In the following chapters, the main focus will therefore be exclusively on the two main pension and health insurance schemes of the Régime General, the CNAV and the CNAM, the supplementary pension schemes ARRCO and AGIRC, as well as the unemployment insurance scheme UNEDIC.

4.1.1 Administrative Independence in 1990

At first sight, the corporatist logic underlying the organisational structure of social protection in all three social policy sectors in France seemed to create a very high degree of administrative independence in 1990. Formally, the institutions of the *Sécurité Sociale* (that is, the Régime General and the schemes affiliated to it) – to which the first-pillar pension and health insurance schemes belonged – were independent institutions administered by the social partners. But this administrative freedom was restricted as the insurance funds were subject to a strong supervisory role of the state, '*la tutelle*'. Through its power to appoint the heads of organisations, the state had considerable potential to influence administrative decisions that were also subject to an ex-post ministerial approval. Particularly in the main health insurance scheme, the CNAM, the degree of direct state control was higher than in most other Bismarckian welfare state schemes as it controlled large parts of the hospital sector directly (Bellanger and Mossé 2000; Sandier et al. 2004). For both the pension and health insurance schemes

[22] The agricultural scheme (la *Mutualité Sociale Agricole, MSA*) covers agricultural farmers and employees (7%). The third scheme, the *CANAM*, covers self-employed (5%). Besides these, there exist 16 small independent schemes for specific occupational groups. Due to the high co-payments in the non-stationary sector, the vast majority of population has (voluntary) complementary health insurance.

associated to the Régime General, the degree of fiscal commitment constituted by administrative independence in 1990 was therefore only medium high.

But with the high degree of institutional fragmentation, particularly in the pension sector, came a big variance between schemes regarding their degree of administrative independence. In the case of the supplementary pension schemes, which operated under private law, the degree of fiscal commitment on the administrative dimension was considerably higher: managed exclusively by the social partners, both ARRCO and AGIRC enjoyed full administrative autonomy. As the schemes were nevertheless public and compulsory, their rules needed legal status and therefore ultimately governmental approval. But the government's authorities were exclusively ex-post and the state had no influence regarding the appointment of officials or the management of the schemes.

The French unemployment insurance scheme also scored high with regard to its administrative independence from governmental control: ASSEDICs, the local institutions of the insurance scheme, as well as the national organisation UNEDIC were not only administered exclusively by the social partners without any a-priori or ex-post influence by the government, but they were also controlled by a legal convention agreed between employers and trade unions. This meant that the social partners had wide-reaching regulatory powers. But the government also retained some powers as the conventions needed its final approval before they came into effect (see Schmid et al. 1992: 113; Clasen and Clegg 2004: 11).

Table 4-2 Administrative Independence France 1990

Insurance Sector	Pensions		Health	Unemployment
Institutional Fragmentation	*Very high:* more than 600 different schemes; basic scheme for salaried employees accounts for only 36% of public pension spending		*Medium* (3 main insurance schemes + 16 special schemes)	*Very low:* one unified national scheme
Insurance Scheme	**Régime Général: CNAV**	**ARRCO/AGIRC**	**Régime Général: CNAM**	**UNEDIC**
Composition of Administrative Body	Bipartite governing board; employee representatives in majority, with chairman elected from their ranks → *Very high*	Bipartite governing board with equal representation of social partners → *Very high*	Bipartite governing board; employee representatives in majority, with chairman elected from their ranks → *Very high*	Bipartite governing board with equal representation of social partners → *Very high*
Selection of Administrators	Election of board members; director is appointed by governing board in liaison with Ministry of Social Affairs → *Medium*	Election of board members; no government intervention in selection of top officials → *Very high*	Election of board members; director is appointed by governing board in liaison with Ministry of Social Affairs → *Medium*	Independent selection of board members by social partners → *Very high*
Governmental Supervision	Wide-reaching a-posteriori approval of major organisational and financial decisions → *Low*	Only legality of actions → *Very high*	Wide-reaching a-posteriori approval of major organisational and financial decisions → *Medium*	Very limited governmental supervision; ex-post approval of framework agreements → *High*
Score	**3 (Medium)**	**5 (Very high)**	**3 (Medium)**	**4 (High)**

As Table 4-2 illustrates, the degrees of administrative independence differed considerably between the insurance schemes – although all four were administered exclusively by the social partners, the de facto degree of managerial independence varied between medium and very high. This is a first indication that it is incorrect to classify corporatist insurance schemes as generally strongly detached from direct state influence.

4.1.2 Budgetary Autonomy and Constraints

4.1.2.1 Budgetary Autonomy

As the social insurance system was not formally part of the French state in 1990, the social budget was presented separately from the central government budget as '*Accounts of the Administration of Sécurité Sociale*' (ASS). The only social security spending included into the government accounts was BAPSA, the separate budget for benefits in the agricultural sector. The reason for this was its high share of tax financing. The overall social budget was not strongly affected by the annual budget process, which was dominated by bilateral bargains between the finance minister and individual spending ministers. Parliament also lacked influence on the social budget, as the insurance funds were not politically accountable to parliament. Parliamentary influence had been marginally strengthened with the introduction of a number of taxes assigned to the Régime General on whose modalities it voted in the annual budgetary process. But the intervention of parliament remained limited and its abilities to determine the overall amount of social spending were highly restricted.[23] The budgets of all schemes of the Sécurité Sociale were instead voted on in their respective administrative boards, which meant that they had full formal budgetary autonomy. This was also the case for the schemes outside the Sécurité Sociale, including the unemployment insurance scheme UNEDIC as well as the supplementary pension schemes.

Nevertheless, the budgetary control powers of the state were not as restricted as it seemed: 'la tutelle' by the government was not limited to administrative oversight, as the government could in many ways exert influence over revenues and spending in the insurance schemes. Regarding the formal authority to determine the main budgetary parameters in the first-pillar pension and health insurance institutions, the government had considerable control over the budgets. Contribution rates were determined by ministerial decree, as were changes to the parameters determining spending (mainly the benefit regulations). Consequently, the degree of formal budgetary independence was low for the pension insurance scheme. Due to the limited discretion regarding benefit provisions in the case of the health insurance carrier, its degree of independence was medium high.

[23] The National Assembly was not allowed to increase spending or decrease taxation in the government's draft, and it had little ability to monitor budget developments. Furthermore, the taxes and charges allocated to the social schemes did not appear as revenues in the state budget (see Cour des Comptes 2001).

In contrast, the degree of formal budgetary control by the government was much more restricted in the unemployment and supplementary pension sectors: in both cases, the social partners agreed independently on all factors determining spending and revenues. But despite the formally high degrees of independence in both schemes regarding administration and budgeting, this freedom was nevertheless restricted as the regularly negotiated agreements between the social partners which determined all important organisational, administrative and financial aspects of the schemes had to be approved by the government. This also included changes in contribution rates. Furthermore, the government could impose regulations for UNEDIC via decree in the case of non-agreement between the social partners.

4.1.2.2 Budgetary Constraints

As outlined in the previous chapter, another aspect with importance for degrees of fiscal commitment is the extent of budgetary constraints in the insurance schemes. With regard to the allocation process for the French state budget, spending constraints should have been very high: although the French budget process followed a delegation approach which should have lowered spending constraints, the role of the finance minister in the process and its budgetary enforcement powers were very strong (see von Hagen 1992).[24] But as the dominating share of the social budget was autonomous from the general budget, this had very limited relevance to social spending.

The possibilities for the government to exert spending constraints in the social insurance schemes were generally limited: in the pension sector, payments were based on entitlements and therefore open-ended – this meant that fiscal constraints (based on existing benefit legislation) were difficult to achieve and restricted to administrative and other non-benefit expenditure. The same held true for the unemployment insurance scheme. Fiscal constraints were even weaker in the health sector: while the government had considerable financial planning authority in the hospital sector, spending control powers by the government in the ambulatory sector were weak – despite the ability to define benefit legislation. This was due to the fee-for-service system in this sector and autonomous negotiations between health funds and health professionals about remuneration levels (see Sandier et al. 2004).

---

[24] In von Hagen's index France is assigned the highest value of all EU-12 countries regarding 'structure of negotiations within government' (see von Hagen 1992: 69ff.). Also in the category 'Flexibility of Budget Execution' it achieves the highest score of al EU-12 Member States, which means that the execution of the budget should be comparatively strictly enforced.

Expenditure monitoring by the French government was in 1990 also weak and there existed no spending ceilings. An annual report was published by the government reviewing the nation's social policy expenditure for the preceding three years, but it had no fiscal implications. The only form of direct spending control could theoretically be exercised by the Regional Director of Health and Affairs, who was able to suspend decisions taken by the regional or local funds of the Régime Général in case their execution would compromise the financial balance of the scheme. But this form of intervention was discretionary and hardly applied in practice.

While fiscal constraints for all insurance sectors were therefore either weak or very weak based on the degree to which fiscal targets could be enforced and the degree to which spending was monitored, there was more variance regarding another important element of spending control: the regulations of deficit coverage. In the Régime Général, the social partners were by law responsible for the fiscal balancing of the schemes administered by them – despite the fact that they did not possess the decisionmaking authority to determine their revenues or spending. In other words, they had the responsibility for fiscal outcomes, but not the means to achieve them (see OECD 2003). An extensive transfer system between the schemes attached to the Régime Général channelled funds to schemes with outstanding balances, but this was often insufficient. It was in the end the central state which was responsible to ensure the liquidity of the public insurance institutions. The existing deficit regulations did therefore not create incentives for the schemes to contain spending, and neither did the regulations regarding contribution and benefit legislation allow them to do so. This was very different for both the unemployment insurance carrier UNEDIC and also the supplementary pension schemes: here, budgetary responsibilities remained with the social partners who not only had authority over budgetary parameters but also sole responsibility for deficits.[25]

The combination of these factors led to a difficult situation in terms of controlling social spending in the Régime Général: the social partners were neither accountable for spending nor for the financial equilibrium of the regimes, but were mainly administrators of the funds and tasks assigned to them. Parliament was in a similar situation: it was not responsible for the financial equilibrium of the schemes, nor could it determine the revenues or spending. This lack of parliamentary control over social

[25] Deficits of UNEDIC had to be financed via private credits, but as a special entity recognised as 'pursuing a mission of general interest', its liabilities were guaranteed by the state (see OECD 2003: 128).

spending pushed the legislative into a role where it reacted to the budgetary situation of its social insurance institution rather than actively managing it (see Laroque 1983). The government, with the formal authority to set the budgetary parameters, was limited in this pursuit through the uncontrollability of central factors determining spending as well as the high degree of fiscal interdependencies.

As Table 4-3 shows, this mix of budgetary authorities created a medium high degree of budgetary independence and constraints for the first-pillar pension and health insurance schemes. Accordingly, the degree of fiscal commitment on this dimension was only medium high for these schemes, as the considerable government authority in budgetary decisions meant that there was no effective institutional barrier against fiscal interventions – despite the formal independence of the insurance institutions.

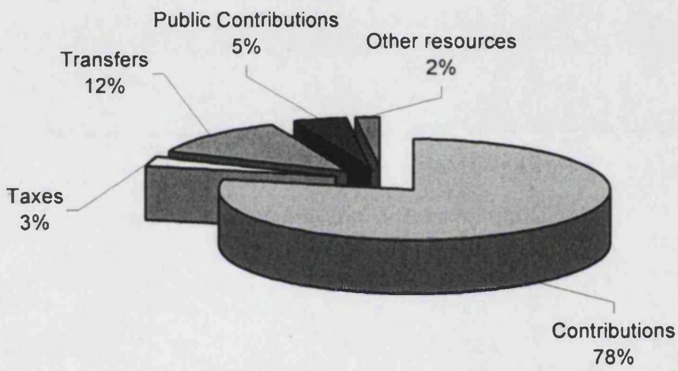
Table 4-3 Budgetary Autonomy and Constraints France 1990

Sector	**Pensions**		**Health**	**Unemployment**
Scheme	**CNAV**	**ARRCO/AGIRC**	**CNAM**	**UNEDIC**
		Budgetary Autonomy		
Degree of Formal Budget Autonomy	Budgetary autonomy, but approval by independent supervisory institution → *High*	Full budgetary autonomy → *Very high*	Budgetary autonomy, but approval by independent supervisory institution → *High*	Full budgetary autonomy → *Very high*
Degree of Revenue Autonomy	No contribution autonomy; rates set by ministerial decree → *Low*	Full contribution autonomy → *Very high*	No contribution autonomy; rates set by ministerial decree → *Low*	Yes, but have to be approved by relevant ministry; contribution ceiling set by ministerial decree → *Medium*
Degree of Spending Autonomy	Decisions by parliament; insurance carrier only determines administrative spending → *Low*	Autonomous decisions within framework set by parliament/ Government → *High*	Main decisions by parliament; limited discretion for insurance carrier regarding benefits → *Medium*	Autonomous decisions by insurance carriers, but ex-post approval of government → *High*
Score Autonomy	***2 (Low)***	***5 (Very high)***	***3 (Medium)***	***4 (High)***
		Budgetary Constraints		
Budgetary Allocation Process	Bilateral bargains between spending and finance minister → *Medium*	Bilateral bargains between social partners → *Very high*	Bilateral bargains between spending minister and finance minister → *Medium*	Bilateral bargains between the social partners, but government participation as spending carrier of solidarity provisions → *High*
Enforced Fiscal Targets	No fiscal targets or guidelines; open-ended benefit entitlements → *Very high*	No fiscal targets or guidelines; open-ended benefit entitlements → *Very high*	Fiscal targets only for public hospitals (under direct state control); enforcement weak →*High*	No fiscal targets or guidelines; open-ended benefit entitlements → *Very high*
Spending Monitoring	Weak ex-post monitoring → *Medium*	Only internal spending monitoring → *High*	Weak ex-post monitoring → *Medium*	Only internal spending monitoring → *High*
Deficit Coverage	Not automatic, but final government responsibility → *High*	No governmental deficit coverage; credit financing possible → *Low*	Not automatic, but final government responsibility → *High*	No automatic governmental deficit coverage; refundable state or private loans → *Low*
Score Constraints	***4 (High)***	***4 (High)***	***3 (Medium)***	***4 (High)***
Total Score	**3 (Medium)**	**5 (Very high)**	**3 (Medium)**	**4 (High)**

4.1.3 Revenue Structure

Originally, the French social insurance schemes were built on the principle of financial non-participation by the state, which meant that they were to be financed exclusively by contributions from the insured and their employers. Funding of the social insurance systems in 1990 was indeed based largely on contribution payments from employers and employees.[26] But at this point in time social insurance schemes had also become increasingly supplemented by public contributions, transfers and taxes. While in 1980, the contributions from the active insured had funded the Régime General nearly exclusively (97 percent), in 1990 they did not account for more than 78 percent (Cour des Comptes 2004).

Graph 4-1 Revenue Structure Social Insurance France 1990



Source: Compte de la Protection Sociale 1990 – Drees

There were two main ways in which the French state participated in the financing of social insurance schemes: on the one hand, it contributed in its function as employer. On the other hand, it contributed to the Sécurité Sociale as public authority with overall responsibility for the social security system. These forms of state intervention were twofold: firstly, certain special taxes had been created to provide funds for the ancillary budget for agricultural social benefits (BAPSA) and to contribute to the financing of the autonomous sickness, maternity and old age insurance schemes for self-employed workers.[27] Secondly, the state intervened by granting subsidies to maintain the solvency

[26] While in 1970, 82 percent of total contributions had been paid by employers, this share decreased to 58 percent in 1990.
[27] Most importantly is the C3S, a solidarity contribution charged to certain industrial and commercial associations established in 1970.

of schemes that experienced particular difficulties due to the demographic or social structure of their insured.

With regard to the individual insurance schemes, the degree of fiscal commitment resulting from earmarked contribution revenues was very high in the case of both the CNAM and the UNEDIC, which in 1990 relied to over 90 percent on contribution financing.[28] In contrast, the share of contribution financing in the pension schemes was slightly lower. But transfer payments also played a considerable role for some schemes. While ARRCO and AGIRC received transfers only from the unemployment insurance scheme (see Chapter 5), the CNAV received funds through the complex transfer system within the Régime General. Despite the fact that initially each of the branches of the Régime General was supposed to be financially autonomous (see Laroque 1983: 55), the expansion of the social security coverage had led to the introduction of demographic and financial compensation mechanisms between all insurance schemes (separately for employee schemes, salaried and non-salaried schemes, as well as for special schemes). The complexity of the transfer system highly reduced the visibility of the real financial situation of the schemes – an aspect generally criticised by the French Auditors Court.

But despite these factors, all four insurance schemes analysed achieved a very high or high commitment score, as their predominant share of revenues stems from earmarked contributions. This gave the schemes a high degree of independence from allocative decisions by parliament, and also entrenched spending as contribution payments created legal benefit entitlements.

[28] In constrast, some accounts of other schemes were settled fully by the state (e.g., the MSA and the civil service scheme). Tax-financing also played a strong role in some special schemes, e.g. those for miners, rail workers, marines or the French opera, as in some of those contribution payments only covered a third of expenditure.

Table 4-4 Social Insurance Revenue Sources France 1990

Revenue Sources	Pensions: Régime Général (CNAV)		Suppl. Pensions: AGIRC/ARRCO		Health: Régime Général (CNAM)		Unemployment: UNEDIC	
	bn €	%	m €	%	bn €	%	m €	%
Employees' contrib.	35.9	88.5	28.7	81.3	20.1	32.2	5,9	31.1
Employers' contrib.					39.3	63.1	11,0	57.7
Public contributions	0.4	1.0	0.1	0.4	-	-	0,8	4.3
Total contributions	39.8	89.5	28.7	81.7	59.4	95.2	17,8	93.1
Taxes	0.4	1.0	-	-	1.0	1.6	0,4	2.1
State compensations*	-	-	-	-	0.3	0.5	-	-
State Subsidies	1.2	2.9	-	-	-	-	-	-
Transfers	2.7	6.6	6.5	18.3	0.7	1.1	0,5	2.6
Other	0.02	0.1	0.5	1.4	1.0	1.5	0,4	2.2
TOTAL	40.6	100	35.3	100	62.3	100	19,1	100
Commitment Score	4 (High)		4 (High)		5 (Very high)		5 (Very high)	

Source: Own calculations based on data from Cour des Comptes 2001; data for AGIRC/ARRCO 1995 from Annex G 2, Assemblée Nationale 2001.

* The state compensates the health insurance funds for the loss of contributions directly related to economic policy decisions

4.1.4 Spending Structure: Eligibility and Reciprocity

In contrast to the commitment scores on the revenue dimension, those on the spending dimension differ widely between the insurance sectors. In 1990, benefits in pension insurance schemes were strictly contribution and earnings-related and exceptions to the principle of proportionality were limited. Deviations from the conditions for a full-rate pension resulted in reductions of benefits. But there were also exceptions to this rule, such as the granting of minimum pensions or eligibility for full pensions despite insufficient contribution times for certain population groups (e.g., widowers, war veterans). But overall, the insurance-based provision dominated with 89 percent of all pension expenditure (see Cour des Comptes 2001: 178). The provision of insurance-external benefits was mainly limited to the accounting of the number of children raised – which could be seen as an 'indirect' contribution to the pension insurance in the form of future contribution payers.

Overall wage replacement rates were fairly low, which was however compensated for by the supplementary schemes. In their case, the spending structure also created a high degree of fiscal commitment: eligibility for a pension from ARRCO and AGIRC depended strictly on former contribution payments. Benefits were strictly earnings-related, following a defined-contribution mechanism: each year, a contributor bought points at a price systematically revised in function of the change in his or her occupational wage level (for details see Observatoire des Retraites 2004). The pension therefore reflected the salary levels during the whole career and not merely the last wage level. As far as private sector employees were concerned, the two pension pillars together ensured on average around 70 percent of the final salary of a pensioner having completed a full career.

The situation with regard to fiscal commitment deriving from the spending structure was very different for the health insurance scheme, which predominantly provided benefits not according to former contribution payments, but solely according to individual needs. The only exception to this principle was the provision of sick pay, whose generosity depended on former earnings and was accordingly correlated to former contribution payments. Regarding the general eligibility for healthcare, this was restricted through a specified qualifying period. This slightly strengthened the insurance principle, whereas the free co-insurance of dependent family members strongly weakened it. The degree of fiscal commitment inherent in the spending structure of the CNAM was therefore only low.

In contrast, the spending structure in the unemployment insurance scheme created a high degree of fiscal commitment. Eligibility for benefits was strongly related to the former contribution record. But also here, some provisions were available based on social criteria. These were however – although administered by the ASSEDIC – funded by the government. Benefits were also highly earnings-related and depended on the length of time for which someone had contributed: with sufficient contribution time, an unemployed person could receive over half his or her previous salary. Insurance external provisions were marginal, and 96 percent of the benefits administered through the ASSEDICs were contributory (Spicker 1998: 213).

Table 4-5 Indicators and Degrees of Fiscal Commitment: Spending Structure France 1990

	Pensions: CNAV	Pensions: ARRCO/AGIRC	Health: CNAM	Unemployment: UNEDIC
Eligibility	***Mandatory Retirement Age:*** ▪ 60 (since 1983); Minimum Retirement Age: 60	***Mandatory Retirement Age:*** ▪ 65; Minimum Retirement Age: 55	***Beneficiaries:*** ▪ All employees, pensioners, unemployed. Beneficiaries of certain allowances (API, AAH, RMI). Students, priests, prisoners ▪ Sickness pay: all employees	***Beneficiaries:*** ▪ Unemployed with sufficient contribution times
	Conditions for Full Rate Pension: ▪ 60 and 37.5 years of contributions or 65 without conditions on contribution period	***Conditions for Full Rate Pension:*** ▪ Full rate if basic pension obtained at full rate		***Work Availability and other Conditions:*** ▪ 'to be looking for work' ▪ to be under the age of 60. However, if at this age the person concerned has not paid insurance contributions for long enough to justify receipt of the old-age pension at the full rate of 50%, the indemnity is maintained until the period is achieved, and at the latest up to the age of 65
	Accounting of Non-Contribution Times: ▪ Full rate regardless of contribution times for: employees with 50% incapacity; manual workers having raised at least 3 children; veterans of war or war victims	***Accounting of Non-Contribution Times:*** ▪ "Credit points" for sickness periods if the insured was working and subject to the scheme for at least 3 months in a row (concerning executives' scheme) or 60 days in a row (concerning non executives' scheme); also credits for times of unemployment or disability	***Eligible Dependants:*** ▪ Spouse, dependent children; relatives in the ascending, descending or collateral lines; partner living with insured person	
	Minimum Contribution Time: ▪ None	***Minimum Contribution Time:*** ▪ None	***Minimum Contribution Time:*** ▪ Qualifying period: 1200 hrs worked during the year or 600 per half year or 200 per quarter or 120 hrs per month ▪ Sickness pay: First 6 months: 200 hrs of employed work in 3 months preceding sickness; Subsequently: registered for 12 months, worked 800 hrs during 12 months; Waiting period: 3 days	***Minimum Contribution Time:*** At least 3 months insurance in last 12 months
Score Eligibility	***4 (High)***	***4 (High)***	***2 (Low)***	***4 (High)***

Reciprocity	***Pension Level:*** 50% of average wage over 10 best years; pension increase for children raised	***Pension Level:*** Lifetime average: total number of points multiplied by value of points; Pension increase for children raised	***Patient's Co-Payments:*** ▪ Medical expenses: 25%; 20% for hospitalisation; Hospitalisation fee: FF50 ▪ Drugs: 30% or 60%; 100% on ease drugs	***Replacement Rate:*** 40.4% (Allocation Base) and 30.3% (Allocation de base exceptionelle; since 1984 for unemployed who do not have three months of contribution records)
	Benefit Inequality: 1992: Minimum pension: FF 35.514 p.y. for 37.5 contribution years; reductions for incomplete careers Means-tested minimum: FF 15 800 for single person Max.: 50% of social security ceiling	***Benefit Inequality:*** No minimum pension Maximum pension: points granted up to 8 times the social security ceiling	***Exemptions or Reductions to Co-Payments:*** Holders of an invalidity pension or a work injury pension at a rate > 66.66% are covered 100% together with their family members. Persons suffering from certain diseases, for those diseases only.	***Reference Salary:*** ▪ Reference period: earning on which contributions have been paid for in the last 12 months; 75% reference ceiling
				Duration and Benefit Development over Time: Minimum 3 months, up to 60 months for older employees
	Reduction for Early Retirement: ▪ Prorating effect plus 10% reduction per missing year (max. 5 years)	***Reduction for Early Retirement:*** ▪ A reduction is made by 7% per year from 55 to 59 years of age, then a 5% reduction per year from 60 to 62 years of age and a 4% reduction per year thereafter.	***Sickness Pay Benefit Rates :*** ▪ 50% of daily earnings; 66.66% for 3 children ▪ Minimum after 7 months: 1/365th of minimum invalidity pension	***Qualifying Waiting Period:*** None
	Regulations of Indexation: ▪ Price (applied since 1986, become law in 1993)	***Regulations of Indexation:*** ▪ Wages		***Charges on Benefits:*** Benefits are subject to taxation after deduction of 10% and then of 20%.
	Charges on Benefits: ▪ 1.4% (health contributions)	***Charges on Benefits:*** ▪ 2.4% (health contributions)		***Universally available placement activities/active employment policies:*** None
Score Reciprocity	*4 (High)*	*5 (Very high)*	*2 (Low)*	*5 (Very high)*
Total Score	**4 (High)**	**4 (High)**	**2 (Low)**	**5 (Very high)**

4.1.5 France: Conclusions

The analysis of the degrees of fiscal commitment inherent in the organisational, budgetary and financial structures of the main French social insurance schemes shows that they differ not only between the different insurance sectors, but also within the sectors between the different schemes. In the pension sector, the Régime General scheme CNAV scores 14 out of 20, while the second-pillar schemes achieved a score close to the maximum at 18. This is despite both schemes scoring equally on the revenue as well as spending dimension – but the similarities end with regard to the degrees of administrative and budgetary independence, which were considerably higher in the case of the supplementary schemes.

Fiscal Commitment First-pillar Pension Insurance France 1990:	
Administrative Independence:	Medium (3)
Budgetary Independence:	Medium (3)
Revenue Structure:	High (4)
Spending Structure:	High (4)
Total Score:	**14**

Fiscal Commitment Supplementary Pension Insurance France 1990:	
Administrative Independence:	Very high (5)
Budgetary Independence:	Very high (5)
Revenue Structure:	High (4)
Spending Structure:	High (4)
Total Score	**18**

In comparison, the main health insurance scheme CNAM only scores 13, which is the lowest of all analysed French insurance schemes. This is mainly due to the non-contribution related benefit provision, which created a low degree of fiscal commitment on the spending dimension, but also due to the considerably restricted independence of the social partners regarding administration and budgetary decisionmaking. In contrast, the health insurance scheme had (compared to the other French schemes) the highest share of contributions in its revenue structure in 1990 which created a high degree of pre-commitment on this dimension.

Fiscal Commitment Health Insurance France 1990:	
Administrative Independence:	Medium (3)
Budgetary Independence:	Medium (3)
Revenue Structure:	Very high (5)
Spending Structure:	Low (2)
Total Score:	**13**

The unemployment insurance scheme UNEDIC achieves in comparison an overall very high commitment score. This was not only due to a greater independence of the scheme from state influence regarding administration and budgetary control as it was the case for the schemes of the Régime General, but UNEDIC was also the only scheme which achieved a very high score on the spending dimension.

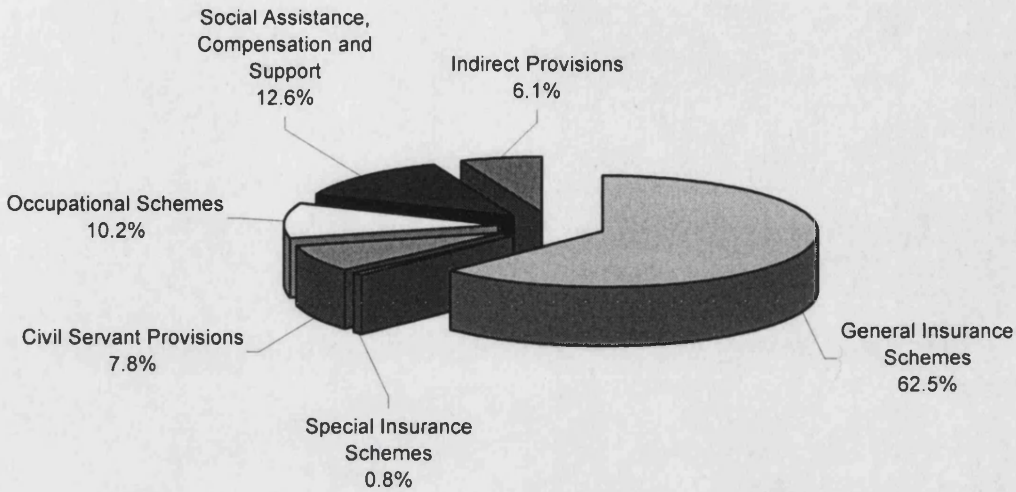
Fiscal Commitment Unemployment Insurance France 1990:	
Administrative Independence:	High (4)
Budgetary Independence:	High (4)
Revenue Structure:	Very high (5)
Spending Structure:	Very high (5)
Total Score:	**18**

These results suggest how problematic the broad stereotype of the 'unreformable' welfare state is. The differentiated picture that emerges from the analysis suggests that a more fine-grained perspective is required to account for institutional barriers for reform. The second part of the chapter will review to what extent this conclusion is also valid for the German case.

4.2 Fiscal Commitment in the German Welfare State

Representing the stereo-typical model for the continental-corporatist welfare states, the German welfare state was centred around its social insurance schemes for unemployment, health, pensions and (since 1995) long-term care. Being the pioneer in social insurance legislation, Germany introduced an industrial accident insurance as early as 1871, and was also first to introduce health insurance (1883) and pension insurance (1889). After the Second World War, these schemes expanded rapidly both in terms of population coverage and the range and generosity of benefits provided. In 1991, the general statutory insurance programmes accounted by far for the biggest share of social expenditure in Germany, whereas special insurance schemes for certain occupational groups were fairly marginal in this respect (see Graph 4-2). The only programmes financed out of the general tax fund were social assistance, family benefits and housing allowance. Furthermore, the public bodies financed the provisions for their civil servants from tax funds, and granted indirect provisions through tax reductions. Besides this, occupational schemes existed, mainly providing supplementary old-age provisions.

Graph 4-2 Germany: Social Spending by Institutions 1991
(Percent of Total Social Budget)



Source: BMGS 2004

Compared to private provision, the public insurance programmes provided by far the biggest share of social spending as they were compulsory for the majority of employees. In 1991, the compulsory Statutory Pension Insurance (*Gesetzliche Rentenversicherung: GRV*) accounted for 68.1 percent of all pension insurance spending (see Table 5-12). Also in the health sector, the Statutory Sickness Insurance (*Gesetzliche Krankenversicherung: GKV*) was the biggest spending carrier in the health sector: in 1992, it covered 90 percent of the population and paid out €98.97 bn, which was 60 percent of all health expenditure.[29] Unemployment insurance in Germany was provided together with all active employment measures by one exclusive, fully integrated employment service administered by the Federal Employment Office (*Bundesanstalt für Arbeit*: BA). The following analysis will focus on these three main schemes (GRV, GKV and BA). The second-pillar pension provision provided via occupational schemes is not taken into account as it was not compulsory and played only a minor role in terms of overall public pension spending.

4.2.1 Administrative Independence

As corporations under public law, the German social security organisations in all three insurance sectors were independent institutions administered by the social partners (so-called *'parafisci'*). The first formal introduction of self-administration took place with

[29] Source: Statistisches Bundesamt 2003.

Bismarck's social insurance legislation at the end of the 19th century.[30] After its abolition during the Nazi regime, Chancellor Adenauer announced in its first government declaration in 1949 that the self-administration of the social partners was to replace 'governmental paternalism', which resulted in its re-establishment in 1951. But although self-administration became again a major characteristic of the German system of social policy, there were nevertheless important differences when it came to the degree of budgetary and legislative control that could be exercised by the federal government in the three insurance sectors and their respective insurance schemes.

The internal governance structure of the Statutory Pension Insurance (GRV) carriers as well as the selection process for officials was strictly based on the principle of equal representation of the social partners without any involvement of the state.[31] Governmental interference was highly restricted, as there was no direct guidance and instruction right towards the insurance carriers. Public oversight – mainly limited to the supervision of the legality of actions - was exercised by an independent institution subordinate to the Ministry of Labour and Social Affairs, the Federal Insurance Office (*Bundesversicherungsamt*). In addition to this legal supervision ('*Rechtsaufsicht*'), the government could also directly influence organisational or financial decisions. However, this professional supervision ('*Fachaufsicht*') was only ex-post in the form of approvals.

The governance structure and administrative authorities of the Statutory Health Insurance (GKV) carriers were very similar to the GRV. All 1200 insurance funds belonging to the GKV were administered solely by the social partners and the federal government had no direct guidance and instruction rights towards the insurance carriers. The only way the government could exert influence was through its right to approve the charter of the insurance carriers and all successive changes to it (§195 SGB V). For both major insurance schemes in the pension and health sector, the degree of administrative independence in 1990 was therefore very high.

The situation was different for the unemployment insurance carrier, the BA, whose independent administrative authorities were widely restricted. This was first of all due

[30] For an overview over the historical development of German self-administration see Lehmbruch 2003.
[31] The GRV was in 1990 fragmented into different occupational schemes: the Pension Insurance of White-Collar Employees (BfA), 22 State Insurance Agencies of Blue-Collar Employees as well as the smaller Pension Insurance of Mine-Employees (*KnRV*), Seamen's Insurance Association and Railworkers Insurance Corporation.

to the tripartite governing structure, which gave state representatives a say in all managerial decisions. Furthermore, the government could indirectly influence decisions due to the direct assignment of the president by the federal ministry of labour.[32] The BA was also widely subject to legal supervision exercised directly by the Labour Ministry, which approved its charter and had the right to intervene in a number of administrative and financial matters (see Schmid et al. 1992).

Table 4-6 Administrative Independence Germany 1990

Insurance Sector	Pensions	Health	Unemployment
Institutional Fragmentation	Medium high (2+3 in GRV), small number of independent schemes; civil service provision → *Medium*	Very high (over 1200 insurance funds) → *Very high*	Single national scheme → *Very low*
Insurance Scheme	**GRV**	**GKV**	**BA**
Composition of Administrative Body	Bipartite governing board with equal representation of social partners [1] → *Very high*	Bipartite governing board with equal representation of social partners (with few exceptions) → *Very high*	Tripartite administrative committee with equal representation of employees, employers and public bodies → *Medium*
Selection of Administrators	'Social elections' by members; assembly of representatives elects the supervisory board as executive body as well as the board of directors (based on suggestions by the supervisory board) → *Very high*	'Social elections' by members; assembly of representatives elects the supervisory board as executive body as well as the board of directors (based on suggestions by the supervisory board) → *Very high*	Representatives directly appointed based on nominations (social partners) or directly by public bodies; administrative committee elects executive board; president and vice-president appointed by labour minister → *Medium*
Degree of Governmental Supervision	Public oversight limited to the supervision of the legality of actions, but approval applies to autonomous legal and various organisational and financial decisions → *High*	Public oversight limited to the supervision of the legality of actions, but approval applies to autonomous legal and various organisational and financial decisions → *High*	Public oversight limited to the supervision of the legality of actions, but approval applies to autonomous legal and various organisational and financial decisions → *High*
Score	**5 (Very high)**	**5 (Very high)**	**3 (Medium)**

[32] The presidents and vice-presidents of the BA were nominated by the Ministry of Labour and Social Affairs and appointed by the Federal President. However, the federal government was required to consult with the BA's tripartite governing council before making nominations and could deviate from its advice only because of "serious reasons" (see Schmid et al. 1992: 52).

4.2.2 Budgetary Autonomy and Constraints

4.2.2.1 Budgetary Autonomy

The German federal state budget was in 1990 highly fragmented. This was not only due to the budgetary autonomy of the different levels of government, separating the federal and the sub-national states (*Länder*), but also due to a high number of individual spending accounts and semi-independent institutions. The accounts of the social insurance institutions as well as social expenditure at all levels of government (including the provisions for civil servants) were annually published as the 'social budget'. It is important to stress that this social budget, which in 1991 amounted to €426 bn, was not a classic institutional budget, but merely a statistical account of the financial flows of all social programmes (see Bundesregierung 2001). The direct financing share of the federal government (that is, state subsidies and direct provisions) only accounted for around 20 percent of the social budget in 1991, which means that the remaining 80 percent of social expenditure were not included in the annual federal state budget and were therefore beyond direct control by the government and the ministry of finance.[33]

As corporations under public law, social security organisations were independent institutions with their own budgetary authority. In both the GRV and GKV, the assembly of representatives had responsibility regarding all budgetary decisions as well as the approval of the annual accounts. The budget of the unemployment insurance carrier BA, drawn up by the executive board and approved by the administrative committee, was also separate from the state budget due to its status as a self-governing institution (see Bruche and Reissert 1985; Linke 1994). But here the federal government was represented in both the executive board and the administrative committee and therefore exerted its influence already in the process of drafting the budget.

All insurance budgets – including those of the GRV and GKV – were furthermore subject to control by a governmental supervisory body, usually the relevant federal ministry. But the degree of this control and the respective intervention powers varied strongly. In the case of the GRV, the supervisory body could reject budget plans if they did not comply with the law or if they 'affected the service capacity of the insurance carriers' and could demand changes. If these were not considered, it had the right to enforce the amended budget against the will of the insurance carrier (§70 III 3, SGB

[33] Own calculations based on BMGS 2005.

IV). In practice, these intervention powers had not been applied before 1990 (also due to the inability of the insurance carriers to determine a large share of their spending, see below). In contrast, the supervisory body for the GKV – the ministry of health – had no competency to enforce an amended budget but could object to it if it conflicted with legal regulations or 'threatened the economic efficiency' of the institution. Overall, the degree of formal budgetary independence in both the health and pension sector was very high.

In contrast, budgetary authority in the unemployment sector remained to a large extent with the government. The budget of the Employment Office had to be approved by the Ministry for Labour and Social Affairs, which since 1969 also disposed of the BA's reserve fund. But changes in the budget could not be enforced unilaterally, which limited the intervention powers of the government. Formal budgetary independence in 1991 was therefore medium high.

Additionally to the degree of formal budgetary autonomy, the de facto degree of budgetary self-determination has to be assessed according to who had the decisionmaking power over the main budgetary parameters and therefore over the amount of revenues and spending. In the pension as well as unemployment sector, all key parameters determining the amount of revenues received by the insurance carriers – most importantly the contribution rate – were determined by law. Consequently, the insurance carriers had no influence on the revenue side of their budgets as this was decided by parliament. Only the reduction of contribution rates in the pension insurance schemes could be decided by the federal government via decree with approval of the *Bundesrat*.[34] In both insurance schemes, this lack of control by the schemes' administrators over revenues considerably reduced the degree of fiscal commitment resulting from budgetary independence. The situation was very different for the health insurance schemes, which had the right to determine their contribution rates autonomously.[35]

[34] In the pension sector, a formal procedure was defined by law for the case that the reserve of the pension insurance would fall below a monthly expenditure. This procedure prescribed that this should automatically lead to a proposal by the government to increase the contribution rate by the necessary amount (§ 1383 III RVO). This was intended to bind the executive to push through the necessary revenue increases and to avoid a solving of the fiscal problem via benefit cutbacks, although this still meant that the proposal had to be accepted by the legislator.

[35] Exceptions to this rule were the contribution rates for pensioners (which paid the average contribution rate of all health insurance schemes) and for students (fixed reduced rate set by the legislator).

With regard to the spending side of the budget, budgetary authority of the insurance carriers also varied. This was despite the fact that in all three sectors, benefit regulations and therefore the decisive spending parameters were defined by law. For the pension insurance carriers this meant that their decisionmaking scope was limited to administrative expenditure. But in the other two sectors the insurance carriers had a greater influence on determining spending. In the unemployment sector, this was the case as spending of the BA was not restricted to the legally pre-defined replacement benefits, but went also towards the financing of active employment measures (see Schmid 1983). In 1991, only one third of the BA's expenses were devoted to the financing of passive income-replacement benefits, whereas active measures accounted for nearly two-thirds of spending. While eligibility criteria and spending for some of the active measures provided were defined by law, others were discretionary and decisionmaking power lay largely with the BA and its employment agencies.

Although 'discretionary', the influence of the federal government in deciding how much and on what the funds were spent was however considerable (see Trampusch 2002: 26/27). The ministry of labour was authorised to unilaterally issue a decree regarding the awarding of job-creation measures if the administrative board failed to do so within a year, and to issue orders to the BA in certain circumstances without involving the self-administration. Furthermore, the decisionmaking scope of the decentralised level and their participatory rights in the budgetary process were restricted. This meant that the 'discretion' over spending was largely exercised or supervised by the federal government and not by the self-administration itself. The degree of independent decisionmaking authority regarding spending was therefore only medium high in 1990.

In the health insurance schemes, the carriers had gained powers in determining the catalogue of provisions paid for by the insurance carriers prior to 1990 (mainly in the ambulatory sector through the *Bundesausschuss der Ärzte und Krankenkassen*) which gave them scope in determining spending. But similar to the unemployment insurance, also here the de facto decisionmaking scope was very restricted as all decisions had to be taken within the legal frameworks provided by the state and also had to be successively approved by the government (Urban 2001: 20; Gerlinger 2002: 21).

4.2.2.2 Budgetary Constraints

As outlined above, the predominant share of social spending enjoyed separate budgetary status in 1990 and was therefore not subject to the annual budget bargaining in parliament. But the share of government expenditure for social insurance programmes (in the form of compensation, subsidies or contributions) was also considerable, amounting to 45 percent of total federal expenditure in 1992.[36] The federal budgetary allocation process and the degree to which it exerted pressure to contain spending is therefore of relevance for the measurement of overall budgetary autonomy of the insurance schemes.

In 1990, the annual allocation process followed a delegation approach which meant that the finance minister negotiated bilaterally with each spending ministry about the financial allocation for the following budget year. Only the chancellor plus the majority of the cabinet could overrule a veto of the finance minister against an increase in spending beyond the initial targets set by his or her ministry (see Hallerberg 2000). Although this regulation was supposed to strengthen the position of the finance minister in the bargaining on settlements with cabinet colleagues, his or her overall role in the budgetary framework was weak compared to other countries (see Hallerberg et al. 2001).[37] Germany had a constitutional balanced-budget rule, stating that overall expenditure should not exceed state revenues and limiting debt revenues to the amount of state investment in the budget. Deviations from this rule were only allowed in a situation of severe macroeconomic imbalances (Art. 115 GG). Yet the fiscal rules lacked strict enforcement and "often were not realised and rarely attracted a judicial challenge" (Kopits and Symansky 1998: 8).[38] Furthermore, the hurdles for amendments of the initial law during the execution of the budget were not very high (see Sturm and Müller 1999: 128). In general, the budgetary process in Germany appeared to be rather weak as the institutional framework in which the draft budget was created did not set

[36] Source: own calculations based on data from BMGS 2004 and 2005.

[37] In Hallerberg et al.'s index measuring the strength of finance ministers, Germany receives a score of 4.5, which is 1.5 points lower than the median score of all other EU-15 countries with a delegation approach. Regarding the Implementation of the Annual Budget, Germany achieves a score of 2, which is 1 point lower than the median score for delegation member states (see Hallerberg et al. 2001: 65ff.).

[38] There is also no binding multi-annual budgetary framework except of voluntary announcements of the government. Furthermore, the assessment of the long-term sustainability of public finances is conducted by the social ministries, i.e. the ministry of health and the ministry of social affairs and labour (European Commission 2003: 72).

many barriers to expansionist fiscal policies. Furthermore, external spending monitoring of the insurance accounts was very limited.[39]

How strong were pressures for spending constraints in the individual insurance sectors? Due to mandatory spending legislation in the GRV, the state had to fund the pensions that claimants were eligible for regardless of the revenues the scheme had received. This made spending open-ended and fiscal control during the budgetary year very difficult. The social security law stated that the insurance carriers had to ensure 'basic principles of efficiency' during the drafting and execution of their budgets (§ 69, SGB IV), but there were no enforced fiscal targets (for example regarding administrative or personnel spending).

The possibilities for fiscal control were more varied in the health sector: although spending in this sector was also open-ended and based on existing legal regulations defining eligibility for and generosity of services and benefits, the amount spent for healthcare strongly depended on the settlements with the health providers in the ambulatory, hospital and pharmaceutical sector about the costs of their services. As these bargains were the task of self-administration by the associations of insurance carriers, the extent to which the government could exert spending constraints in this respect was minimal.

In the unemployment insurance scheme, wage replacement provisions were also based on entitlements created by contribution payments, which made spending open-ended and often difficult to predict – even more than in the other two insurance sectors due to the effect of economic developments on the unemployment rate. But as outlined before, another large share of spending was 'discretionary' for active employment measures. The social security code stated that the BA was obliged to exert its functions within the framework of the social and economic policy of the federal government. Therefore factors such as the unemployment or economic growth rate had to be taken into account in planning expenditure for active measures, but there were no pre-defined spending caps. Although the ministry of labour had to approve the budget, demands for changes had to be agreed with the self-administration bodies and could not be unilaterally imposed. The ministry of finance had therefore no direct influence on the BA budget,

[39] For all insurance carriers under public law or for those in which the federal government had some financing share, the German Federal Court of Auditors (*Bundesrechnungshof*) audited the accounts.

but only came into play if deficit coverage from the general tax fund had to be approved (see below). Pressures for cost containment were therefore low.

Finally, the regulations of deficit coverage had important implications for the extent of cost containment pressures. Due to the fact that the insurance carriers in the pension and unemployment sector had no discretion regarding the parameters determining revenues or spending, their budgets were subject to a federal guarantee. In the GRV, the state only intervened if liquidity problems could no longer be solved merely through the existing equalisation processes between the insurance schemes or via the internal reserve fund (see Chapter 5), and was legally obliged to provide financial assistance (either in form of subsidies or in form of loans). In contrast, deficits of the BA were automatically covered by the government – which created a high degree of fiscal commitment, but also gave the state an important stake in budgetary issues.

For the insurance carriers in the GKV, there was neither automatic deficit coverage nor a federal guarantee in place. Instead, each individual health insurance fund had the legal obligation to set contribution rates so that it enabled it to cover its expenses. But this meant that although the level of budgetary autonomy was formally very high, the legislator could indirectly influence the setting of contribution rates as it determined the main parameters of service provision. This combination of self-determination of contribution rates and state-controlled spending parameters, together with the legal obligation to balance the accounts and no possibilities to acquire additional revenues, lead to a mechanism which disadvantaged the insurance carriers. If the government maintained or increased provisions in times of declining contribution revenues, it was the insurance carriers who had to react in raising the contribution rate in order to be able to balance their accounts. As this connection between legal changes in benefit regulations and autonomous increases of contributions was often not obvious to the general public, the insurance sector was particularly susceptible to the passing on of costs (see Gössl 1992). The possibility for the government to indirectly influence budgetary decisions of the health insurance carriers by determining the degree of fiscal pressures constrained the otherwise very high degree of budgetary independence of the GKV. But taking all factors determining budgetary independence and constraints into account, the overall degree of fiscal commitment in the GKV was still high in 1990 (see Table 4-7).

Table 4-7 Budgetary Autonomy and Constraints Germany 1991

Sector	Pensions	Health	Unemployment
Insurance Scheme	GRV	GKV	BA
Budgetary Autonomy			
Degree of Formal Budget Autonomy	Formal budget autonomy → *Very high*	Formal budget autonomy → *Very high*	Formal budget autonomy, but subject to approval by federal government → *Medium*
Degree of Revenue Autonomy	Contribution rates and subsidies defined by law → *Very low*	Contribution autonomy → *Very high*	Contribution rates defined by law → *Very low*
Degree of Spending Autonomy	Carrier only determines administrative spending → *Low*	Considerable self-administration powers regarding definition of provision catalogue in ambulatory sector, but govt approval → *Medium*	2/3 of spending based on benefit legislation; flexibility regarding 1/3 for active policies/placement → *Medium*
Score	*2 (Low)*	*4 (High)*	*2 (Low)*
Budgetary Constraints			
Budgetary Allocation Process	Delegation approach; weak role of finance minister → *Very high*	Delegation approach; weak role of finance minister → *Very high*	Delegation approach; weak role of finance minister → *Very high*
Enforced Fiscal Targets	No → *Very high*	No; spending bargains with health providers task of self-administration → *Very high*	No → *Very high*
Spending Monitoring	Approval of Ministry of Social Affairs; no approval of extra spending necessary → *High*	Approval of ministry of health; no approval of extra spending necessary → *High*	Extra spending needs approval of Ministry of Labour and Finance; internal spending monitoring weak → *Medium*
Deficit Coverage	'Federal guarantee' if threat of illiquidity; no legal specification whether in form of subsidies or credits; automatic coverage of miners insurance → *High*	No state coverage; no credit financing allowed → *Very low*	Automatic deficit coverage by federal state → *Very high*
Score	*5 (Very high)*	*4 (High)*	*4 (High)*
Total Score	**3 (Medium)**	**4 (High)**	**3 (Medium)**

4.2.3 Revenue Structure

Similar to France, contribution financing represented the predominant source of revenues for all German social insurance schemes in 1990, which created a high degree of fiscal commitment due to the creation of legal benefit entitlements. The share of contribution financing was particularly high in the Statutory Health Insurance with 96.5 percent, which meant that the revenue base of the insurance funds was protected from any possibilities of state involvement. The degree of fiscal commitment on this dimension was accordingly very high. Although in the other two insurance schemes contribution financing was also predominant, tax financing also played an important role. In the GRV, these tax revenues came in the form of an annual federal subsidy, which in 1991 accounted for nearly a fifth of all revenues. Although the subsidy followed a fixed annual adaptation process, it had been repeatedly altered and even temporarily abolished during previous decades, which shows that tax revenues did indeed represent a more volatile source of revenues.

In the unemployment sector, the federal government reimbursed the BA for non-insurance related expenses that were financed directly from the federal budget. These were accounted for separately and therefore did not affect the insurance-based provisions. But the federal government also provided a subsidy – but not already at the beginning of the year, but only ex-post for the coverage of deficits (see 7.2.3). Overall, the degree of fiscal commitment in both sectors was high.

Table 4-8 Social Insurance Revenues and Degrees of Fiscal Commitment 1991

Revenue Sources	GRV (Pensions)		GKV (Health)		BA (Unemployment)	
	DM (m)	%	DM (m)	%	DM (m)	%
Contributions	214210	77.8	173101	96.5	71360	88.5
- Insured	111653	40.6	112454	62.7	35337	43.6
- Social Insurance Carriers	10106	3.7	26559	14.8	465	0.5
- Employers	102557	37.3	60648	33.8	36023	44.4
Taxes	57305	20.8	1854	1.0	23820	10.5
Other	3603	1.3	2733	1.5	660	1.0
TOTAL	275183	100.0	179313	100.0	95840	100.0
Commitment Score	**4 (High)**		**5 (Very high)**		**4 (High)**	

Source: Own calculations based on data from Bundesanstalt für Arbeit 1993 and Bundesregierung 2001.

4.2.4 Spending Structure

As outlined in Chapter 3, the different spending logic of insurance schemes with regard to whether they insure against life or income risks leads to big differences in the degree of fiscal commitment. As in most contributory pension systems, the degree of reciprocity between personal contribution record and pension payments was very high in the case of the GRV, which created a very high degree of fiscal commitment towards pension spending.[40] Another important aspect in terms of commitment was the constitutional protection of pension entitlements against short-term cutbacks, as it locked in spending considerably – at least in the medium term. But the GRV also provided a considerable degree of non-insurance related benefits: although the exact extent is hard to calculate, estimates suggest that the share of non-contribution-equivalent provisions accounted for around 35 percent of total provisions in 1989 (Rehfeld and Luckert 1989; see also Verband Deutscher Rentenversicherungsträger 1995; Börsch-Supan and Reil-Held 1999). Although the federal subsidy to the GRV was supposed to cover those redistributive expenses, it only accounted for 20 percent of revenues in 1991, which means that a high share of non-insurance benefits were financed by contribution payers. This lowered the overall degree of reciprocity and the degree of fiscal commitment.

Due to the different spending logic of the health insurance scheme which did not provide income replacement but instead needs-based provision equally to all insured regardless of their contribution records, the degree of reciprocity in the spending structure was very low. There was furthermore a very high degree of redistribution due to the free co-insurance of dependent family members. The only element which increased the degree of fiscal commitment was a high degree of reciprocity and restricted eligibility regarding sickness pay, which was strictly equivalent to former earnings and therefore to contribution payments. But overall, the degree of fiscal commitment based on the spending structure could be classified as low.

For assessing the degree of fiscal commitment resulting from the spending structure in the unemployment insurance scheme, two different aspects have to be taken into account: on the one hand, there was a high degree of reciprocity between contribution

[40] The fact that certain pensions were granted not merely due to the reaching of a certain age, but also due to unemployment or other social factors was reflected in the benefit level through the '*Rentenartfaktor*' in the pension calculation.

payments and unemployment benefits which represented a percentage of former wages. Eligibility was restricted to those who actively paid contributions and who fulfilled certain minimum contribution times. On the other hand, a high percentage of funds which stemmed from contribution payments financed active labour market measures, as well as assistance and placement activities of the unemployment agencies. These services were not restricted to contribution payers and were also not granted according to contribution records but according to other social criteria. In 1991, only one third of the BA's expenses were going towards the financing of passive income replacement benefits. This fact strongly reduced the degree of fiscal commitment resulting from the spending structure, which could be classified as medium high.

Table 4-9 Indicators and Degrees of Fiscal Commitment: Spending Structure Germany 1990/91

	Pensions: GRV	Health: GKV	Unemployment: BA
Eligibility	***Mandatory Retirement Age:*** ▪ 65 years (in principle), but several exceptions	***Beneficiaries:*** ▪ Healthcare: - Persons in paid employment and those receiving vocational training, trainees, students - Pensioners with a sufficient period of insurance. - Unemployed, receiving benefits of unemployment insurance. - Handicapped persons. - Artists and writers; Farmers - Personally insured ▪ Sickness pay: - Employees and assimilated; Incapacity for work certified by a doctor from the 3rd day of illness	***Beneficiaries:*** ▪ Unemployed with sufficient previous contribution payments
	Conditions for Full Rate Pension: ▪ Reaching of 65 year age limit and minimum contribution time; exceptions: ▪ Men and Women: - 63 yrs (or 60 yrs for war invalids and invalidity) after 35 yrs of insurance - 60 yrs, if 180 contr. months, in unemployment for a year in last 18 months, at least 8 yrs compulsory insurance in last 10 yrs ▪ Women only: - 60 yrs, if 180 contr. months, compulsory insured for at least 10 years since age 40		***Work Availability and other Conditions:*** ▪ Available for work
	Accounting of Non-Contribution Times: ▪ *Substitute periods* (military service and war-related non-employment times) ▪ *Assessment periods* (periods of sickness, rehabilitation, or certain times of unemployment; periods of pregnancy and child-bed; school or higher education times up to limit of 4 years; finished university education up to 5 years; pension times before age limit of 55 years	***Eligible Dependants:*** ▪ Spouse and children, income not exceeding DM500 (west) or DM 300 (east)	
	Minimum Contribution Time: ▪ 60 months of insurance	***Minimum Contribution Time:*** ▪ Healthcare: None ▪ Sickness Pay: None	***Minimum Contribution Time:*** ▪ Compulsory Insurance for at least 12 months during the last 3 years.
Score Eligibility	*3 (Medium)*	*2 (Low)*	*4 (High)*

Reciprocity	***Pension Level:*** ▪ *Individual components:* Personal Income Points (PIP) Access Factor depending on pension age (AF) *General component:* Pension Type Factor (PTF) Monthly Pension = PIP x AF x PTF ***Benefit Inequality:*** ▪ No statutory minimum pension (but minimum number of 'Entgeltpunkte' granted for marginal incomes) ▪ No statutory maximum pension ***Reduction for Early Retirement:*** ▪ None, but different pension access accounted for through Access Factor and Pension Type Factor ***Regulations of Indexation:*** ▪ Every 1st of July adaptation according to development of gross wages ***Charges on Benefits:*** ▪ Health Insurance Contributions (6.4%)	***Patient's Co-Payments:*** ▪ Medical Expenses: no co-payments ▪ Hospitalisation co-payment: DM10 per calendar day during a maximum period of 14 days ▪ 50% of dental prostheses and connected treatment ▪ Drugs: Fixed amount on fixed price products; DM3 on all other prescribed drugs; no reimbursement of comfort drugs (since 1989) ***Exemptions or Reductions to Co-Payments:*** ▪ No co-payments for children and 'special cases' ***Sickness Pay Benefit Rates :*** ▪ Sickness pay: 80% of the normal salary (wages and income from work during last 3 months, insofar as subject to contribution; annual adaptation as for pensions) but not exceeding 100% of the net salary	***Replacement Rate:*** ▪ Unemployment Benefit: 68% of net earnings; without children: 63% ▪ Unemployment Assistance: 58% of net earnings; without children: 56% ***Reference Salary:*** ▪ Average weekly wage for last three months ***Duration and Benefit Development over Time:*** ▪ Proportional to periods of employment and age: o Minimum: 12 months empl. → 156 days benefits o Maximum: 64 months empl., 54 years → 832 days benefits; ▪ Unemployment Assistance: unlimited ▪ Development stable ***Qualifying Waiting Period:*** ▪ None ***Charges on Benefits:*** ▪ None ***Universally available placement activities/active employment policies:*** ▪ Information and placement services universally available ▪ Active employment measures not connected to contribution records ▪ Share of active employment measures compared to passive 45.3% in 1992
Score Reciprocity	***5 (Very High)***	***2 (Low)***	***2 (Low)***
Total Score	**4 (High)**	**2 (Low)**	**3 (Medium)**

4.2.5 Germany: Conclusion

Compared to France, there is less distinct variation between the overall degrees of fiscal commitment in the analysed German insurance schemes. While the insurance carriers of the Statutory Pension Insurance were restricted with regard to autonomous budgetary decisionmaking, they were not subject to strong fiscal constraints and fiscal commitment on the budgetary dimension was overall medium high. The high degree of contribution financing as well as a high degree of reciprocity in benefit spending created high degrees of commitment on both the revenue and spending dimension, and together with a very high degree of administrative independence, fiscal commitment was overall high with a score of 16.

Fiscal Commitment Pensions Germany 1990:	
Administrative Independence	Very high (5)
Budgetary Independence	Medium (3)
Revenue Structure	High (4)
Spending Structure	High (4)
Total Score	**16**

The German Statutory Health Insurance (GKV) achieved the same overall score, but the comparison of the two insurance schemes highlights that, in the aggregate, fiscal commitment is constituted by very different institutional and programmatic aspects. In the case of the GKV, fiscal commitment mainly resulted from a very high degree of administrative independence, and a very high reliance on earmarked contribution financing. In contrast to the pension insurance scheme, the spending structure created only a low degree of fiscal commitment.

Fiscal Commitment Health Germany 1990:	
Administrative Independence	Very high (5)
Budgetary Independence	High (4)
Revenue Structure	Very high (5)
Spending Structure	Low (2)
Total Score	**16**

Compared to the other two insurance sectors, the unemployment insurance carrier BA had an overall lower degree of fiscal commitment. The state retained considerably more decisionmaking and intervention rights as in the other two schemes which resulted in only medium high degrees of fiscal commitment on both the administrative and budgetary dimensions. Also the degree of contribution-based eligibility and reciprocity in the spending structure was only medium high due to the financing of universally available active employment measures from the same contribution-financed budget. All these factors together made the German unemployment insurance "highly susceptible to politically and fiscally motivated interventions" by the government (Schmid et al. 1992: 38).

Fiscal Commitment Unemployment Insurance Germany 1990:	
Administrative Independence	Medium (3)
Budgetary Independence	Medium (3)
Revenue Structure	High (4)
Spending Structure	Medium (3)
Total Score	**13**

These results for the German social insurance schemes confirm the conclusions for the French case: the 'obvious' high commitment of the French and German social insurance systems did not exist throughout. Although both the German and French states formally left decisions and tasks of the three main insurance sectors to the self-administration, it still maintained important regulatory powers. Furthermore, this 'self-regulation in the shadow of the state' (Scharpf 1997), or in other words the degree to which the government could intervene in the social insurance sectors, varied considerably across the different insurance sectors. The insurance schemes also differed considerably with regard to their spending structures, as some were characterised by a very strong connection between contribution payments and the eligibility and generosity of benefits. In contrast, the health sector had a much lower degree of fiscal commitment on this dimension. But the variation regarding the respective degrees of fiscal commitment did not only exist between the insurance sectors, but even within the sectors there was variation between the different public schemes.

Contrasting the commitment scores of the French and German insurance schemes within the same policy sectors highlights another interesting pattern: the unemployment insurance scheme which in the German case only achieved a comparatively low commitment score (13) was the one which (together with the supplementary pension schemes) achieved the highest score in France (18). Reciprocally, the French health insurance scheme CNAM achieved the lowest score in France (13), while its German equivalent, the GKV, had a comparatively high score (16). This shows that not only the assumptions of the French and German welfare states as generally institutionally 'sticky' and unreformable are not appropriate, but also that general assumptions about insurance sectors are equally problematic.

4.3 Welfare States Unfrozen?

The initial assumption derived on the basis of the 'new politics' literature was that the corporatist structure of the German and French social insurance schemes should create a generally high degree of pre-commitment due to their institutional and policy characteristics, and this should make changes to the status quo difficult. Accordingly, Hypothesis 1 predicted that we should only see a very limited reaction to financial pressures in the form of retrenchment in both countries (both in spending terms as well with regard to structural reforms). In other words, the corporatist-continental welfare states in France and Germany should be largely 'frozen' in their institutional status-quo (Esping-Andersen 1996). But the analysis of fiscal commitment prevalent in the main social insurance schemes in both countries has shown that the degrees to which institutional and programmatic features of these schemes created barriers for change in 1990 varied widely between the different programmes and insurance sectors. What implications do these results have for the assumption of generally locked-in corporatist welfare states and the analysis of welfare reform processes?

4.3.1 The Systematic Lock-In Effects of Fiscal Commitment

The fiscal commitment scores measured in 1990 range from an overall score of 13 (for the German BA, and the French CNAM) to a score of 18 (for the French UNEDIC, as well as the supplementary pension schemes ARRCO/AGIRC). This means that we have to refine Hypothesis 1, which predicted that due to generally high degrees of fiscal pre-commitment in the French and German social insurance schemes, we should see only limited cost containment measures in both countries (see 2.1.2). We do know now that the extent of fiscal commitment inherent in the individual schemes differs. If we still assume that the arguments of 'institutional stickiness' are right, and if we further assume that the institutional and policy characteristics used to measure fiscal commitment really safeguard policy programmes from successive retrenchment, we should expect to see fewer cost containment measures in the schemes with a higher degree of fiscal commitment and more in those with a lower degree of fiscal commitment. The higher the government's degree of regulatory, managerial and budgetary intervention powers in the formally independent insurance schemes and the weaker the connection between contribution payments and benefit entitlements, the more options policymakers should have to push through unpopular retrenchment measures.

H5: We should see less retrenchment in schemes with a high degree of fiscal commitment than in those with a lower degree of fiscal commitment.

As outlined below, similar degrees of fiscal commitment for different insurance schemes can still mean that this commitment is based on different dimensions – while some schemes have a high degree of fiscal commitment on the administrative and budgetary dimensions but only low scores on the spending dimension (such as the German GKV), others have a very high degree of fiscal commitment on the spending dimensions but only medium or low degrees on the other dimensions (such as the French CNAV). We should expect a stronger reduction of fiscal commitment on those dimensions that provide more intervention powers for the government, that is, those which already had lower degrees of fiscal commitment in 1990, and fewer retrenchment measures on those dimensions with a high or very high degree of fiscal commitment in 1990.

H6: We should see less retrenchment on those dimensions with a high degree of fiscal commitment in 1990 than on those dimensions with a lower degree of fiscal commitment.

To analyse whether it is possible to observe such a systematic effect of fiscal commitment for the individual insurance schemes, the degrees of fiscal commitment in 1990 are contrasted with those measured for the same schemes in 2005 (see Table 4-10).[41] This comparison shows to what degree fiscal commitments have been reduced or sustained during this period.[42] The degree to which fiscal commitment has been reduced is an indicator for the degree of retrenchment measures which encompasses both expenditure-reducing measures as well as structural reforms which make future interventions in the schemes easier. It shows to what degree the governments have intervened in the welfare state in order to regain financial control.

[41] For details of the 2005 measurement results see Appendices I and II and the following three chapters which outline the reform processes in detail.
[42] For details of different forms of commitment-sustaining or –reducing measures see 3.2.1.

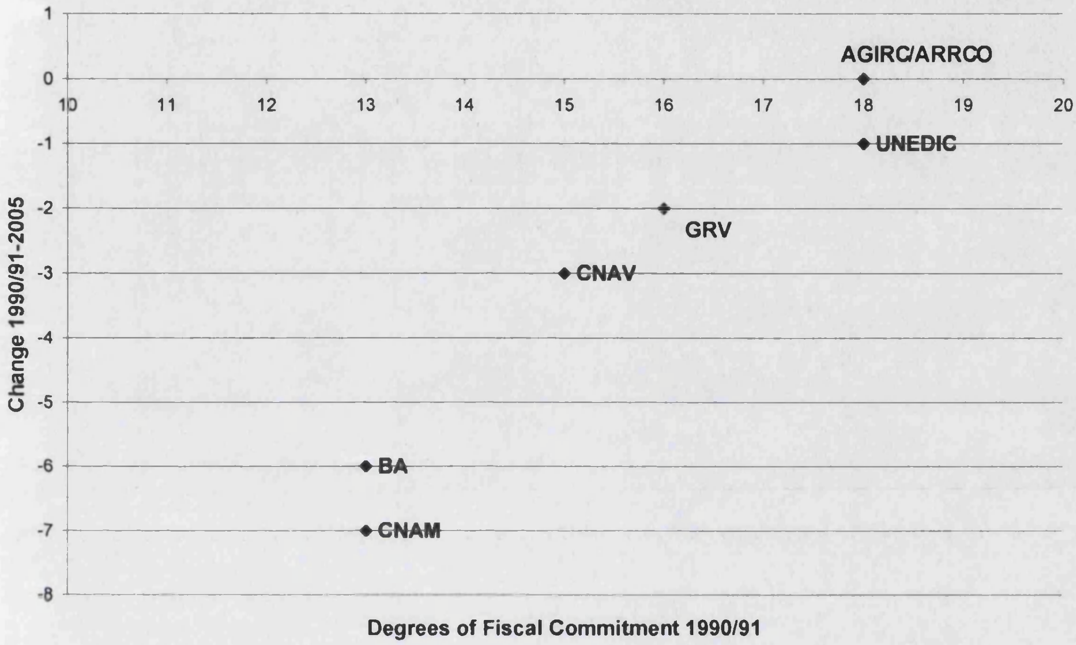
Table 4-10 Degrees of Fiscal Commitment in France and Germany, 1990 and 2005

Country	Germany		France	
Year	**1990/91**	**2004/05**	**1990/91**	**2004/05**
Sector: First-pillar Pensions	**GRV**		**CNAV**	
Administrative Independence:	Very high (5)	Very high (5)	Medium (3)	Low (2)
Budgetary Autonomy:	Medium (3)	Medium (3)	Medium (3)	Low (2)
Revenue Structure:	High (4)	Low (2)	High (4)	Medium (3)
Spending Structure:	High (4)	High (4)	High (4)	High (4)
Commitment Score	***16***	***14 (-2)***	***14***	***11 (-3)***
Sector: Suppl. Pensions			**ARRCO/AGIRC**	
Administrative Independence:			Very high (5)	Very high (5)
Budgetary Autonomy:			Very high (5)	Very high (5)
Revenue Structure:			High (4)	High (4)
Spending Structure:			High (4)	High (4)
Commitment Score			***18***	***18 (+/-0)***
Sector: Health	**GKV**		**CNAM**	
Administrative Independence:	Very high (5)	Very high (5)	Medium (3)	Low (2)
Budgetary Autonomy:	High (4)	Medium (3)	Medium (3)	Low (2)
Revenue Structure:	Very high (5)	High (4)	Very high (5)	Very low (1)
Spending Structure:	Low (2)	Low (2)	Low (2)	Very low (1)
Commitment Score	***16***	***14 (-2)***	***13***	***6 (-7)***
Sector: Unemployment	**BA**		**UNEDIC**	
Administrative Independence:	Medium (3)	Very low (1)	High (4)	High (4)
Budgetary Autonomy:	Medium (3)	Very low (1)	High (4)	High (4)
Revenue Structure:	High (4)	Medium (3)	Very high (5)	High (4)
Spending Structure:	Medium (3)	Low (2)	Very high (5)	Very high (5)
Commitment Score	***13***	***7 (-6)***	***18***	***17 (-1)***

As the comparison between the different insurance schemes in 1990 and 2005 shows, fiscal commitment in the social insurance schemes has been overall considerably reduced during this period. While it is not possible to observe straightforward retrenchment in overall expenditure terms (see Graphs 2-1 and 2-2), the governments in both countries have nevertheless regained influence over the determination of social insurance spending and therefore over their social budgets. Merely using social insurance spending as an indicator for cost containment measures is therefore not sufficient for the analysis of financial adaptation processes as it leaves out important institutional and programmatic adaptations which might not have immediate, but medium and long-term implications for social spending (see also Vail 2004).

The extent to which fiscal flexibility has been regained varies considerably between the insurance sectors. As Graph 4-3 shows, the initial degrees of fiscal commitment seem to be an effective indicator of the respective 'stickiness' of organisational, budgetary and financial regulations securing spending for the particular insurance purpose: the higher the degree of commitment in an insurance scheme prior to the intensification of fiscal pressures from 1990 onwards has been, the lower has been the degree of commitment-reduction in the following years. This indicates a systematic effect of institutional lock-in, which supports the assumptions formulated in Hypothesis 5.

Graph 4-3 The Correlation between Initial Degrees of Fiscal Commitment and Successive Reductions



While we can observe a systematic effect of aggregate commitment levels on the extent of successive commitment reductions, the question remains whether this effect is also visible for each of the four dimensions. Can we observe a stronger reduction of fiscal commitment on those dimensions with a medium or low score in 1990 than on those with a high or very high score, as predicted in Hypothesis 6? The results presented in Table 4-10 indicate systematic effects of fiscal commitment on two dimensions: if the degree of administrative autonomy was very high or high, we do not see any successive reductions on this dimension – in contrast to schemes in which this autonomy was only medium high or lower in 1990. The same holds true for the degree of contribution-based eligibility and reciprocity, creating fiscal commitment on the spending structure. Here we cannot observe any change in the schemes which had either very high or high scores on this dimension. Interestingly, we cannot detect the same relationship on the revenue and budgetary dimensions.

4.3.2 Initial Results and Open Questions

This chapter has shown that fiscal commitment in the French and German social insurance schemes is neither equally high for all schemes, nor is this commitment distributed uniform across the different dimensions. Instead it has been demonstrated that fiscal commitment varies considerably across the different insurance schemes within each country. These differences also matter for successive reform developments: while overall fiscal commitment has been reduced in both countries, there is strong evidence that this reduction varies systematically according to the previous degree of commitment in the insurance schemes. This confirms the anticipated effects of institutional lock-in outlined in Hypothesis 5. In contrast, there is no evidence for an overall stronger reduction of fiscal commitment in France which could have been expected based on differences regarding corporatist relationships and the position and involvement of the finance ministry in budgetary and social policy decisionmaking processes (Hypotheses 2 and 3). But taking a closer look at the different dimensions creating fiscal commitment, we can observe a straightforward relationship between initial high degrees of fiscal commitment and low degrees of change as predicted by Hypothesis 6 only on the dimensions 'administrative autonomy' and 'spending structure'.

These results leave the following open questions: does the fact that we cannot detect cross-national differences in the extent of cost containment measures mean that the differences in industrial relations and the role of the finance ministries in social policy processes do not play a role, or is it rather that we have to also differentiate these arguments according to programme-specific aspects? While we do know that fiscal commitment has been reduced in both countries, we do also not know how political change in those institutionally highly committed environments took place: what were the political strategies behind reductions and non-reductions of fiscal commitment, and why was commitment reduced on certain dimensions on not on others? Further, what implications did reforms have for budgetary control and spending in the short as well as long term?

The second part of this thesis will present a detailed analysis of the developments in the two countries, aiming to shed light on these questions. As the above results have stressed, the ongoing reform processes cannot be explained by purely applying a national perspective. The following analysis will therefore contrast the developments in France and Germany separately for the three insurance sectors.

Part II

5 Avoiding Commitment: Welfare Reforms in the Pension Sector

Despite their same aggregate commitment scores in 1990, the main first-pillar pension schemes in France and Germany make interesting cases for comparison as they differ with regard to the dimensions on which this commitment is based. While both schemes had a high score on the spending dimension, the French scheme was to a very large degree financed from contribution revenues which created a very high degree of fiscal commitment, while in Germany the score on this dimension was lower. In both countries, budgetary independence of the first-pillar pension schemes was restricted – in Germany to an even larger degree ('low') then in France ('medium'). But the main difference between the two cases lies on the administrative dimension: while in France, the independence of the administrators from state supervision and interference had only been medium high, it was very high in Germany. A further factor which makes the comparison of pension reforms in the two countries interesting is the fact that the compulsory, second-pillar pension schemes in France achieved an overall higher commitment score than the first-pillar schemes.

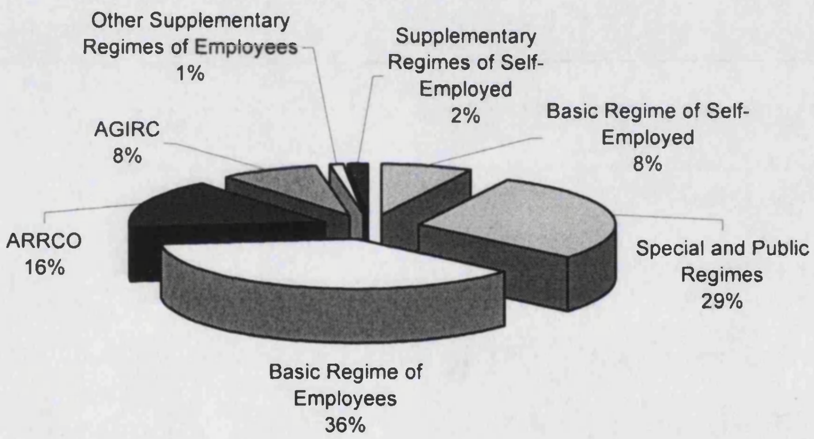
This chapter contrasts developments in the French and German pension insurance sector in the 15 years subsequent to the initial measurement of fiscal commitment in 1990. It answers the open questions noted in the previous chapter: To what extent did the differences in the overall commitment scores between the schemes, but also the differences on the individual dimensions, matter for reforms in times of fiscal pressures? What have been the predominant modes of change and what were the implications of reforms for the degrees of fiscal commitment on the different dimensions? And finally, what role did the social partners and the retrenchment advocates within government play in the reform processes, and is there evidence that the French governments focused more strongly on cost containment than the German ones? The analysis studies the reform processes along the four dimensions of fiscal commitment, which makes it possible to establish in what way the different elements constituting fiscal commitment have been affected by these reforms.

5.1 The Battle for Control: Pension Reforms in France

5.1.1 Administrative Independence

The overall structure of the French pension insurance sector, and with it the high degree of fragmentation, remained unaltered in the period between 1990 and 2005 (see Figure 5-1). The importance of the individual schemes – in terms of pension expenditure – did also not change considerably during this period. The basic scheme for salaried employees, the CNAV of the Régime Général, accounted for 36 percent of spending in 2004, which was a slight increase compared to 33 percent in 1997. In contrast, the two supplementary schemes ARRCO and AGIRC had to denote a slight reduction during the same period (from 27 to 24 percent of spending).

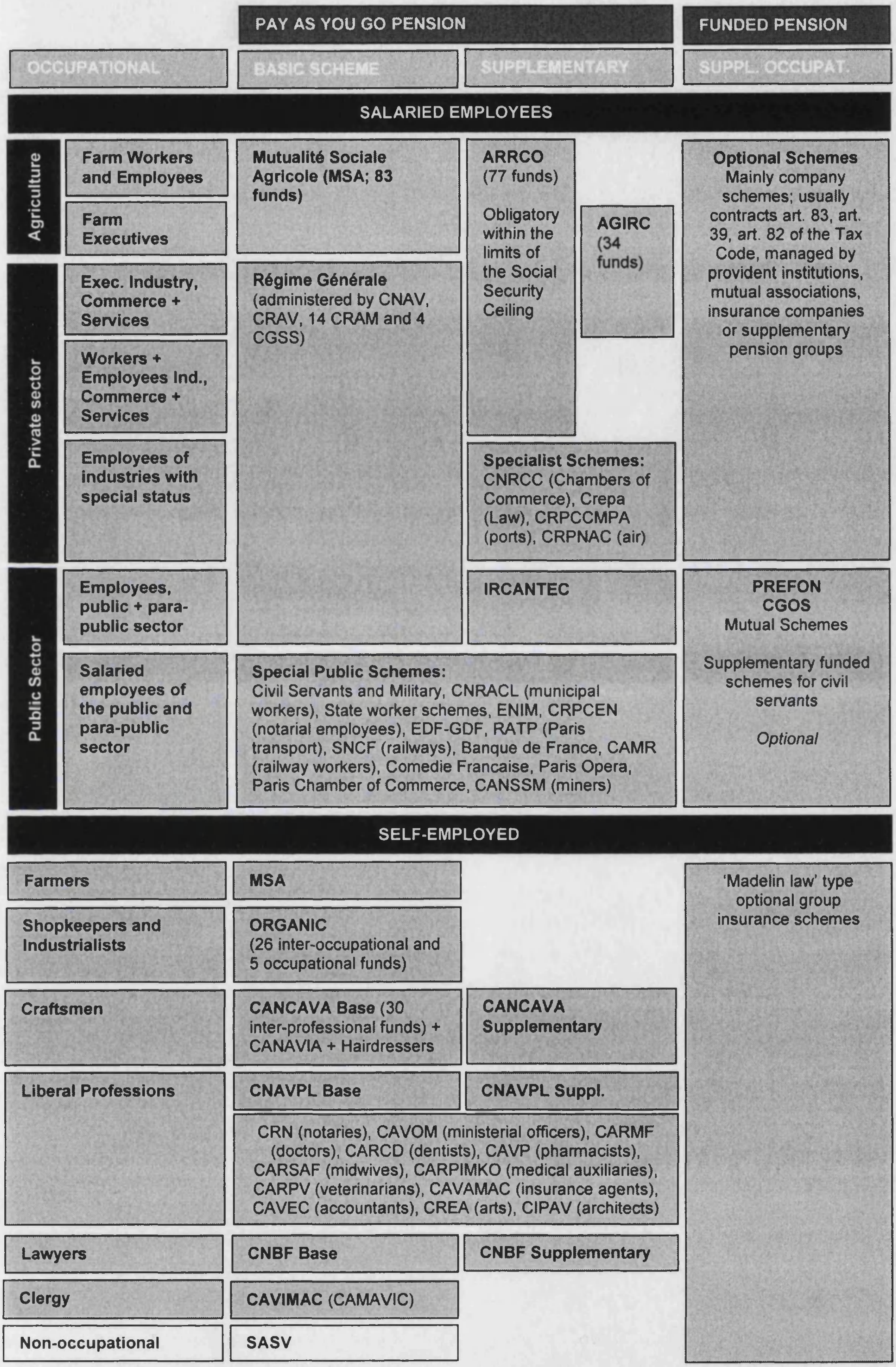
Graph 5-1 Share of Public Pension Expenditure 2003 by Scheme



Source: ARCCO

But while the general structure of the pension insurance system remained widely unaltered, important changes have been implemented affecting the governance structure of the first-pillar pension institutions. While employee representatives used to be in the majority in the administrative boards since 1982, this changed in 1996 within the framework of the so-called 'Juppé-reforms' named after the then prime minister.

Figure 5-1 Overview Pension Insurance System France 2005



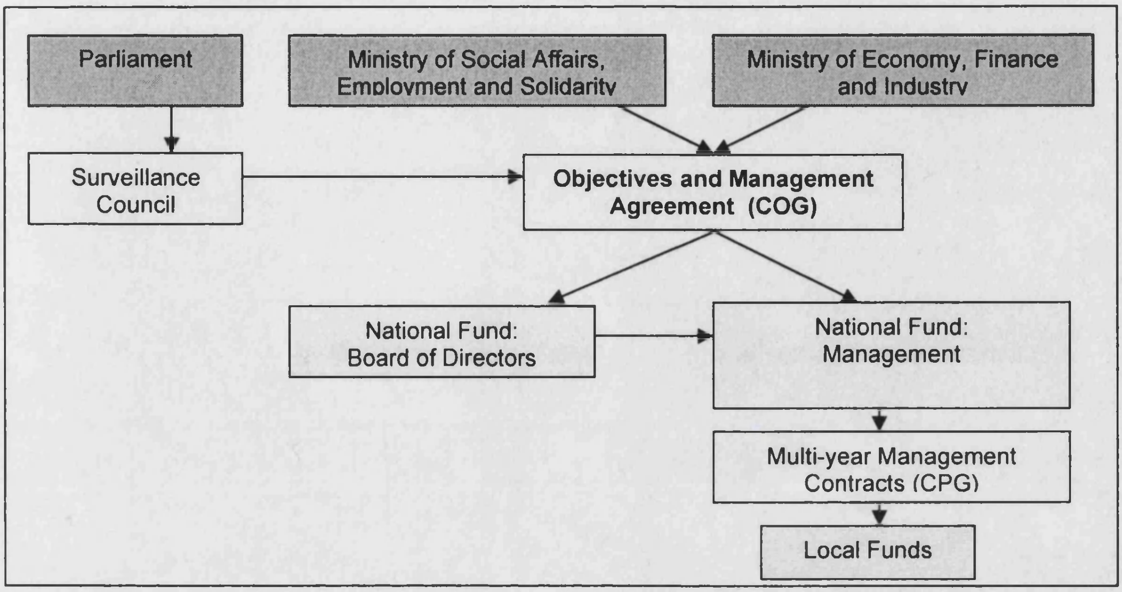
Source: Observatoire des Retraites; own adaptations

The government returned to the principles of 1967 by reintroducing parity between employers and employees on all levels. This move could be interpreted as an attempt to restrict the powers of the unions, which increasingly opposed the reform plans of the government. By strengthening the employer representation, pressures for cost containment within the insurance administration were also strengthened (Catrice-Lorey 1997; Damamme and Bruno 2000). Furthermore, the government increased its direct control powers in the administration of the social insurance institutions by changing the rules of appointment for board members – while prior to 1996 those were elected by the social partners, they were now appointed by the government itself.

Besides changes that directly increased governmental authority in the administrative institutions, the 1996 reforms also introduced an important new element of administrative and budgetary control over the social insurance institutions of the Régime Général, the so-called 'Objective and Management Agreement'. Since their introduction, the French insurance funds had not been politically accountable to parliament. This was changed through these '*Conventions d'Objectifs et de Gestion*' (COG), which were concluded between the relevant ministries and the national funds of the main schemes of the Sécurité Sociale.[43] These agreements formalised in a contractual form the delegation of public service administration and regulated the provision of funding, which was linked to efficiency indicators (see Soulie 1996; Marie 1997; OECD 2002).

[43] The COGs are signed for a duration of four years by the president and the director of the relevant fund and the supervising minister. They are then transformed in multi-annual management contracts (CPG) between the national and the local funds. A Surveillance Council, headed by a member of parliament, examines their implementation and reports to parliament.

Figure 5-2 The Objectives and Management Agreement Framework



The COGs were an attempt by the government to indirectly gain control over the usage of funds and to increase transparency, but the actual effect remained limited: while the surveillance council reported annually to parliament, its recommendations often remained without consequences (see Cour des Comptes 2004: 162ff.). Compared to the COGs, the direct appointment of board members by the government had a much stronger effect on increasing administrative control. Overall, the administrative independence of the CNAV was considerably reduced from a medium high to a low level during the analysed period (see Appendix I-1).

In contrast, the supplementary, second-pillar schemes ARRCO and AGIRC retained their very high degree of administrative independence during the same period. There were neither reforms nor reform attempts to challenge the exclusive administrative powers of the social partners in this pillar of pension insurance.

5.1.2 Budgetary Autonomy and Constraints

While reforms on the administrative dimension have remained limited since 1990, there have been wide-reaching reforms with regard to the budgetary framework of the French pension schemes.

5.1.2.1 Budgetary Independence: CNAV

The degree of formal budgetary autonomy of the first-pillar pension schemes did not change between 1990 and 2005: the budget of the CNAV was still formally separate from the state budget and not subject to the annual state budgeting process. But there have been changes regarding the authorities to determine the revenues for the schemes. On the one hand, the government lost powers to determine contribution rates via decree with the introduction of an annual Social Security Financing Law (see 4.1.2.2) in 1996. Since then, changes to contribution rates had to be decided upon by parliament. But on the other hand, there has been an important expansion of revenue-determining powers of the government: since 1990, an important phenomenon in social security financing was the widespread introduction of financing funds as administrative bodies of the state (see Appendix IV). Besides administrative funds within the national insurance schemes which provided revenues for the financing of specific insurance-external social tasks, the French government created specific funds for the purpose of channeling revenues – mainly stemming from taxes – from the state to the social insurance organisations, or between insurance schemes. Three of these funds – the *Fonds de Solidarité Vieillesse (FSV),* the *Fonds de Financement de la Reformes des Cotisations Patronales de Sécurité Sociale (FOREC)* and the *Fonds de Réserve des Retraites* (FRR) – had important implications for the degree of budgetary autonomy of the pension schemes (for details regarding the FRR see 5.1.3.1).

In the mid-1980s, a number of reports commissioned by the government had already warned of a serious financial crisis in the existing pension system if no major reforms were undertaken. Besides an increase of the retirement age, it was suggested to detach the provision of non-contributory benefits from the insurance system in order to improve the financial situation (see Bonoli 2000). In 1993, this resulted in the introduction of a Pension Solidarity Fund, the FSV, for the financing of these non-insurance-related expenditures. The FSV was a public institution with autonomous character regarding administration, budgeting, financing and accounting, but under the paternalism of the ministry responsible for social security and the finance ministry. As Bonoli (2000) argues, the fact that the distinction between social insurance and non-contributory provision had not been made organisationally, but merely financially via this tax-based fund, showed the recognition and acceptance by the government of the social partners' managing role in social insurance. But in practice, this 'recognition' of the role of the social partners was rather symbolic, as the government retained its powers to assign revenues to the FSV. In fact, the revenue sources for the FSV changed considerably over the years, which created pressures for various insurance schemes to adapt to the new financing regulations.[44]

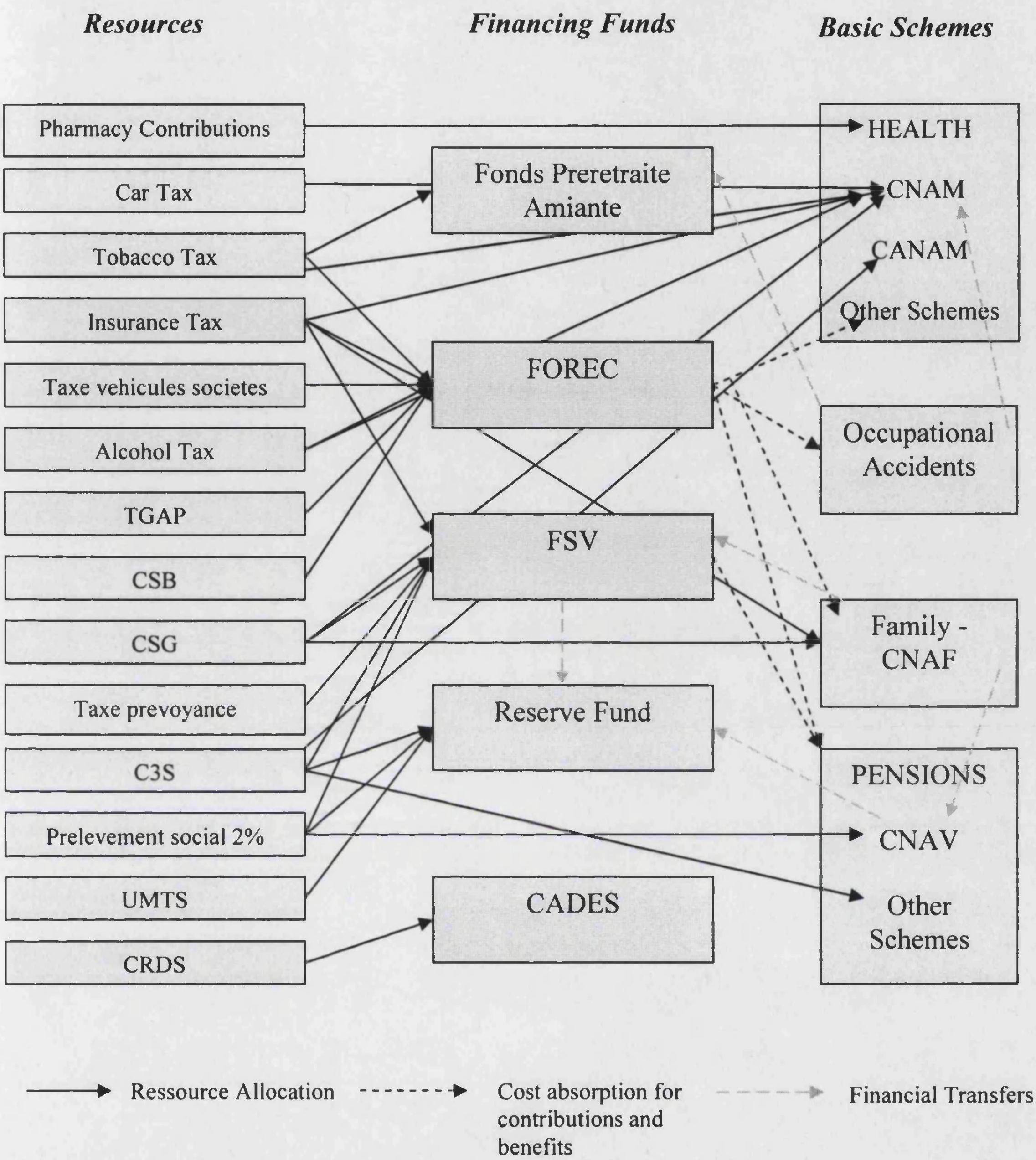
The same held true for the other fund with major implications for the pension insurance budgets, FOREC. Economic reforms at the end of the 1990s which were intended to boost employment – such as the introduction of the 35-hours-week – resulted in a loss of contribution payments for the social insurance schemes, for which they were, in theory, to be compensated by the state (Bode and Veil 2003: 39). Initial plans to finance these compensations by siphoning cash away from the budget of the UNEDIC (justified on the grounds that it would offset the financial gains for the unemployment insurance through the creation of employment) were abandoned after threats of MEDEF, the employers' confederation, to pull out of the management of the social insurance schemes. Instead, it was decided to finance the compensations for contribution losses via FOREC, a new fund established in 2000. It was financially dependent on the transfer of revenues from various regulatory taxes as well as from two new levies on the corporate sector.[45]

One major consequence of the introduction of these funds was that it gave the government a great deal of flexibility to reassign revenues from one scheme to the other, which further decreased the degree of budgetary independence of the schemes. While for the social insurance funds it made no difference whether the taxes assigned to them came directly from the state budget or from funds (as long as the amount remained the same), for the state the creation of the funds can be seen as a form of 'de-budgeting': they introduced a shield between the state and the social schemes and were supposed to increase the transparency regarding the usage of certain resources for social security spending (see Cour des Comptes 2001: 200). But the multiplication of various tax allocations to the funds as well as the increasing number of funds itself, who then in turn assigned their funds to various insurance schemes, made the budgetary allocation of resources increasingly complex (see Figure 5-3).

[44] From 1994 to 1999, the revenues of the solidarity section of the FSV were constituted of the revenue of 1.3 point of the CSG, the major part of the taxes on alcoholic drinks as well as the tax of 8% on complementary pension provisions. In the following years, the share of the GSC was gradually reduced to 1.03 points in 2005 and the other revenue sources were assigned to FOREC. As a compensation, various other revenues – mainly from the CNAF - were temporarily assigned to the FSV (see Cour des Comptes, various years).

[45] The social contribution on profits (CSB) and the general tax on polluting activities, which in 2001 was extended to include energy consumption.

Figure 5-3 Finance Flows of the French Social Security System in 2001



Source: Cour des Comptes, Rapport Assemblée Nationale sur le financement de la Sécurité Sociale pour 2001

With the creation of funds as intermediaries in the financing flow, the relationship between the state and the administrators of the social insurance schemes became increasingly hostile as both unions as well as employers were more and more opposed to budgetary interferences by the government. The extended possibilities to adapt the financing of the insurance schemes short-term via the funds gave the government much more budgetary control, which also reduced future fiscal commitment considerably.

The French executive also extended its influence regarding the determination of pension spending, which was growing strongly: while in 1990, public pension spending had equalled 11.1 percent of GDP, this increased to 12.1 percent in 2000 and was expected to reach a level of 15 percent in 2030 (see Natali 2004; OECD 2004a). As the majority of pension spending was based on entitlement legislation, the major decisionmaking power over spending determinants was in the hands of parliament. But the pension reform of 1993 made it possible for the government to fix the amount of indexation by decree – under previous legislation this decision had to go through parliament as well.

5.1.2.2 The Increase of Budgetary Constraints in the CNAV

Besides the decisionmaking power over budgetary determinants, the degree of fiscal constraints in the insurance schemes plays an important role in determining fiscal commitment. In 1990, these constraints had been limited for the first-pillar pension scheme of the Régime Général, but also in this respect we can observe important changes in the following years.

Budgetary Allocation Process, Enforced Fiscal Targets and Spending Monitoring

The extent of constraints resulting from the budgetary allocation process changed with the introduction of a new national budgetary approach in 1996. The formerly only marginal influence of parliament in the social budget process was significantly increased when the annual voting of a Social Security Financing Law (*Loi de Financement de la Sécurité Sociale: LFSS*) was introduced. Using a cap system, the law estimated the receipts of social security bodies for the year to come, and from 2005 onwards also included a long-term plan for the coming years. In connection with the LFSS, the French parliament now also set spending targets for the pensions sector in line with forecast revenues, and the implementation was then delegated to the CNAV within the COG framework (see 5.1.1).

But despite this new budgetary process, parliament still had little direct input: the National Assembly was not allowed to increase spending or decrease taxation in the government's draft (elaborated by the national insurance funds as well as finance ministry). Article 49.3 also gave the government a tool to pass the social budget without parliamentary consent if this was 'necessary to maintain the functioning of the schemes'. In addition, parliament had little ability to monitor budget developments. This changed however in 2001: the government now had to provide the National

Assembly more frequently with detailed information about the budget execution, and parliament could now also redesignate some spending among programmes (see Hallerberg 2004: 104ff).

Whereas before the government remained in the passive position of having to deal with social insurance deficits after they occurred, the new regulations were an attempt to impose budgetary limitations and in this way to follow a more preventive approach in budget allocation. Some author's saw this therefore as major step increasing government control over social security finances: "Instead of having to justify intervention in domains controlled by the social partners, governments can now regularly plan adaptation measures, especially cost containment ones" (Serré and Palier 2004: 109). But it seems that the real effect on fiscal commitment has not been very strong: due to the very restricted powers of parliament, the voting of the social security budget did not really have a constraining effect. It did however improve budget transparency and the reporting about the real financial situation of the insurance schemes. Another factor which decreased the overall importance of the LFSS was that, in contrast to the state budget, it had no associated balance because the range of expenditure programmes (obligatory schemes) and revenues (all of the schemes and funds that contribute to their financing) were not identical. As deficits therefore did not occur in the law, it did not contain measures to cope with those.[46] The overall effect of the attempt to restrain commitment via a tighter budgetary allocation process remained therefore very limited.

Deficit Coverage

After high deficits between 1990 to 1994, the financial situation of the first-pillar pension schemes gradually improved again and between 1999 and 2003 they had moderate positive results (see Graph 1-2). But from 2004 onwards, the schemes were in deficit again and it became increasingly clear that – if no further reforms were undertaken – the financial situation would further worsen drastically due to the demographic development which negatively affected the relationship between active contributors and recipients of benefits: calculations by the Conseil d'Orientation des Retraites (COR) in 2001 predicted deficits of nearly €47 bn for the CNAV alone in 2040, and up to €125 bn for all pension schemes together.

[46] The reform of 2005 changed this is slightly insofar as parliament now voted on the balance of the main sickness insurance schemes (OECD 2005a: 53), see Chapter 6.

Table 5-1 Development of Pension Scheme Balances 2000-2040 (in bn €)

	Technical Balance (contributions minus benefits)			Extended Balance (incl. administrative expenditure, compensations, subsidies, and other charges)		
	2000	**2020**	**2040**	**2000**	**2020**	**2040**
*CNAV H1**	1.5	-10.9	-39.7	-	-	-
CNAV H2	1.5	-15.2	-49.6	-	-	-
CNAV H1 + sal. agricoles	-	-	-	0.1	-11.1	-36.5
CNAV H2 + sal. agricoles	-	-	-	0.1	-15.5	-46.7
Salaries agricoles	-2.2	-2.7	-3.1			
AGIRC	0.3	-1.6	-3.8	-0.1	-1.9	-4.1
ARRCO	3.9	0.0	-13.2	2.9	-1.1	-14.2
IRCANTEC	0.2	-0.6	-2.0	0.2	-0.6	-2.1
Civil Service	0.0	-20.0	-36.8	0.0	-18.7	-35.2
CNARCL	2.7	-7.5	-20.5	-0.3	-9.3	-19.9
SNCF	-2.7	-2.7	-3.0	0.0	0.3	0.7
IEG	0,0	-1.7	-1.1	0.0	-1.6	-1.2
RATP	-0.4	-0.6	-0.7	0.0	-0.1	0.0
CANCAVA	-0.7	-1.2	-1.8	-0.2	0.3	0.1
CNAVPL	0.4	0.1	0.2	0.0	-0.1	0.0
Exploitants agricoles	-6.4	-4.6	-3.4	-0.2	-0.2	0.0
Other schemes	-5.6	-7.4	-8.0	-0.5	-1.8	-2.6
TOTAL H1	*-9*	*-61.4*	*-136.9*	*+1.9*	*-45.9*	*-115*
TOTAL H2	*-9*	*-65.7*	*-146.8*	*+1.9*	*-50.3*	*-125.2*

Source: COR 2001

* For the balance of CNAV, two hypothesis regarding the development of average pensions provided by the Régime Général have been applied. This uncertainty is based on the complexity in modelling the development of the pensions of the Régime Général, particularly in the transition period following the 1993 reforms.

As the regulations of deficit coverage for the CNAV were not changed, the financial responsibility for the scheme remained with the central state. In order to avoid the massive predicted liabilities in the future, the government took action in 1999 and established the Pension Reserve Fund FRR (*Fonds de Réserve pour les Retraites).* The FRR had the sole purpose of building up financial reserves for the future financing of pensions, which were supposed to be not available before 2020. The revenues of the FRR were, as in the case of the FSV and FOREC, not permanent and were mainly stemming from surpluses of the FSV and the CNAV. First administrated by the FSV, the FRR was transformed in 2001 in a separate public institution under the supervision of the state and administered by the Caisse des Dépôts (see FRR 2004). Although it was supposed to secure revenues for the pension insurance schemes, it was therefore not administered by the social partners.

Until the end of 2004, the FRR had accumulated €19 bn – but compared to the expenditure of the CNAV of 72.1 bn in 2003, this only created a reserve of 27 percent of spending in one year. The reserves were expected to rise to €152 bn in 2020 – half the deficits the pension schemes were expected to accumulate between 2020 and 2040.

Besides the fact that the collected funds were therefore unlikely to be sufficient to cover future deficits, the FRR was furthermore only destined to support the regimes CNAVTS, CANCAVA, ORGANIC and the Agricultural Schemes as well as to contribute to the redemption of the pension system for miners. But according to the COR predictions, nearly half of the deficits were to occur in the civil service scheme. Parallel to this insufficient funding strategy, the state even aggravated its future pension financing problem in shifting future fiscal responsibilities to the Régime Général in order to benefit from short-term fiscal gains. One example was the decision at the end of 2004 to entrust the FRR with the management of €3.1 bn resulting from a cash payment by the public electricity and gas companies to the CNAV. This payment was made for the transfer of outstanding pension liabilities for employees of these companies, as the EDF/GDF scheme was legally incorporated into the Régime Général. During the previous pension reforms, this special scheme had remained unaffected due to the powerful strike potential of its employees as demonstrated during the protests against the 1995 and 2003 pension reforms (see Agence France Press, 5 September 1995; Le Monde, 2 June 2003). But the privatisation of EDF/GDF in 2004 made the incorporation of the pension scheme into the Régime Général possible. The resulting big lump sum helped to reduce the deficit in the Régime Général in the short-term, so that this move could be categorised as a measure to maintaining spending commitment via the increase of revenues for the system. But the associated acquisition of future pension liabilities will lead to increased financial pressures in the medium and long term, which overall reduces fiscal commitment for the initial 'core' scheme of the Régime Général.

5.1.2.3 The Expansion of Budgetary Independence in the Supplementary Schemes

Budgetary Autonomy

The degree of budgetary autonomy had been extremely high for the two main second-pillar pension schemes ARRCO and AGIRC in 1990. Over the course of the following 15 years, no major changes occurred in this respect: the formal budgetary independence remained very high, with the social partners having not only full formal budget autonomy, but also decisionmaking power over revenues as well as wide-reaching spending autonomy. But also the supplementary schemes were never completely immune from state influence regarding their budgetary decisions, which became increasingly visible during the 1990s: already in 1983, the state had put pressure on the schemes to align themselves to the basic schemes which had lowered the retirement age to 60 years. The additional costs, to be financed by the newly established *Association pour la Structure Financière (ASF),* were only covered to one third by the state. This insufficient financial coverage resulted in a two percent contribution increase for the supplementary schemes.[47]

The financing of the early retirement regulations remained a contentious issue throughout the 1990s. A victory for the employers was achieved in 2001 when they tried to push through an increase of the necessary pension contribution time from 40 to 45 years for the receipt of a full pension, which was opposed by both the unions as well as the government. In order to strengthen their bargaining position, they threatened to stop paying contributions to the ASF. Although the government was generally opposed to this demand, it feared that it had to step in financially to secure the benefit payments in the case of MEDEF implementing its threat. Although the employers were not successful in achieving the increase of the retirement age in the end, they were successful in pushing through a different financing mechanism for the ASF: unions and employers agreed to harmonise AGIRC and ARRCO in December 2002 and created the "*Association pour la Gestion du Fonds de Financement*" (AGFF). Formerly financed by contributions collected by the unemployment insurance agency, it was now managed by AGIRC and ARRCO and financed by a slightly increased contribution rate. Through this move the supplementary schemes further expanded their budgetary autonomy and financial self-determination powers.

Budgetary Constraints

The downside of the fact that the two supplementary schemes enjoyed revenue autonomy was that they did not dispose of any other financing sources than the social contributions of their members and their employers: this meant that the social partners had to realise a permanent equilibrium between the paid pensions and the received contributions, which created strong pressures to contain spending. In the years after 1990, the scheme's own responsibility for deficits led to necessary adaptations both on the revenue as well as spending side (see 5.1.3 and 5.1.4). Besides this, there have been no further changes regarding fiscal constraints: due to their very high degree of administrative and budgetary independence, the supplementary pension schemes were not included in the annual Social Security Financing Law, which meant that they were

[47] For more information see http://www.observatoire-retraites.org/observatoire/rubriques/dossiers/Dossiers_ay/financement.htm

still beyond parliamentary control. Also internally, there have been no changes affecting the extent of budgetary constraints.

5.1.3 Revenue Structure

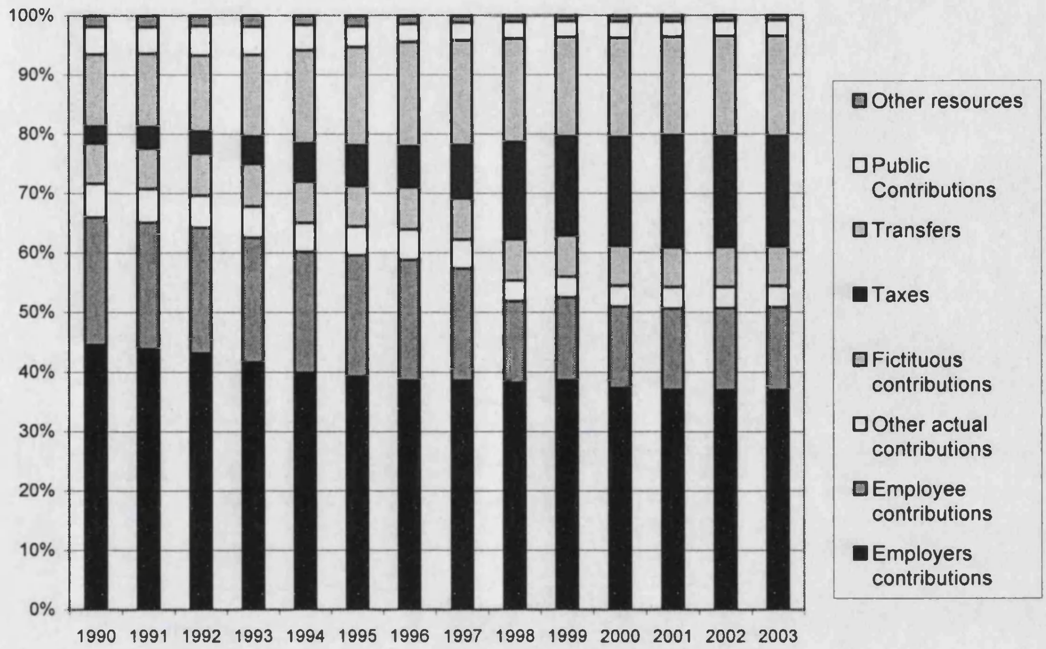
5.1.3.1 The Impact of Increasing Tax and Fund Financing of the CNAV

Due to the increasing complexity of the financing mechanisms of the French social insurance schemes after 1990 – accentuated by the multiplication of transfers between the schemes, various contribution exemptions compensated by the state and the establishment of new revenue sources – it is very difficult to analyse the exact structure of revenues of the different insurance schemes (Cour des Comptes 1995: 53). The continuous changes in the procedures of budgetary allocations even pushed the French Auditors Court to its analytical limits:

> "The complexity of the financial relationship between the state and social security is the most obvious sign of both the mess one has arrived at and of the necessity of reform: the criss-cross of financial flows, the debts and other dues that need to be recovered as a result of this, the heterogeneous invoicing rules of services rendered by the state to social security and of social security to the state, the existence of disparate and multiple vocational funds financed in a diverse fashion that vary from year to year, the existence of 'separate' structures, that are neither the state nor social security but that play a big role like the CADES – all of this renders the situation incomprehensible" (Cour des Comptes 2001: 197; author's own translation).

The following graph illustrates the considerable changes in the revenue structure of social insurance financing that took place in France between 1990 and 2003: taking all social insurance together, the share of actual contributions paid by employees and employers decreased from 78 to 61 percent in this period. This was balanced by a sharp increase in tax-financing from 3 to 18 percent, as well as an increase in transfer payments (from 12 to 17 percent).

Graph 5-2 Resource Structure Social Insurance Schemes France



Source: DREES, Comptes de la Protection Sociale

Also the revenue structure of the CNAV as the most important first-pillar pension scheme changed considerably during this period:

Table 5-2 Revenue Sources CNAV 1991 and 2004

	1991	%	2004	%
Social Contributions	35624	***88.52***	52670	***70.13***
Public Contributions*	384	***0.96***	5849	***7.79***
Taxes	387	0.96	272	0.36
Transfers**	2656	***6.60***	15631	***20.81***
State Subsidy	1176	2.92	7	0.01
Other	15	0.04	674	0.90
TOTAL	40243	100.00	75103	100.00

Source: Cour des Comptes 1992; Commission des Comptes 2005; own calculations
* Contains former FOREC payments now again taken over directly by the state budget
** Contains FSV payments

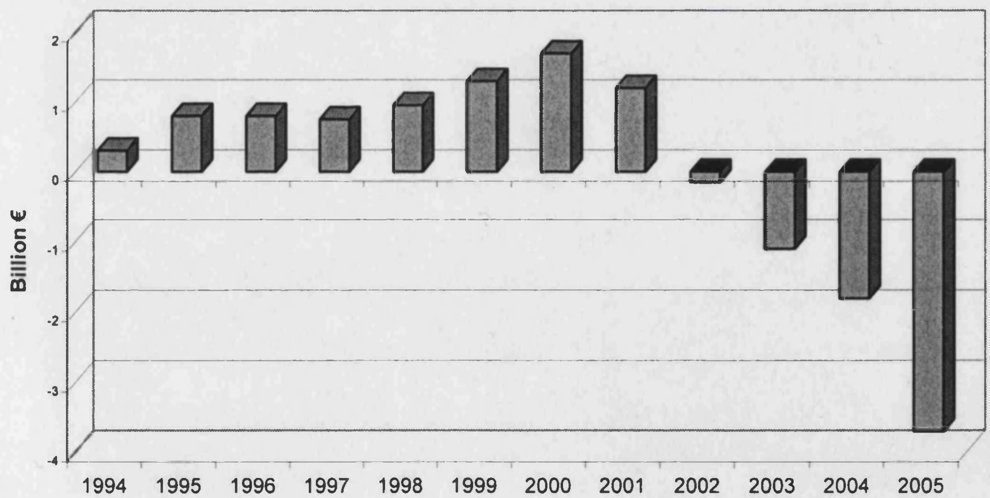
In 2004, the share of contribution financing in the pension insurance scheme of the Régime Général had sunk from 88.5 percent in 1991 to just over 70 percent. The remainder was mainly borne by FOREC (6.42 percent) and the other big share stemmed from the FSV (15.04 percent).[48] Of the direct taxes which were assigned to the social insurance schemes (CSG, CRDS, Prélèvement Sociale, tobacco and alcohol tax), only 15 percent went to the pension insurance directly, while the remainder was transferred via the different financing funds (CADES, FSV and FOREC). In the future, the tax-

[48] The FSV finances the means-tested 'Minimum Vieillesse' and covers the pension increases for pensioners with dependent children and spouses, as well as - on a flat-rate basis - the costs of validating certain times as contributory.

financed reserve fund FRR will further increase the share of non-contribution revenues in the pension sector.

The increase of tax-financing had the effect that parliament gained control over the social budget as it voted on tax rates and the modes of tax collection. But as outlined above, most taxes were not directly assigned to the social insurance carriers, but were channelled to them via financing funds. This fund-financing drastically decreased the revenue stability for the insurance schemes, as financing sources and payments were continuously adapted. Many unions, but also the employer representatives, criticised what they perceived as a 'robbing-Peter-to-pay-Paul attitude' by the government with regard to social security financing, particularly the channelling of the CSG from one fund to another every year (see Volovitch 2001). The Auditors Court also repeatedly criticised the great instability of revenue sources for particular funds as well as the great complexity of financing flows (see Cour des Comptes 2001: 201). Furthermore, conflicts erupted between the social insurance funds and the state about the responsibility for deficits of the FSV (see Graph 5-3) and FOREC, which occurred not long after their establishment.

Graph 5-3 Accumulated Financial Balance FSV 1994-2005



Source: FSV

This conflict about responsibilities was partly a consequence of the lack of reciprocity between state and social insurance accounts.[49] Another reason was that funds had continuously been channelled away from the FSV for other policy purposes (one of them the financing of FOREC), which resulted in fierce opposition of the social partners. The French employer representatives MEDEF drew their consequences of the – as they saw it – 'hollow tripartism' in 1999: a proposal for 'selective disengagement' was passed by 95 percent of the business representatives' assembly (see Woll 2005). The explicit goal since then has been the reorganisation of social relations with the unions, which the employers wanted to draw to their side in their battle against government interference in the social insurance budgets. The conflict escalated when at the end of 2000, a deficit of €1.6 bn by FOREC resulted in a major dispute between the government and the social partners about the responsibility for the rising deficit – although the task to ensure a strict equilibrium had been assigned to the government when the fund was established with the Social Security Financing Law in 2000. Jean-Francois Mattei, the French health minister, criticised Sécurité Sociale for the lack of transparency in its accounts and held the service responsible for the public deficit because it has falsified the figures of FOREC. The social partners, in turn, criticised the government for using funds which should have been assigned to the Régime Général and FSV to finance its economic policy: from 2000-2002, the revenues diverted from these institutions and instead channelled to FOREC amounted to €4.5 bn.[50] In 2001, the conflict about the financing escalated when the debts the fund owed to the Sécurité Sociale – now amounting to €2.5 bn – were written off via decree by the Jospin government. The employers accused the government for using the social security fund as a 'cash cow', thereby evading responsibility for the cost of its social initiatives (see Financial Times, 21 June 2001).

Since the beginning of the 1990s, French business leaders had increasingly criticised their role in the social insurance schemes as mere 'window-dressing' for state decisions it did not support (see Ebbinghaus 2002a; Woll 2005), but this was the first time that the employer representatives formally decided to draw consequences: in September 2001, MEDEF implemented its threat in not nominating candidates for the insurance administration and withdrew from the boards of the health and pension insurance funds

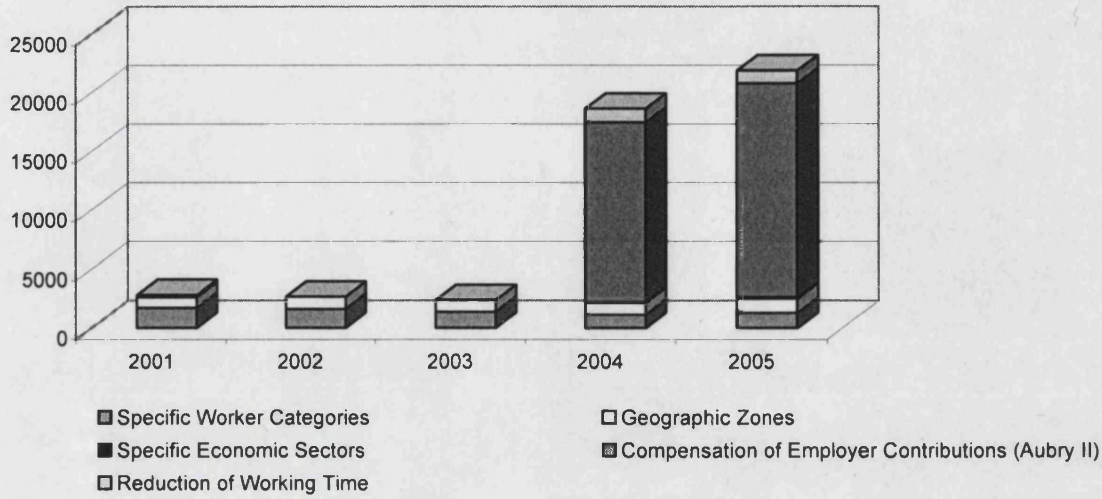
[49] According to the accrual accounting rules applied the accounts of both the state as well as of the social insurance organizations had to include all mutual receivables or debts, but this reciprocity was not always the case. One example was that the state accounts did not include the 100 bn debt of the FSV vis-à-vis the state, which evolved due to the take-over of the ACOSS debts (Cour des Comptes 1995: 23).
[50] La Tribune, 10 July 2002.

(ACOSS). Also some of the unions (CFDT and CFTC) had initially threatened to leave the administration as well, but in the end remained. Parallel with announcing its withdrawal, MEDEF presented a paper with the conditions for taking up new talks with the government: main points were the demands for a transparent budgeting, as well as a clarification of the relationships between the government and the social partners in running the Secu. MEDEF's president Ernest-Antoine Seilliere seized the occasion to call for a complete overhaul of the whole French social system, saying it was time for business and unions to draw up a new 'social contract' with much less state intervention: "We have denounced parity, as collective agreements have been denounced (by the government)".[51]

In December 2001, the Constitutional Council ruled in favour of employers and unions and against the government in deciding that the financing regulations of the 35-hour-week were unconstitutional (along with various other regulations, which had burdened the pension insurance with €5 bn). It also reminded the government of the constitutional guarantee for a financially balanced social insurance system which had been introduced in 1996. The government tried to downplay the meaning of the verdict, saying that the FOREC financing issue was merely a 'technical' and 'accounting' question.[52] In 2004, the conflict was finally resolved in favour of the social partners. FOREC was abolished and the exemptions were now directly compensated by the state. State contributions to the basic social insurance schemes for this purpose increased from €13.9 bn in 2003 to €30.9 bn – an increase of 122 percent (CCSS 2005). Besides this, CADES partially reimbursed the insurance funds in 2004 for the non-paid debts of the state from 2000 (€1.1 bn). This resulted in a major increase of revenues received by ACOSS, which outstripped forecasts by far and enabled a balancing of the basic insurance accounts.

[51] Agence France Presse, 18 January 2000.
[52] Agence France Presse, 18 January 2000.

Graph 5-4 Exemptions Compensated by the State by Category 2001-2005 (Régime Général, in million €)



Source: CCSS 2005

All these developments in the financing of first-pillar pensions taken together have considerably reduced fiscal commitment. This is firstly due to the fact that the first-pillar pension schemes have become increasingly dependent from taxes and financial transfers from the central state. In particular the increasing financing of the pension schemes via funds strongly reduced fiscal commitment: attempts to increase transparency between contributory and non-contributory benefits (FSV), or to clearly earmark state compensations for the insurance funds (FOREC), have – due to the use of the funds for various other purposes – led to even more complex financial relationships. This resulted in strong conflicts between social partners and the government.

In the case of the FSV, the separation of non-contributory and contributory benefits has also not been conducive to the maintenance of commitment. This had only been the case if this financial separation between non-contributory and contributory provision had gone along with an institutional separation. But the mere financial separation had wider implications for the power distribution between the government and the social partners: the government gained more influence due to a higher dependency of the schemes from tax revenues. Furthermore, the insecurity of the funds' resources strongly decreased the degree of fiscal commitment within the social insurance schemes. As the development of FSV financing since its creation in 1993 has shown, the fiscal commitment for the government has been very low, as it was still able to redistribute funds according to its political priorities every year. In reassigning revenues away from the FSV for other purposes, the government tried to shift the burden of its economic policies to the social insurance schemes. This strongly weakened the commitment factor as the social insurance organisations had to again carry a higher burden of financing benefits not resulting from contribution payments.

A similar logic also holds true for the case of FOREC: created as an institutional commitment to the compensation of contribution exemptions, the opaque regulations of deficit coverage and the unstable and complex assignments of various revenues allowed the government to 'opt out' of this commitment, which resulted in a high financial burden for the social insurance schemes. This accordingly resulted in a lowering of the commitment factor, as the loss of contribution revenues was not sufficiently replaced by other revenues. But in the end, this attempt by the government to break commitments via the reduction of the independent financial basis of the insurance programmes failed due to the resistance of the social partners: the conflict about FOREC in the end resulted in the sustainment of existing commitments via increased state subsidies. Also the Pension Reserve Fund FRR brought along a reduction in the degree of institutional commitment towards social insurance funding: Although initially 'sold' by the Jospin government as an instrument to strengthen the pay-as-you-go system, the introduction of the FRR was by many seen as a first step towards the setting of a retirement savings plan based on capitalisation. The direct administration of the fund by the state without inclusion of the social partners meant that in the longer term, these would lose control over a major share of their schemes' revenues. While contributing to the financing of insurance-based contributions on the one hand, the fund's creation therefore also meant the reduction of fiscal commitment in the future.

5.1.3.2 The Increase of Financial Transfers

Another revenue source which gained increasing importance after 1990 were transfer payments between different insurance carriers. Changes regarding the transfer regulations were common and a popular way of indirectly changing the fiscal situation of schemes. A high dependence from transfer revenues generally lowers the degree of fiscal commitment, as they represent a volatile source of revenues. But also a high degree of transfer payments by schemes reduces fiscal commitment, as revenues which have been earmarked for a certain insurance institution are channelled away from the initial insurance purpose.

Table 5-3 Transfer Payments between Social Security Schemes 1991 and 2005

	1991 (m €)	% of total transfers	2005 (m €)	% of total transfers	Change (% points)
EMLOYEE SCHEMES					
Contributing Schemes					
- Régime Général	5 341	*53.1*	7374	*59.2*	*+6.1*
- Fonctionnaires civils	2 305	*22.9*	2140	*17.2*	*-5.7*
- CNRACL	1 729	*17.2*	2622	*21.0*	*+3.9*
- EGF/IEG	137	*1.4*	116	*0.9*	*-0.4*
- Banque de France	27	*0.3*	17	*0.1*	*-0.1*
- RATP	22	*0.2*	27	*0.2*	*-0.0*
- Clercs de notaires (CRPCEN)	9	*0.1*	-5	*0.01*	*-0.1*
Benefiting Schemes					
- Mines (CANSSM)	-1623	*-16.1*	-2180	*-17.5*	*-1.4*
- Salariés agricoles	-1 638	*-16.3*	-2220	*-17.8*	*-1.5*
- SNCF	-1 018	*-10.1*	-1066	*-8.6*	*+1.6*
- Fonctionnaires militaires	-541	*-5.4*	-305	*-2.4*	*+2.9*
- Marins (ENIM)	-209	*-2.1*	-391	*-3.1*	*-1.1*
- Ouvriers de l'Etat (FSPOEIE)	0	*0.0*	-159	*0.0*	*-0.0*
- CAMR	-64	*-0.6*	-32	*-0.3*	*+0.4*
- SEITA	-18	*-0.2*	-22	*-0.2*	*-0.0*
NON-EMPLOYEE SCHEMES					
Contributing Schemes					
- CANAM	225	*2.2*	973	*7.8*	*+5.6*
- CNAVPL	255	*2.5*	350	*2.8*	*+0.3*
- CNBF	16	*0.2*	57	*0.5*	*+0.3*
Benefiting Schemes					
- BAPSA	-3883	*-38.6*	-5690	*-45.6*	*-7.1*
- ORGANIC	-652	*-6.5*	-960	*-7.7*	*-1.2*
- CANCAVA	-169	*-1.7*	-472	*-3.8*	*-2.1*
- CAMIVAC	-154	*-1.5*	-176	*-1.4*	*+0.1*
TOTAL TRANSFERS	**10 066**	**100%**	**13733**	**100%**	-

Source: Comptes de la Sécurité Sociale 1995; own calculations

Note: negative signs indicate that the scheme is overall receiver of transfer payments; positive signs show that the scheme is overall contributor of transfers.

The transfer mechanisms have become very important on the aggregate level, but as can be seen in Table 5-7, mainly determine the equilibrium of certain schemes depending on whether they are receivers of these transfers or make obligatory payments (see Cour des Comptes 1995: 53). In general, the complex transfer system between the different insurance schemes has, due to its high importance for the balancing of the accounts of a large number of schemes, not been reformed – despite continuing criticism by the Auditors Court. Regarding the amounts paid and received by the different schemes, the majority of payments came from the Régime Général, while the balancing mechanisms generally benefited the majority of other schemes. This led to a much higher deficit for the Régime Général than it would have been the case without the transfer mechanisms (see Cour des Comptes 2004: 9). The negative effects of the transfers for the Régime Général and therefore for the CNAV increased even further after 1990, as the central state made use of the system to reduce its own subsidy payments. One major example is the pension fund of the agricultural scheme (MSA), which had been accounted for in the separate budget BAPSA. As Table 5-4 shows, the sources of the high share of external financing in this scheme changed considerably between 1994 and 2003:

Table 5-4 Development of Financing Structure of BAPSA 1994-2003 (in %)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Occupational Financing	17.2	14.9	15.5	17.1	17.5	18.0	17.7	17.3	16.5	16.1
- Contributions	16.5	14.6	15.4	17.1	17.5	18.0	17.7	17.3	16.5	16.1
- Taxes	0.7	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External Financing	82.8	85.1	84.5	82.9	82.5	82.0	82.3	82.7	83.5	83.9
- Public Subsidies	57.5	50.3	45.4	45.7	45.9	43.4	42.6	43.9	41.1	42.5
- State Intervention (1)	(33.3)	(17.9)	(12.4)	(12.6)	(12.6)	(8.7)	(6.4)	(7.6)	(3.2)	(4.4)
- Taxes and Charges	(24.2)	(32.4)	(33.0)	(33.1)	(33.1)	(34.7)	(36.2)	(36.3)	(37.9)	(38.1)
- Régime Général Allow.	25.3	34.8	39.1	37.2	36.6	38.6	39.7	38.8	42.4	41.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) State interventions comprise: the balancing subsidy of the state, the reimbursement by the state for the allocation for handicapped and the allowances of FSV and FSI.

Source: MSA 2005

While the public subsidies were reduced from 57.5 percent in 1994 to 42.5 percent in 2003, this was compensated by an increase in allowances from the Régime Général (from 25.3 to 41.4 percent). Besides this, the scheme's deficit had been balanced each year with a state subsidy. This was not the case any longer from 2004 onwards, when BAPSA was replaced by FFIPSA (*Fonds de financement des prestations sociales des non salaries agricoles*), a financing fund detached from the state budget. Effectively, the burden of deficit coverage was entirely shifted to the Régime Général with this reform: the Social Security Financing Law 2004 specified that the CNAF had to pay a contribution to the fund 'corresponding to the difference between the benefits paid out to the beneficiaries and the contributions recovered' in order to guarantee the financial equilibrium. This resulted in a reduction of state subsidies by 7.4 percent in 2004 compared to 2003 (see CCSS 2005). The structural deficit of FFIPSA in was expected to amount to €1.6 bn in 2005, which was supposed to be nearly fully covered by transfers from the CNAV as part of the inter-regime transfers. This resulted in strong protests from the management of the pension scheme, which demanded a modification of the inter-regime compensation mechanism.[53]

A similar shift of fiscal commitment from the state to the Régime Général also occurred with the reform of the French Military Pension Scheme (CNMSS). The coverage of the charges of the CNMSS had originally been ensured by state contributions and by the contributions from military personnel. As this financing mode did not allow to balance

[53] See http://www.web-agri.fr/Outils/Fiches/FichesDetail.asp?idRub=202&id=21928

the budget any longer from 1974 onwards, the CNMSS benefited since then from inter-regime compensations of the Régime Général. In 1997, the scheme was financially integrated into the Régime Générale, which eliminated the inconveniences of compensations and ensured a permanently balanced budget.

Overall this meant that instead of reforming the generous and financially unsustainable special schemes, the French governments did not break those spending commitments but instead shifted the responsibility at the expenses of the contributors to the Régime Général. This in turn represents a breaking of commitment in those pension schemes, in particular for the CNAV, which had to shoulder the main additional burden.

5.1.3.3 Supplementary Schemes

In 1990, the revenues of both AGIRC and ARRCO derived to 81.7 percent from contributions and to 18.3 percent from transfers (mainly from ASF, see 5.1.2.3). In order to cope with rising expenditures at the beginning of the 1990s, the social partners administering the schemes decided to react mainly via resource increases and the contribution rates for the schemes were successively raised from 1993 onwards.[54] But the developments of the revenue structures in the following years differed for the two schemes. In 2004/05, contributions from the insured accounted for only 77 percent of AGIRC revenues, while ARRCO was still financed to 87 percent by contributions (see AGIRC and ARRCO 2004). The reason for this difference was the extension of the financial transfer mechanism to the supplementary schemes in 1996. This was done to partially compensate the consequences of the social security contribution ceiling (which increases the contribution assessment basis of the ARRCO, but reduces the one of the AGIRC as the contributors of the latter usually earn wages below the ceiling). In 1999, the ARRCO contributed to the financial equilibrium of the AGIRC with €350 million.

Furthermore, the conflicts about the financing of early retirement compensations for ARRCO and AGIRC led to changes in the financing mechanisms of the supplementary schemes. The replacement of the ASF with the AGFF (see 5.1.3.1), financed via a contribution of 2 percent on wages, did not only affect the financing mechanism of early retirement benefits: the AGFF also contributed to the financing of AGIRC deficits (in

[54] In 1993, the minimum contribution was increased (progressively from 8% in 1993 to 16% in 2003) and the 'applied contribution rate' was raised from 117% to 121% from January 1994, and to 125% in January 1995.

2004: €650 m), which reduced the transfer payments from ARRCO (€682 m).[55] These changes in the revenue structure represented a considerable strengthening of the commitment factor, as now those people who paid for the benefits also profited from them. The creation of AGFF reduced financial interdependencies between the unemployment and supplementary pension insurance schemes, and also increased the overall revenues for the system and in this way maintained commitment.

5.1.4 Spending Structure

In 1990, the first-pillar pension schemes in France had a high degree of fiscal commitment with regard to both spending eligibility and reciprocity, which means there has been a strong relationship between contribution records and the receipt as well as the amount of benefits. The same has been the case for the supplementary schemes. What has been the development regarding the reciprocity between contribution payments and benefits in the successive 15 years?

5.1.4.1 The Breaking of Eligibility-Commitments in the Régime Général

The regulations of benefit provision in the main first-pillar pension scheme CNAV have been subject to considerable changes in the period between 1990 and 2005. One element of these changes has been a tightening of eligibility criteria, as the necessary contribution time for the receipt of benefits was considerably extended. Since the 1993 reform of the pension insurance schemes for employees in the private sector, 40 contribution years instead of 37.5 were necessary in order to receive a full pension. This had a direct impact on the generosity of pensions, as it led to either an increase in the effective age of retirement or a decrease in the amount of pension benefits received. As this change did not only affect future insured but a large share of current scheme members, this was a case of commitment-breaking. After Juppé failed in 1995 to implement a similar reform also in the generous public pension schemes due to massive public strike action, the French government decided finally in August 2003 – after weeks of parliamentary debate and strong union protests – to align the generous public schemes with those of the Régime Général. The law foresaw an increase of the standard retirement age in both the private and public sector from 60 to 65 years and an extension of the contribution period in all schemes (see Appendix III). The reform furthermore introduced financial disincentives to early retirement and bonus payments in the case of

[55] See http://www.observatoire-retraites.org/observatoire/rubriques/dossiers/solidaritearrcoagirc/solidarite.htm

late retirement, as well as further restrictions of eligibility in the private sector schemes via the introduction of a minimum contribution time. These changes are a further case of commitment-breaking, but they also restrict the development of future commitments due to the delayed retirement age which is a case of commitment-avoiding. Commitment was also reduced due to the extending of non-contribution times which account for pension eligibility, such as the accounting of parental leave and certain periods of unemployment (see Appendix I-4.1).

5.1.4.2 Tightened Reciprocity in the Régime Général

With the 1993 reform, the reciprocity between contribution record and future pension entitlements in the Régime Général was tightened considerably. While in 1990, pension payments amounted to 50 percent of the average wage during the 10 best years, this was progressively increased to the 25 best years in 2008 which resulted in a reduction of the replacement rate. The benefit inequality between minimum and maximum pension payments remained equal, which means that while the internal reciprocity of the benefit provision – that is, the status-maintaining element – has been maintained, external reciprocity has been reduced as overall pension levels were falling. For insured affected by these changes these measures represented a breaking of previous commitments made to them regarding future pension levels, while for future generations of insured the development of commitments was restricted.

Another element of external reciprocity, establishing the link between the value of contribution payments and future benefits in real terms, has also been tackled: by modifying the regulations regarding the value of pension points, the government had an important tool available to influence the level of future pensions. The 1993 reform implemented an indexation of pensions of the Régime Général according to prices, and not longer according to gross salaries – extending the implicit practice applied since 1987.

Table 5-5 Evaluation of Net Amounts of Principal Pension Benefits in %

	Régime général	*Cancava Organic*	*ARRCO*	*AGIRC*	*Suppl. Cancava*	*Civil Servants*
1991	-1.4	-1.5	-0.6	-0.2	0.1	-2.3
1992	-0.2	-0.2	1.0	0.4	0.9	0.2
1993	-0.5	-0.6	-0.8	-0.1	0.0	0.0
1994	-0.3	-0.4	-1.9	-2.3	-0.8	-1.2
1995	-0.3	-0.3	-0.8	-1.7	-0.6	0.8
1996	-1.4	-0.2	-1.9	-2.2	-0.2	-1.4
1997	-1.3	-0.1	-1.9	-2.0	-0.7	-1.6
1998	0.4	0.0	0.4	-0.7	-3.2	0.5
1999	0.7	0.7	0.5	-0.1	-0.3	0.6
2000	-1.2	-1.2	-0.9	-1.7	-0.7	-0.8
2001	0.5	0.5	0.0	0.1	0.2	-0.7
2002	0.3	0.3	-0.2	-0.1	-0.7	-0.6
2003	-0.6	-0.6	-0.5	-0.5	-1.8	-1.3
2004	-0.4	-0.4	-0.4	-0.4	-2.1	-0.6
Average 1991-2004	***-0.41***	***-0.29***	***-0.57***	***-0.82***	***-0.71***	***-0.60***

Source: DREES Les retraites en 2001/2003

The impact of all these changes on future pension expenditure was considerable: projections by the CNAV indicated that without the 1993 changes the increase of contribution rates to finance the scheme would have been around 5 percentage points higher (see Ruellan 1993: 921). The same is true for the effect on future pension levels: particularly the extension of the reference period used for the calculation of benefits had a considerably decreasing effect on future pensions, particularly for high wage earners (see Table 5-6).

Table 5-6 Development of Replacement Rates 2000-2040

Beneficiaries	**2000**	**2020**	**2040**
Employee, private sector, average non-executive salary	84%	71%	67%
Executive employee, private sector, average executive salary	75%	62%	58%
Executive employee, private sector, increasing salary level from one to two ceilings	56%	50%	47%
Civil Servant with salary increase of 6%	78%	78%	78%
Civil Servant with salary increase of 36%	60%	60%	60%

Source: COR 2003, p. 30
Note: rates for beneficiaries with complete careers, with social contribution and CSG rates unchanged

But besides changing indexation rules, the French government also made considerable use of a less visible way of retrenching benefits: it increased the social charges which had to be paid on them. In 1990, only health insurance contributions of around 2 percent had to be paid on wage replacement benefits, but with the introduction of the CSG and CRDS the charges increased to 7.1 percent in January 2005. These changes had and will have a considerable impact on the level of pension payments and therefore on spending commitment. Taking the changes in indexation and the increase of social charges together, this "retrenchment through gradual erosion" (Mandin and Palier 2002: 34) has resulted in a reduction of the net amount of pensions for all schemes.

The implication of the 2003 reform, which aligned public employee schemes with the Régime Général, was that for the first time civil servants no longer enjoyed a defined level of security, i.e., a certain wage replacement rate, through their first-pillar pensions. There remained, however, a number of exceptions as some public sector schemes continued to be more generous, such as those for employees of the national railways, the electric and gas company (EDF-GDF) and Parisian public transport (OECD 2005: 46). This shows that the high degree of fragmentation in the pension sector indeed hindered widespread commitment-breaking over all public schemes.

In order to maintain an equal level of replacement of old age income, funded pension schemes have been developed further in order to compensate for the declining replacement rate through the basic pension schemes.[56] In 2000, about 46 percent of French households owned one of the private pension programmes against an average level of around 31 percent in 1990 (see Natali 2004). This growth of the third pillar of pension insurance – although still quite moderate and not compulsory – can be seen as a first step of commitment-avoiding by shifting the insurance of social risks into the private sector.

5.1.4.3 Falling Pension Levels in the Supplementary Schemes

In contrast to the first-pillar pension schemes, changes in the second-pillar schemes have remained limited. Eligibility remained strongly connected to former contribution payments and the generosity of benefits continued to be based on the number of pension points earned multiplied by the value of those points. This means that the very high degree of internal reciprocity has been maintained, as has the high degree of fiscal commitment resulting from it. But also in the case of both AGIRC and ARRCO, the overall level of pensions was reduced after 1990. In the 1994 agreement between the

[56] In 1997, the Juppé government failed with an attempt to encourage non-obligatory private savings schemes for private sector employees as the new Jospin Government blocked the implementation of the law. In February 2001, the so-called 'Fabius law' introduced so-called *'Plans Partenariaux d'Épargne Salariale' (PPESV)*, which were employee pension saving schemes financially supported by employers and the state. But as these pension funds were only targeted at special categories of employees and self-employed people, the foundations for a genuine 'third pillar' of pension funding were not implemented before 2003 with the 'Fillon Law' which set up two retirement savings schemes (see Annex III).

social partners, pension point values were frozen as a result of financial difficulties which, for the first time, led to a reduction of pensions over time. This was accompanied by the introduction of price-based indexation of future pension levels. In the following years, annual pension adaptations were also often below those of other pension schemes (see Table 5-7).

Between January 1993 and 1996 – a period of severe financial difficulties – there were no benefit increases at all in order to deal with the financial crisis. ARRCO in contrast, which benefited from a more favourable contribution-benefit ratio, increased pensions more strongly. This shows the effect of strong budgetary constraints due to the absence of deficit coverage by the state: in order to achieve balanced accounts, benefits levels were reduced. This is also confirmed by the fact that we can observe the highest overall adaptation of benefits in CANCAVA – a fragmented special scheme, which benefits highly from transfers from other schemes (see Table 5-7).

Table 5-7 Revalorisation of the principal pension benefits in %

Date	*Régime Général (1)*	*ARRCO (2)*	*AGIRC*	*Fonction Publique*	*CANCAVA*
01/01/1990		2,.45	2.35	0.50	2.20
01/04/1990				1.20	
01/07/1990	1.30	2.85			2.50
01/12/1990				1.30	
01/01/1991	1.70	1.70	4.11		2.10
01/07/1991	0.80	1.05			1.90
01/08/1991				0.50	
01/11/1991				1.00	
01/01/1992	1.00	2.22	2.89		1.60
01/02/1992				1.30	
01/07/1992	1.80	1.53			1.70
01/10/1992				1.40	
01/01/1993	1.30		2.72		1.30
01/02/1993				1.80	
01/04/1993		1.60			
01/04/1993		1.60			1.20
01/01/1994	2.00			0.70	0.90
01/08/1994				0.50	
01/12/1994				1.10	
01/01/1995	1.20				1.17
01/03/1995				1.20	
01/04/1995		1.20			
01/07/1995	0.50				
01/11/1995				1.40	
01/01/1996	2.00	1.50	1.50		1.79
01/07/1996					0.85
01/01/1997	1.20		0.50		
01/03/1997				0.50	
01/04/1997		0.80			1.53
01/10/1997				0.50	
01/01/1998	1.10				
01/04/1998		1.20		0.80	
01/11/1998				0.50	
01/01/1999	1.20		0.40		
01/04/1999		0.90		0.50	0.29
01/12/1999				0.80	
01/01/2000	0.50				
01/04/2000		0.80			1.19
01/12/2000				0.50	
01/01/2001	2.20				
01/04/2001		1.90	2.30		2.00
01/05/2001				0.50	
01/11/2001				0.70	
01/01/2002	2.20				
01/03/2002				0.60	
01/04/2002		1.60	1.60		0.90
01/12/2002				0.70	
01/01/2003	1.50				
01/04/2003		1.60	1.60		
01/01/2004	170			1.50	1.70
01/04/2004		1.80	1.80		
TOTAL 1990-2004	**25.20**	**25.85**	**21.77**	**22.00**	**26.82**

(1) And aligned schemes
(2) UNIRS points before 1 January 1999, ARRCO points thereafter
Source: DREES: Les retraites en 2001; Les retraites en 2002; Les retraites en 2003

Similar to the first-pillar scheme, a further reduction of future pensions was implemented in the supplementary schemes: in 1993, the minimum contribution rate and the so-called 'applied contribution rate' were progressively increased. The distinction between a '*taux contractuel*' and a '*taux appelé*' had the important consequence that the difference in the contribution amount between 'contractual' and 'applied' rate did not create entitlements. As the social partners had to realise a permanent equilibrium between the paid pensions and the received contributions, the increase of the *taux appelé* was a way of increasing revenues without increasing future financial liabilities. Despite higher charges for the contributors, the number of pension points gained remained the same: 16 percent of contributions to AGIRC represented in reality 20 percent, 6 percent of contributions to ARRCO 7.5 percent. This represented de facto retrenchment of pensions, as entitlements were only gained on the 100 percent, and was a way to avoid commitments.

Conclusions

As the analysis of reform developments in the French pension insurance sector has shown, fiscal commitment in the first-pillar scheme has been reduced from an overall score of 14 in 1990 to a score of 11 in 2005. Particularly on the administrative and budgetary dimensions, but also with regard to the financing structure, the social partners lost the battle for control with the government, which considerably increased its administrative and budgetary competencies in the scheme. This stands in sharp contrast to the developments in the second-pillar schemes, which retained their very high degree of fiscal commitment on all four dimensions. The second part of this chapter analyses the developments in this respect in the German pension sector.

5.2 Still For Certain? Pension Reforms in Germany

5.2.1 Administrative Independence

The overall structure of the German pension insurance sector has remained stable between 1990 and 2005: by far the largest share of pension spending was paid out by the Statutory Pension Insurance GKV, while special schemes for certain occupational groups played a much more marginal role than in the French case. Compared with the second and third pillars of pension provision we can however observe an increasing importance of private pension insurance (see Table 5-8).

Table 5-8 Expenditure for Old-Age Provisions by Institution 1991 and 2003

Institution	Amount (bn €)		% of Pension Spending		Change in % points
	1991	2003	1991	2003	1991-2003
Statutory Pension Insurance (GRV)	133.3	238.5	68.1%	65.1%	-3.0
Blue Collar Employees	68.6	115.2	35.1%	31.5%	-3.6
White Collar Employees	54.6	108.8	27.9%	29.7%	+1.8
Miners, Rail, Sea Insurance	10.2	14.5	5.2%	4.0%	-1.2
Farmers Pension Insurance	2.5	3.3	1.3%	0.9%	-0.4
Civil Service Pensions	23.2	35.8	11.8%	9.8%	-2.0
Suppl. Scheme for Public Employees	6.0	8.7	3.0%	2.4%	-0.6
Funds of Professional Associations	2.1	2.6	1.1%	0.7%	-0.3
Occupational Pensions	10.8	16.1	5.5%	4.4%	-1.1
Private Life Insurance	17.9	64.3	9.1%	17.6%	+8.5
TOTAL	195.7	366.1	100%	100%	+/-0

Sources: Own calculations based on data from Sozialbudget 2003, Gesamtverband der Deutschen Versicherungswirtschaft; ABV, VDR Rechnungsergebnisse 2004

The traditional set-up of self-administration in the German GRV with its dichotomy between white and blue collar employees had remained untouched for decades. But as a consequence of an ongoing quantitative shift towards white collar employment (see Table 5-8), a major organisational reform was enacted in 2005. The white-collar insurance carrier BfA and the blue-collar carrier VDR merged to '*Deutsche Rentenversicherung Bund*' (German Pension Insurance Federation), which reduced the number of carriers on the federal level from five to three (as also miners, rail and sea insurance schemes merged).[57] Besides improving management and co-ordination between the different carriers, the reform was supposed to reduce administrative costs and increase financial transparency.

For the DRV Bund, a new self-governance structure was created which incorporated a shift of authority from the self-administration committees towards the professional administrators of the schemes: all binding decisions of the federal pension insurance regarding basic or horizontal questions now needed the approval of an Extended Board of Directors, which was constituted by five directors from the regional carriers, the board of directors of the Federal Pension Insurance and one director of the Miners-Rail-Sea insurance. While the Federation of Germany Employers (BDA) approved of the change, the German Union Federation (DGB) claimed that the new regulation represented the factual abolition of the autonomous decisionmaking competency of the self-administration (see DGB 2004b). But the de facto interference in the self-

[57] The omission of the independent legal regulations for the three insurance branches had already taken place in 1991.

administration authority of the social partners was indeed limited: while the administrative committees did lose authority towards the board of directors, this did not mean an increase of state involvement in decisionmaking as it were still the social partners who elected this board. Despite the changes in the governance structure, the degree of administrative independence was therefore overall maintained.

5.2.2 Budgetary Autonomy and Constraints

5.2.2.1 Budgetary Autonomy

Between 1990 and 2005 no changes were made to the formal degree of budgetary autonomy of the GKV, and also the organisational reform in 2005 maintained the budgetary independence of the individual insurance carriers. Changes regarding benefit legislation as well as the provision of revenues and subsidies in the public pension schemes had to be decided in parliament. While the government was able to lower the contribution rate via degree (with approval of the *Bundesrat*), the law prescribed that the government had to propose a sufficient increase of the rate in case the reserve fell below the legally defined amount. But although this regulation was supposed to commit the government to increase revenues via contribution rates if the fiscal situation made this necessary, this did not have an impact on the political practice. At the beginning of the 1990s, unpopular contribution increases were avoided by shifting funds from the unemployment into the pension insurance (see Trampusch 2003). The pension reform 1992 tackled the problem of effectively committing the legislator to provide sufficient revenues in introducing a self-regulating mechanism of contribution rate, federal subsidy and pension adaptation: the contribution rate was now to be set on a level which ensured that contribution revenues and federal subsidy covered expenditures and that a monthly reserve was maintained. T he federal subsidy now also followed the development of gross wages and additionally changes in the contribution rate.

As outlined in the statement of the government, this automatic adaptation regulation was intended to make short-term political interventions of the legislator more difficult (BTDrs 11/4124; cf. Gössl 1992: 27, see also Aust et al. 2002). "There was and is no longer room for policy deliberation and public discussions about the tasks and aims of public pension policy" (Lamping and Rüb 2004: 177). But parallel to those changes which were intended to stabilise the revenue provision to the GRV and therefore increase the degree of fiscal commitment towards pension spending, the introduction of additional subsidies again increased the leverage of the government to de- or increase revenues for the pension schemes. The government made repeatedly use of this scope and changed the calculations of the additional subsidies several times (see 5.2.2.2).

The legal regulation that all relevant parameters determining pension spending were determined by law or decree did not change since 1990. But despite the external determination of the most important spending parameters, pension carriers were free to set up their budgets (particularly in terms of administrative and personnel expenditures). In line with the organisational reform of the GKV in 2005, the government made an attempt to decrease this budgetary independence. According to the initial reform plans, the budgets of the pension insurance carriers were supposed to be generally subject to approval by the ministries of social affairs and finance – something which formerly only existed for the miners insurance and the unemployment insurance due to their regulations of automatic deficit coverage by the state. After strong protests from *both* unions and employers (see Deutscher Bundestag 2004a), the plans were withdrawn again. But while the unions had mainly stressed the resulting restrictions to the self-administration and feared that it would create intense pressures for cutbacks, the BDA rejected them because of fears that the new regulations would stand in the way of possible cost reductions (BDA 2004; DGB 2004b). The common resistance of the social partners therefore had very different motivations, as they anticipated different consequences of the proposed changes for the degree of fiscal pressures for the schemes. But in the end, they were successful together in defending their budgetary autonomy.

5.2.2.2 Budgetary Constraints

The overall allocation approach in the social budget remained unaltered after 1990 – a large share of social spending enjoyed a high degree of independence from the government budget, and the social ministers bargained with the finance minister about the allocation of supplementary tax funds to the insurance schemes. But despite this formal stability, von Hagen and Strauch find indications of 'institutional deterioration' (2001: 27) in the German budgetary process: increasingly, decisions about how to cope with financial pressures were taken in the chancellery and in so-called 'round tables', in which the finance minister was not present. This loss of finance minister influence in decisionmaking processes meant that overall pressures to contain spending should have also been reduced. But what has been the specific development regarding the extent of budgetary constraints in the pension sector?

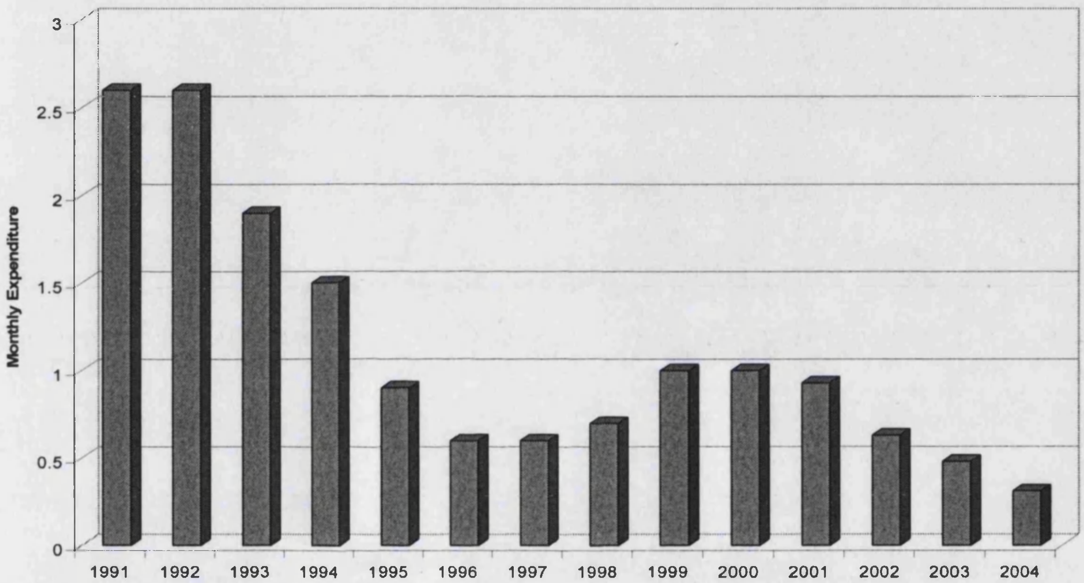
In 1990, fiscal constraints in the GRV had been very low due to the absence of direct finance ministry influence on allocative decisions, as well as only limited possibilities to implement expenditure targets due to mandatory spending legislation. This did not change in the successive 15 years. But there have been changes to one important element in this respect, which are the regulations of deficit coverage. In order to cope with short-term fiscal deficits, the carriers of the GRV were in 1990 legally obliged to hold a financial reserve of one month's expenditure (the so-called 'fluctuation reserve'). In the case that the liquid assets of this financial reserve were not sufficient to cover the financial obligations, the federal government had to provide financial assistance (§1384 RVO). But the law did not specify whether this financial help had to be provided in form of non-refundable subsidies or in the form of (interest-free) credits.

With the Pension Reform Act 1992, the regulations regarding the 'federal guarantee' were changed. In case the GRV carriers were unable to fulfill their obligations, the federal state only provided interest-free loans. These loans were to be paid back as soon as the fiscal situation of the pension insurance improved (§ 214, SGB VI). This meant that the federal government now only intervened in order to overcome acute illiquidity, but did not longer cover financial deficits. In a further attempt to reduce its responsibilities to cover deficits, the Kohl government attempted in 1991 to integrate the miners insurance – the deficits of which were automatically covered by the federal state (§215 SGB VI) – into the GRV. This would have had the side-effect that its deficit would now have to be covered by the other GRV carriers. If this would result in an overall illiquidity of the pension carriers, the central state – due to the reform of the 'federal guarantee' – would only be liable to provide temporary interest-free credits. After strong union protests, this measure was withdrawn.

Facing fiscal pressure but having no incentives to pursue unpopular spending cuts, both the Kohl and the Schröder governments pursued a strategy of making use of all available resources within the pension insurance budgets. This resulted in an 'attack' on the fluctuation reserve in order to make more funds available short-term, which started in 1997 with the regulation that also illiquid assets were taken into account for the reaching of the reserve requirement. In 2001, the minimum reserve was reduced from

1.0 monthly expenditures to 0.8. This allowed the pension contribution rate to be maintained at 19.1 percent, which otherwise would have risen by 0.3 percentage points (Genzke 2003). But as also this target could not be met, the required reserve amount was reduced to half a monthly expenditure at the end of 2003. In the following year, the reserve was further reduced from 0.5 to 0.2 monthly expenditures and successively relabelled 'sustainability reserve'. This name change can be interpreted as an indirect acknowledgement that the reserve at this level was unlikely to be effective in dealing with changing financial circumstances.

Graph 5-5 Fluctuation Reserve Statutory Pension Insurance (ArV + AnV)



Source: VDR Rechnungsergebnisse 2004

As Graph 5-5 shows, the reserve fell from 2.6 monthly expenditures in 1991 to just 0.31 in 2004. The strong reduction meant that the pension insurance became more vulnerable to short-term fluctuations in revenues, and was from 2003 onwards in acute danger of illiquidity. In fact this situation already occurred at the end of 2005: in the last three months of the fiscal year, the GRV was unable to fulfill its financial obligations and therefore needed – for the first time in 20 years – an advance payment from the federal subsidy. Due to the high amount of the outstanding funds, the finance minister also had to grant – for the first time ever in history – an interest-free loan in November, amounting to €900 million. This shows that the gradual reduction of the internal deficit coverage mechanisms drastically reduced the capacity of the insurance carriers to deal with financial pressures independently from the state, which not only increased fiscal constraints but also the likelihood of state interference. This reduction of budgetary autonomy also represented a considerable reduction of fiscal commitment towards pension spending.

5.2.3 Revenue Structure

Between 1990 and 2005, the revenue structure of the social insurance schemes in Germany was gradually – but considerably - transformed. Unification in 1990 created a major financial challenge for the social funds, as political union meant that East Germans joined the pension and unemployment insurance schemes with eligibility based on their former employment records (Nullmeier 1992; Czada 1998; Alber 2000). This was less a problem for the Statutory Health Insurance, which established separate funds for East Germany, but created a great financial challenge for the insurance schemes with nation-wide budgets. This was the case for the GRV, which had to cope with millions of new pensioners while receiving only limited social contributions. As only a minor part of this additional expenditure was covered by federal funds, the main burden had to be shouldered by the social insurance schemes themselves.

5.2.3.1 Commitment-Sustaining via Revenue Increases

The decision of the Kohl government against unpopular tax increases in order to finance the integration of East German pensioners in the GRV resulted in rapidly increasing contribution rates (see Appendix III). According to estimates of the BMAS, the West-East-Transfer of the pension and unemployment insurance during 1992 and 1993 caused an increase of the contribution rate by three percentage points (BMAS 1994: 16).[58] Due to growing disparities between revenues and expenditure also in the following years, contribution rates continued to increase (from 17.7 percent in 1991 to 19.5 percent in 2005), and with it increased contribution payments as a share of total tax revenues (from 37 percent in 1990 to 45 percent in 2004).[59]

Besides this, attempts by the federal government to increase revenues did also focus on broadening the circle of contributors. During the mid-1990s, the possibilities to become exempt from insurance duty were restricted.[60] With the *Short-Time Employment Reform Act* in 1999, employees working limited hours and earning up to a certain threshold

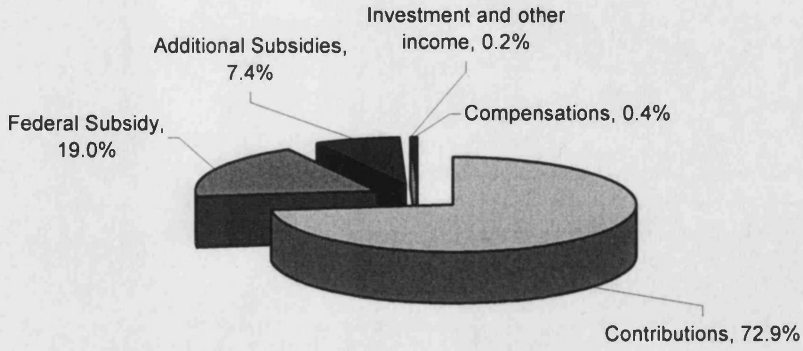
[58] For estimations of unification-related costs for the GRV see also Schmähl 1994; Hinrichs 1994: Aust et al. 2002.
[59] Source: Statistisches Bundesamt.
[60] This was the case for members of insurance schemes of a professional organisation (1995), as well as for students with more than a marginal employment (1996).

(€315 per month), which were formerly exempt from insurance, were now also obliged to pay social contributions, as were their employers (see Appendix II-5). In the same year, compulsory insurance was also extended to 'employee-similar' self-employed, which were now considered normal employees and were therefore subject to the general contribution regulations. Furthermore, the government increased the contribution assessment ceiling faster than the development of average gross earnings, which meant that less people were exempt from insurance duty in the health insurance and that pension contributions had to be paid on a higher share of earnings (which increased revenues for the pension insurance at the time, but in turn created more future entitlements).

5.2.3.2 The Increase of Federal Subsidies

All these revenue-increasing measures were however not sufficient to keep up with expenditure growth. As one of the few points that the social partners could usually agree on during the increasingly conflictual decisionmaking processes since the 1990s was the demand for more state subsidies (see Richter 2001), the structure of pension insurance financing shifted further and further towards a dependency from federal state funds (see Graph 5-6). In 2004, the pension insurance subsidy was the biggest single expenditure item in the federal government budget, amounting to €61.4 bn (which was 24 percent of the total federal budget). The first major reform of the *General Federal Subsidy* was – despite the approval of the ministry of finance – implemented in 1992. Since then, the subsidy was no longer only adjusted according to gross wage developments, but additionally also according to changes in contribution rates in the previous year (which means that the subsidy increased if contribution rate increases were necessary). This meant a one-time increase in the size of the grant followed by its stabilisation at the level of about 20 per cent of overall pension spending (see Lamping and Rüb 2004).

Graph 5-6 Revenues Statutory Pension Insurance 2004



Source: RV Bund

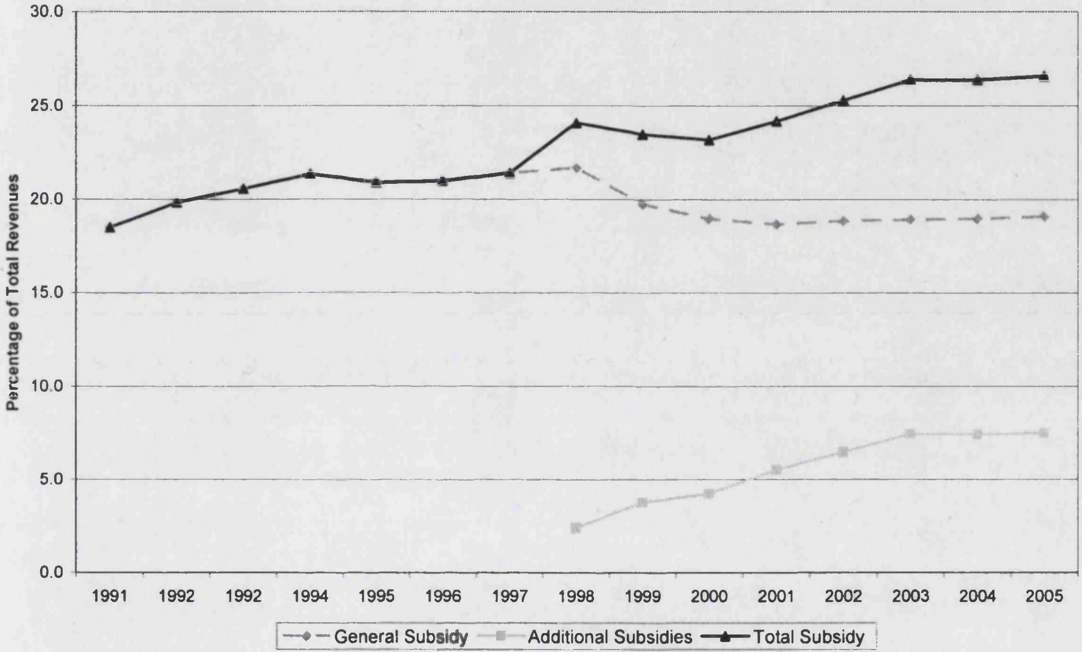
Besides this, an *additional subsidy* was paid from April 1998 onwards.[61] This was intended to stabilise the contribution rate of the pension insurance in line with the overall attempt to reduce non-wage labour costs. The additional subsidy was not subject to the adjustment regulations of the general federal subsidy, but was paid – following demands by the social partners – for the lump-sum coverage of a share of the insurance-external provisions. It was financed by an increase of VAT by one percentage point. But it is important to note that the calculation procedure of this additional subsidy led to a smaller amount than it initially seemed, as provisions which were in any case compensated by the state to the pension insurance carriers were taken into consideration.[62] Furthermore, the subsidy was reduced from 2000 onwards by a fixed annual amount (see §213 SGB VI). This meant that additional revenue from the increase of the VAT flowed into the general budget, and not exclusively into the pension insurance – the public justification for the tax increase. This should have been in the interest of finance minister Hans Eichel, whose predecessor Theo Waigel had initially been against an increase of VAT for the financing of the additional subsidy (see SZ, 13 May 1996).

[61] The additional subsidy did not lead to a reduction of the general subsidy as in the calculation of the general subsidy a hypothetical contribution rate - which would have existed without the additional federal subsidy – was applied (see Genzke 2003).

[62] This was partly changed with regard to child-related compensations, which were from 1999 onwards additionally compensated, but remained the case for other expenses.

With the introduction of the 'Eco-Tax' in 1999, the additional subsidy was further increased as a part of this new tax revenue was earmarked for the pension insurance. Without these Eco-Tax revenues, which between 1999 and 2004 amounted to €69.9 bn, the pension contribution rate would have been 1.7 percentage points higher (see Deutscher Bundestag 2005). As Graph 5-7 shows, the increase of the additional subsidy therefore more than compensated for the slight reduction of the general subsidy. In total, the federal budget foresaw €58.8 bn subsidies for the pension insurance in 2005, which represented a share of 27.5 percent of total pension expenditure.

Graph 5-7 Federal Subsidies in the Statutory Pension Insurance 1991-2005



Source: VDR Rechnungsergebnisse 2006

It is important to note that the earmarking of revenues from the Eco-Tax for pension insurance purposes was abolished shortly afterwards.[63] In contrast to the amount fixed in the initial law, the increase of the additional federal subsidy was reduced for the years 2001 until 2003. Further it was decided that the assignment of funds was to be disconnected from the development of the tax revenues. Instead, the indexation of the increased amount was changed to the development of gross wages from 2004 onwards. This made it now possible to channel further increases of the tax directly into the state budget, instead of to the GRV.[64] The justification by the ministry of finance for this

[63] Through the 'Diminished Earnings Capacity Pensions Reform Act ' decided at the end of 2000.

[64] Introduced with the 'Act for the Further Development of the Ecological Tax Reform' in December 2002.

manoeuvre was that the amounts which were now flowing directly into the general state budget would still benefit the pension insurance indirectly, as they created 'budgetary scope to absorb increasing financial burdens of the federal budget for the pension insurance'.[65] This shows again that while overall the share of tax-financing stemming from the federal government budget increased, and with it the liabilities for the government, the finance ministers usually found ways to design the technicalities of the subsidy provisions in a way which not only gave them leverage in changing those regulations subsequently, but also allowed the discrete rechannelling of funds into the government budget.

5.2.3.3 The Increase of Transfers

Another important element of the GRV revenue structure is the extent of transfers received or paid by the scheme as those increase the volatility of the revenue basis and therefore the degree of fiscal commitment. Since the foundation of the GRV at the end of the 19th century, the finances of the individual spending carriers have been strongly interlinked: besides an equalisation process between the different insurance carriers for blue-collar employees ('*Gemeinlastverfahren*', § 287 f SGB VI), there was also an equalisation process between the insurance carriers for blue-collar employees (LVAs) and the pension insurance scheme of white-collar employees (BfA) (§§ 218, 219 SGB VI). They were liable to pay funds to each other in case the liquid funds of one insurance carrier fell below half a monthly expenditure of the former year, which was the case in the blue-collar insurance from 1992 onwards. With the Pension Transition Act 1992, a further equalisation process between the Miners Insurance (KnRV) and those of the white and blue collar employees ('*Wanderversicherungsausgleich*', § 223 SGB V) was introduced which compensated the KnRV for its declining number of insured.

[65] Source: http://www.bundesfinanzministerium.de/lang_de/DE/Service/Downloads/Abt__IV/061,templateId=raw,property=publicationFile.pdf

Table 5-9 Importance of Transfer Revenues 1991 and 2004

Insurance Schemes	% of Total Revenues 1991	% of Total Revenues 2004	Change (% points)
Miners Insurance (KnRV)	21.8%	45.7%	+23.9
White Collar Insurance (AnV)	0.1%	0.1%	+/-0
Blue Collar Insurance (ArV)	4.6%	5.3%	+0.3

Source: Own calculations based on data from VDR Rechnungsergebnisse 2005

This basically represented a subsidy of the Miners Insurance through the two main pension funds (see Table 5-9) and a shift of the financial burden from the state to the GRV, which was heavily criticised by the unions who demanded the tax-financing of the KnRV deficits.[66] Due to the rapidly declining number of insured, it was expected that in 2008 the equalisation payment would be three times the amount of the contribution revenues in the miners scheme (see Deutscher Bundestag 2004b). This channelling away of funds particularly from the BfA represented therefore a major case of commitment-breaking towards the insured of this insurance carrier.

5.2.3.4 The Increase of Interdependencies with Other Insurance Sectors

Besides those internal financial interlinkages, the pension insurance had also various financial connections with insurance carriers in other social sectors. A good example of how the so-called '*Verschiebebahnhof*' in the German social insurance sectors is practiced shows the repeated reform of contribution payments by social insurance carriers for their beneficiaries: for beneficiaries of sick pay as well as unemployment benefits, it were the carriers of those benefits which paid pension contributions to the GRV. [67] With the 1992 Pension reform, it was introduced that these pension contributions were in the future paid on the basis of 80 percent of the former gross wage of the beneficiaries, and not longer on basis of their current benefits. As this share was usually higher than the benefits received, this increased pension contributions paid by the sickness pay and unemployment insurance carriers to the GRV.

While this reform benefited the pension insurance at the expense of social insurance carriers, the subsequent changes had the opposite effect: in 1996, the assessment base for unemployment assistance was reduced due to the crediting of additional income in the calculation process. This also reduced pension contribution payments for unemployment assistance beneficiaries and with it the federal expenditure by €300 million – and resulted in revenue losses for the pension insurance. In 1999, the Red-

[66] Source: http://www.n24.de/wirtschaft/hintergrund/index.php/n2005041209331600002
[67] Carriers were the health insurance institutions and insured half/half, the Federal Employment Agency or the federal state.

Green government cut back the contribution payments even further for unemployment assistance recipients.[68] With the Hartz Reform in 2002, the contribution payments were again reduced: pension contributions were now detached from the replacement benefit and a fixed amount of €400 was paid.

But the continuing reduction of pension contribution payments for unemployment benefit recipients was only one example of a series of measures which had a negative effect on pension insurance revenues: in 1991, the increase in the unemployment contribution rate from 4.3 to 6.8 percent was counter-financed through a reduction of the pension contribution rate by one percentage point. This resulted in a financial relief for the BA amounting to €20.5 bn in 1991 and 1992, while it meant a reduction of revenues in the pension insurance of nearly €10 bn (BR-Drks. 12/56: 3; cf. Trampusch 2003: 39). In 1996 – a year in which the deficit of the BA was again calculated to be very high, which would have meant high federal subsidies to cover this deficit – the eligibility conditions for the former old-age pension because of unemployment were changed so that they were now also fulfilled through employment in partial retirement for at least 24 months after the age of 55. This represented a shifting of costs from the unemployment to the pension insurance, as older unemployed could now take up a pension more easily, which reduced spending of the BA and connectedly the necessary federal subsidy.

But as the financial situation of the pension insurance carriers worsened and further contribution rate increases seemed inevitable at the end of the 1990s, the focus shifted from burdening the pension insurance to lowering its expenditure at the expenses of other insurance institutions. In 2000, the *Diminished Earning Capacity Pensions Reform Act* introduced changes which aimed at distributing the cost for employment-related pensions more equally between unemployment and pension insurance. The reason was that 'labour-market related' diminished earning capacity pensions shifted unemployed with little or no chances of re-employment into the pension insurance, which disburdened the BA at the expenses of the GRV. A financial equalisation process between BA and GRV was introduced, in which the BA compensated the pension insurance for half of the expenses for these pensions for the average time period during which the person would have been eligible for unemployment benefits. This partial

[68] It was since then calculated based on 80% of replacement benefits. In the same year the contribution assessment base was reduced from 80 to 60% in calculating pension contributions for insured in civil and military service.

transfer of the costs for employment-related pensions to the BA secured the contribution-rate stability in the GRV.

Besides these processes of shifting funds and financial burdens, the interdependency between the different sectors of social insurance was temporarily considerably increased with the introduction of the net wage and automatic pension adaptation in 1992 (see 5.2.4.2). Now changes in the contribution rates of the other insurance sectors and the overall tax rate had a direct influence on the pension adaptation, which resulted in increased pressures on the other insurance sectors to stabilise or reduce contribution rates in order to avoid a zero or negative adaptation of pensions. These unwanted interaction effects were reduced again with the shift to the modified gross wage adaptation in 2001. But nevertheless changes in health insurance rates still had an indirect effect on the revenues of the pension insurance schemes, as contribution rate increases resulted in higher spending for the pension insurance due to the co-financing of pensioner health contributions (Barth 2004).

5.2.3.5 Conclusions: The Effect on Fiscal Commitment on the Revenue Dimension

The continuously increasing revenue share of federal tax funds in the GRV meant that the institution became increasingly dependent on non-contributory revenues, which increased the influence of the central government and reduced fiscal commitment. Furthermore, the structure and financing of the federal subsidy became more and more fragmented after 1990, also due to the introduction of various financial equalisation processes. This created additional levers for the government to adapt the funding situation of the GRV according to its preferences and allowed it to relieve its own budgetary constraints at the expense of the pension schemes. This strongly reduced the stability of pension financing and overall the degree of fiscal commitment on the revenue structure from medium to low.

5.2.4 Spending Structure

Since 1990, a considerable number of smaller and bigger changes regarding eligibility rules and the current and future generosity of pension payments have been implemented in the German GRV. While those have widely maintained existing spending commitments, they strongly decrease the extent of fiscal commitment in the longer term.

5.2.4.1 *Changes to Pension Ages and Eligibility*

The first major reform in this respect was the 1992 Pension Reform (see Nullmeier and Rüb 1993; Schmähl 1999; Lamping and Rüb 2004), which introduced a new retirement age of 65 for female wage earners. Early retirement – very popular and associated with high costs – remained possible but on the basis of benefit reductions (of up to 18 percent). Due to the constitutional protection of social insurance entitlements as property rights in Germany, all reforms that negatively affected retirement ages and conditions had to be accompanied by transitional arrangements which protected the benefit entitlements for insured close to the retirement age – in this case, deductions were scheduled to be phased in gradually between 2001 and 2010 (for women until 2017). Regardless of these new provisions, numbers of insured going into early retirement continued to increase. In response, the transition period was again shortened in 1996 with the phasing-in of the increase in the retirement age to be completed in 2009.[69]

Alternative exit options for early retirement (due to unemployment, partial retirement, long contribution records or disability) remained in place in 1992, but were tackled in the following years (for details see Annex II-5). The pension reform decided by the Kohl government in 1998 entailed a major reform of disability pensions, but after the change in government this reform was suspended. Instead, the Red-Green coalition came up with its own '*Diminished Earning Capacity Pensions Reform Act*' in 2000 which basically implemented the formerly abolished reform in a slightly more moderate way. With the reform, a two-tiered diminished earning capacity pension replaced the former benefits. Claimants which were able to work less than three hours a day were to receive a full invalidity pension (*volle Erwerbsminderung*), while claimants who were able to work between three and six hours a day received a reduced invalidity pension (*teilweise Erwerbsminderung*), which amounted to 50 percent of the full invalidity pension instead of the 66 percent before. The benefit level of the full invalidity pension was also reduced by bringing it in line with early retirement pensions – which lead to benefit reductions up to 11 percent. The law also considerably restricted benefit eligibility, as now all affected insured who were still able to work for at least six hours

[69] A constitutional complaint against the acceleration of the age increase from 60 to 65 years was not accepted by the Constitutional Court (BVerfG), as due to 'the important public interest regarding the stabilisation of the contribution rate and the reduction of supplementary wage costs', the regulations were found to be proportional.

in general – and not only in their occupation as before – did not receive a pension. Due to the regulations protecting the confidence of insured which were close to reaching pension eligibility under the abolished regulations, the extension of retirement ages and tightening of eligibility criteria for full-rate pensions did not break existing spending commitments, but rather represented a case of commitment-avoiding. The abolition of the various forms of special pensions on the other hand strengthened the commitment factor as it reduced redistributive elements in the pension provision.

5.2.4.2 Sustained Redistribution and Commitment

After 1990, insurance-external elements (which were mainly related to the crediting of child-rearing times) were moderately expanded.[70] With the change of government in 1998, this focus shifted: instead of crediting family work, other vulnerable groups on the labour market were protected more strongly.[71] But parallel to the expansion of these non-insurance related eligibility regulations, the German governments reduced other redistributive measures according to the policy principle of strengthening the insurance principle (see Lamping and Rüb 2004). From 1992 onwards, only the first 4 (formerly: 5) insurance years were credited with 90 percent of the average income of all insured (which was usually higher than the real income as contributors were at the beginning of their careers). In 1997 the Growth and Employment Promotion Act *(Wachstums- und Beschäftigungsförderungsgesetz)* further reduced redistribute elements, as educational assessment times (*'Anrechnungszeiten'*) were now only credited up to three (formerly: seven) years.

Besides targeting redistributive elements on the spending side, federal compensations for insurance-external benefits provided by the GKV were increased.[72] While those compensations were initially deducted from the additional federal subsidy, this was not any longer the case from 2003 onwards. The government claimed that from 2004 onwards, parental times and unification-related benefits were financed to 100 percent by taxes. Overall, the expansion of redistributive elements has therefore – at least partly –

---

[70] The 1992 pension reform extended credits for child rearing significantly (from one to three years for births after 1991). The 1999 pension reform further extended the value of credits for child rearing (from 75 to 100 percent of average wages).

[71] Since 2001, times of sickness, pregnancy/motherhood or unemployment of young insured between 17 and 25 years are credited as pension contribution times, even if this does not interrupt employment with mandatory insurance.

[72] Since June 1999, the federal state paid a compensation for child-rearing contribution times. Furthermore, it continued to compensate the GKV for additional benefits connected with pensions in the new Länder as well as provisions related to the professional rehabilitation law.

been counter-financed by tax compensations, which means that the degree of commitment resulting from eligibility regulations remained high.

5.2.4.3 Changes to the Generosity of Benefits and Indexation

Besides the increase in retirement ages, the changes with the greatest financial impact were changes to the indexation formula of pensions. The first of those changes was implemented in 1992 with the switch from gross to net earnings adaptation. This now meant that increases in tax or contribution rates resulted in slower pension growth, as the growth of net earnings was reduced – and given the expected rise in tax rates and social insurance contributions, this implied a major reduction in future pension claims. Furthermore, the definition of a pension level of 70 percent for the 'standard pensioner'[73] which had to be stabilised in the future meant a radical change in the logic of the system – "the focus on external or *social needs* was now substituted by fulfilling the internal or *system needs* of the pension system itself" (Lamping and Rüb 2004: 177). Although pension levels still varied according to individual contribution records, the overall level of pensions did not longer correspond to the value of contributions paid in, but instead to a pre-defined benefit level. This 'cybernetic self-regulation mechanism' (Lamping and Rüb 2004: 178) meant that the concept of (external) reciprocity lost importance.

After 1992 the GRV carriers and the ministry for labour and social affairs insisted continuously that a further reduction in the pension level would not be necessary (see Nullmeier and Rüb 1994). However, another reform became inevitable as financial projections worsened drastically. With the 1999 Pension Reform Act, a so-called *demographic factor* was introduced in the pension formula: in accounting for the increase in the life expectancy, it was intended to produce a gradual decline of the pension level from 70 percent of average net earnings in 1997 to 64 percent in 2030 (Schmähl 1999).

This again shows that while there existed an internal differentiation of pensions according to contribution records, i.e., an 'internal reciprocity', this differentiation took place on a declining overall level. Economic, social and demographic factors now increasingly played a role in the overall level of pensions, and less the equivalence

[73]A Standard Pension Level ('*Eckrentenniveau*') is defined as numerical proportion of a net pension based on 45 insurance years with average wages compared to the effective net average wage.

between contributions and pension payments according to either wage or inflation development. This drastically reduced the degree of fiscal commitment. But as Lamping and Rüb (2004) point out, the linkage of the pension development to these changes also backfired for the government insofar as it displayed a new visibility of economic and political changes within pension politics (see also Nullmeier and Rüb 1993: 63–6). Perversely, the new adaptation mechanism now abolished incentives of reducing contribution rates in other insurance sectors: lower contribution rates resulted in higher net wages, which then led to increased pension payments.

In 1998, the new Red-Green government abolished the 'demographic factor' after it took over power, fulfilling its election campaign promise. But facing the same fiscal pressures and negative prognoses for the future development of pension spending as its predecessor, it was forced to also implement cost-containing reforms. With the *Budget Recapitalisation Act* it was decided that the indexation of pensions in 2000 and 2001 would not follow the development of net wages, but only the changes of prices. In 2001, further major changes were introduced in line with the major goal of stabilising the contribution rate and to reduce the federal subsidy. In contrast to initial plans by Labour Minister Walter Riester to introduce a minimum pension and to make a private pension obligatory, which were fiercely opposed by both the trade unions, the pension insurance carriers and the CDU/CSU opposition, his new plans – which the CDU failed to block in the *Bundesrat* – were less far-reaching. The pension adjustment according to inflation was abolished and wages became again the reference indicator. But in contrast to former years, indexation did not follow the development of the average net wages directly. Instead, it now followed the development of the gross wage bill per average employee in the previous year to the then previous year, which was then multiplied with a factor for the development of the pension contribution rate. This meant that the fateful linkage between the development of tax and contribution rates and pension adjustment was abolished, and pension policy was again decoupled from other policy areas.

With these changes, the level of the standard pension was expected to decrease from 70 percent to 67 percent of average net earnings. Original plans of the government to reduce the level even further (to 64 percent – exactly the level which would have resulted from the two years ago abolished 'demographic factor') had failed, and the law now contained a guarantee that the level of 67 percent was to be maintained (see VDR 2001: 5). As a compensation for the lower replacement rates in the future, the reform strengthened fiscal incentives to take out additional funded pensions (*'Riester-Rente'*).[74] But this again meant further reductions of the pension adjustment in the future, as from 2003 onwards, the indexation of pensions was reduced in proportion to the – assumed – increase of the new private provision expenses (up to 4 percent in 2008). Although this additional pension was only voluntary, it was in this calculation treated as if it was mandatory – and this assumed amount was then taken into account for calculating pension adjustments. In doing so, a lower absolute level of pensions led to a higher percentage in relation to average net earnings. As this figure was 'a political construct and therefore to some extent 'fictitious' (Schmähl 2004: 175), the government had considerable scope in calculating its value according to political preferences – "again a prime example of low visibility policies" (Busemeyer 2005).

Besides these major changes to the annual adaptation regulations, the adaptation of pension benefits has also been suspended for some years in the last decade due to the fiscal crisis in the pension funds. Furthermore, pensioners had to pay the contributions for the long-term care insurance themselves (formerly half of those had been covered by the pension insurance carriers, see Table 5-10) which was another way of indirectly cutting back pensions.

[74] The unions were heavily opposed to this move, as they saw the danger of an erosion of the old system which also would strip them of their powers and influence. The government therefore made concessions to the unions by also making occupational pensions more attractive and by including them in collective wage agreement, which granted the unions considerably more influence over this field of provisions (see Schmähl 2004: 184; Busemeyer 2005: 585).

Table 5-10 Development of Pension Adaptation and Contribution Charges

Year	Pension Adaptation		Health and Care Insurance Contributions	
	West	East	Pensioners	Insurance
1991 (1.1.)	-	15.00	6.10	6.10
1991 (1.7.)	4.70	15.00	6.10	6.10
1992 (1.1.)	-	11.65	6.10	6.10
1992 (1.7.)	2.87	12.73	6.25	6.25
1993 (1.1.)	-	6.10	6.70	6.70
1993 (1.7.)	4.36	14.12	6.70	6.70
1994 (1.1.)	-	3.64	6.70	6.70
1994 (1.7.)	3.39	3.45	6.70	6.70
1995 (1.1.)	-	2.78	7.20	7.20
1995 (1.7.)	0.50	2.48	7.10	7.10
1996 (1.1.)	-	4.38	7.55	7.55
1996 (1.7.)	0.95	1.21	7.55	7.55
1997	1.65	5.55	7.50	7.50
1998	0.44	0.98	7.65	7.65
1999	1.34	2.79	7.60	7.60
2000	0.60	0.60	7.60	7.60
2001	1.91	2.11	7.60	7.60
2002	2.16	2.89	7.85	7.85
2003	1.04	1.19	8.00	8.00
2004	-	-	8.85*	7.15
2005 (1.1.)	-	-	8.55	6.85
2005 (1.7.)	-	-	9.00** (9.25)***	6.40

Source: BMWA; BMG

* From 1.4.2004, the contribution share for the long-term care insurance covered by the pension insurance was abolished; from then onwards, it was to be covered solely by the insured.

** Extra contribution of 0,9% solely covered by insured

*** Extra 0.25% long-term care contribution for childless members

In line with these mainly short-term actions to contain expenditure, the *Pension Insurance Sustainability Act 2005* implemented more long-term measures to cope with the financial constraints. The pension indexation formula was supplemented by a so-called *'sustainability factor'*, which took the changing ratio between pensioners and the number of contributors into account.[75] This new factor was supposed to ensure that the annual adaptations of the actual pension value turned out to be smaller if the ratio between pensioners and contributors deteriorated. For the 'standard' pensioners, the modification of the adaptation formula meant a pension reduction of around 7 percent in 2030 (see Kramer 2004). The former 'pension level protection clause' for the standard net pension level (67 percent) was abolished. Instead, a net pension level of 46 percent (until 2020) and 43 percent (until 2030) was defined as minimum protection level.

[75] It was calculated by deducting the change of the pensioner ratio in the previous year compared to the then previous year from the value 1, and this value was then multiplied by the parameter of 0.25 and finally increased by the value 1. A protection clause avoided negative pension adaptations due to this factor, but allowed for zero adaptations.

Two other changes implemented in 2005 also had a negative affect on future pension levels: firstly, the dynamic of pension adjustments followed in the future the gross wage bill liable to social security contributions, instead of before the average wage bill of employees.[76] This meant that the formerly considered wages of employees above the contribution assessment ceiling were no longer taken into account, which reduced the relevant wage bill and therefore the pension adaptation. Besides those drastic changes which affected the degree of external reciprocity, there have also been a few smaller changes which have on the contrary increased the degree of internal reciprocity by eliminating a series of non-core elements of the pension insurance scheme.[77] While pension levels would therefore considerably deteriorate in the future, the eligibility for those benefits was tightened and increasingly restricted to those who paid into the system over a sufficient period of time.

5.2.4.4 Conclusions: The Reduction of Future Spending Commitments

Since 1990, there have been two major changes in the logic of pension provisions which already had and will have serious effects on future benefit levels. The introduction of a defined benefit level (70 percent) in 1992 represented a first move away from the strict equivalence between the value of contribution payments and the value of pension benefits, that is, a move away from the logic that pensioners should equally benefit from the economic development. The 2001 reforms had even stronger implications, as the goal of contribution rate stability and therefore the concept of a revenue-oriented expenditure policy became decisive for GRV reforms. While the reduction of the future replacement level to 67 percent was still quite modest, the 2005 changes to the adaptation formula had more drastic effects. Overall, the standard net pension level to be achieved in the long term deteriorated from 70 percent in 1992 to 43 percent in 2005, which will drastically reduce the degree of fiscal commitment in the future:

> "There was (and still is) a widespread myth that German pensions are calculated on the basis of a strict equivalence between contributions and pensions, normatively termed the 'insurance principle'. This myth had been part of the political semantics of the German welfare state that worked as a self-interpretation of the pension policy. Like all myths, it was astonishingly resistant to the truth. But policymakers and younger generations are now

[76] The average wage bill of employees is calculated without civil servants and inclusive of unemployment benefit recipients.

[77] In 1997, the Growth and Employment Promotion Act reduced the level of transition benefits (*Übergangsgeld*). The Old Age Assets Supplementation Act of 2001 reduced the pensions for surviving dependants. Furthermore, now all sources of income were taken into account for the calculation of eligibility: the reaching of an income limit resulted in reductions of pension benefits or even non-eligibility. Besides this, the duration of the 'small widowers pension' was limited to two years.

challenged by a bitter but obvious truth: increasing contributions to the pension system go hand in hand with decreasing pension benefits" (Lamping and Rüb 2004: 177).

The answer to the introductory question whether German first-pillar pensions are 'still for certain' is therefore clearly no.

But in contrast to the strong reduction of overall pension levels which would take effect in the medium and long term, the majority of reforms in pension provision left the strong internal reciprocity of the system untouched or even reinforced it. This had been an explicit goal by the government: "Savings in the pension insurance have to follow the goal to strengthen the insurance principle and therefore the principle of the wage and contribution-relatedness of the pensions" (Deutscher Bundestag 2000; see also Schmähl 2001). This strengthening of the insurance principle had been mainly implemented through the abolition of special regulations for various social groups (women, unemployed, disabled) and the harmonisation of their retirement conditions with the general regulations of an old-age pension.

The introduction of the subsidised private pension pillar did, however, not seem to represent, as Lamping and Rüb (2004: 170) argue, a 'pioneering law', which would over time alter 'substantially both the institutional logic and the perception of the actors'. Due to its voluntary character, its volume remained only marginal compared to the first-pillar provisions. The avoiding of future commitments due to the reduction of pension levels therefore did not go along with a systematic shift of this commitment into the second or third pillars of pension provision, but instead the responsibility for securing sufficient income in old age was left to the individual households.

5.3 Common Patterns and Differences in the French and German Pension Reforms

The previous sections of this chapter have analysed the reform developments in the main French and German pension insurance schemes between 1990 and 2005 separately for the effects these reforms had on the four dimensions of fiscal commitment. It has been demonstrated that the increasing fiscal pressures prevalent during this period combined with the negative demographic prediction, which would increase these pressures further in the future, resulted in a large number and variety of adaptation processes in both countries and all analysed pension schemes. As the contrasting of the commitment scores in the individual schemes in 1990 and 2005 has shown (see Table 4-10), fiscal commitment has been most strongly reduced in the French first-pillar scheme (-4), and to a lesser degree in the German GKV (-2). In contrast, the French second-pillar schemes ARRCO and AGIRC have maintained their high degree of fiscal commitment during the same period. Looking back at the open questions outlined at the beginning of the chapter which followed from this observation, what can we conclude from this more in-depth analysis of the reform processes?

(1) To what extent did the differences in the overall commitment scores between the schemes, but also the differences on the individual dimensions matter for future reforms in times of fiscal pressures? Contrasting the developments in the German GRV with those in the French first-pillar pension scheme CNAV and the supplementary schemes ARRCO and AGIRC, it seems that a high degree of administrative independence (as in both the GRV and the French second-pillar schemes) did indeed make intrusions into the self-administration powers of the social partners very difficult. Attempts to limit managerial authorities by the social partners or to make decisions subject to governmental approval met fierce opposition by both unions and employer associations and were subsequently abandoned. In contrast, the already stronger state influence in the first-pillar French scheme CNAV represented a gateway for further reductions of this independence.

The effect of fiscal commitment on the budgetary dimension seems more complex: fiscal commitment on this dimension had in 1990 only been medium high in the first-pillar schemes in both France and Germany – while both schemes enjoyed formal budget autonomy, the state retained the decisionmaking power over all important budgetary parameters. But budgetary constraints in both schemes were limited due to the final responsibility of the state for deficits, which reduced pressures to contain spending for the administrators of the schemes. However, their possibilities to contain spending were in any case very restricted as expenditure was based on legal entitlements by the claimants.

In Germany, the formal budgetary autonomy of the schemes was sustained due to common resistance by the social partners against attempts by the government to gain influence. Regarding the allocation of funds, the increased automatisation of the development of contribution rates, federal subsidies and pension adaptation detached this process further from political debates, which increased fiscal commitment. But the loss of decisionmaking scope led policymakers to look for other ways to solve financial problems in order to avoid unpopular spending cuts or contribution rate increases. One way of doing so was to make additional revenues available without burdening the federal budget, which resulted in a dramatic reduction of the fluctuation reserve of the GRV. The parallel abolition of the federal guarantee for occurring deficits, which meant a shift of financial responsibilities away from the state to the insurance carriers, made the fiscal situation of the GRV extremely volatile and increased fiscal constraints for the scheme. Overall, the degree of budgetary autonomy for the GRV remained medium high.

In contrast, fiscal commitment on the budgetary dimension has been further reduced in the French CNAV: not only regarding the determination of pension insurance revenues, but also regarding the determination of spending the French state gained formal influence mainly due to the voting of a social security budget since 1996. But the effects on fiscal commitment were not very strong: due to the very restricted powers of parliament and open-ended spending in the pension schemes, the voting of the social security budget did not have constraining effects on pension expenditure. The peculiar situation of the insurance carriers having formal responsibility for deficits, but no means to avoid those, was not tackled with the reforms during the observed period. But the maintenance of the formal separation of the insurance budgets and deficits from the government accounts created incentives and opportunities for the government to shift future fiscal responsibilities to the Régime Général in order to have fiscal short-term gains for its own budget.

The much clearer budgetary authorities in the case of ARRCO and AGIRC, which entirely rested with the social partners, were not affected by changes during the observed period. Through changes in the financing of early retirement regulations, the supplementary schemes did indeed further expand their budgetary autonomy and financial self-determination powers. But the high degree of fiscal constraints due to the absence of any external deficit coverage mechanism had its effect during periods of financial difficulties and led to both adaptations on the revenue as well as spending side.

Regarding the revenue structure of the pension schemes, fiscal commitment has been reduced in both first-pillar schemes due to an increasing dependence from tax subsidies. A particular aspect of this increasing tax financing of the CNAV in France was the fact that most taxes were not directly assigned to the social insurance carriers, but were channelled to them via financing funds. This fund-financing drastically decreased the revenue stability for the insurance schemes, as financing sources and payments were continuously adapted. The comprehensive transfer system between different pension insurance carriers also had negative implications for the degree of fiscal commitment in the CNAV, as the central state made use of it to reduce its own subsidy payments.

The development in the German GRV has been very similar on this dimension: the continuously increasing revenue share of federal tax funds in the GRV meant that the institution became increasingly dependent on non-contributory revenues, which increased the influence of the central government and reduced fiscal commitment. Furthermore, the structure and financing of the federal subsidy had since 1990 become more and more fragmented and opaque. This furthermore reduced the degree of fiscal commitment, as it created various levers for the government to adapt the funding situation of the GRV. As in the French case, existing transfer mechanisms led to the shifting of deficit coverage obligations by the federal state to the pension insurance carrier. Although after 1990 also a transfer mechanism between the French supplementary schemes was introduced, the social partners as regulators of the scheme were keen on reducing financial interdependencies with other insurance schemes. By increasing revenues for the system via contribution increases, they secured the financial independence of the scheme from state subsidies, which meant that the high degree of fiscal commitment on this dimension could be maintained despite temporary financial difficulties.

The degree of fiscal commitment on the spending dimension, which has been high for all three pension insurance schemes, has been maintained. This corresponds to the logic of blame avoidance (Weaver 1986; Pierson 1996; Ross 2000), which essentially states that politicians will refrain from cutting back programmes which enjoy a high degree of popular support. Due to both the strong public support for the maintenance of the link between contribution payments and benefit entitlements (as signalled through public protests against reform plans which took the form of widespread strike action in France), but also due to high legal transaction costs associated with the attack on benefit entitlements, the degree of internal reciprocity in the pension schemes has been further strengthened while overall benefit levels will deteriorate considerably in the future. Due to the fact that the supplementary French schemes followed a defined contribution principle, the reduction of future benefit levels was already built into the benefit formula. But in both countries, the future reduction of old-age income provided by the public pension schemes has not been accompanied by a comprehensive strengthening of a private, third-pillar provision. This has in both cases been mainly a consequence of strong resistance by the social partners – particularly the unions –, who were successful in pushing through a further promotion of occupational schemes instead, which secured them a role in pension provision outside the public schemes.

(2) *What have been the predominant modes of change and what are the implications of reforms for the degree of fiscal commitment in the future?* Instead of attacking existing spending commitments, reforms across all schemes have – despite already existing acute financing problems – mainly focused on avoiding spending commitments in the future. While the formal independence of the schemes has in none of the cases been attacked, the already restricted managerial independence has offered a gateway for a further restraining of independent decisionmaking powers. The only dimension on which the breaking of commitments can be observed is the revenue dimension: while the breaking of commitment on the spending dimension – very visible to the stakeholders of the schemes – has been avoided, revenues of both the GRV and the CNAV have been re-channelled to other insurance schemes with financial problems, which represented a less visible, but no less important case of 'delayed' commitment-breaking. This was the case as due to these measures the independent financial basis of the insurance schemes was reduced, which increase pressures for cost containment measures and will very likely result in benefit cuts for the insured of GRV and CNAV at some point in the future.

(3) What role did the social partners and their relationship with the state play in the reforms? The different developments between the French first-pillar and second-pillar schemes in terms of revenue structure and budgetary authority (in the case of the latter commitment was maintained, in the case of the former reduced) are good examples illustrating the dilemma the social partners as administrators of the schemes face in times of financial pressures: on the one hand, they have an interest in protecting their own budgets against the involvement of the finance minister in order to maintain their

budgetary independence (see Nullmeier 1992; Richter 2001). On the other hand, they also have an interest in increasing revenues for the institutions administered by them in order to avoid benefit cuts for their insured, and also to ensure the future of their institution (and, accordingly, their influence). In the case of the first-pillar schemes in both France and Germany, the social partners chose the second option and demanded further subsidies for the schemes, although this meant a further dependence on the government. But in the French case this resulted ultimately in harsh conflicts between employers and the French state, as the latter made extensive use of its revenue-determining powers to the disadvantage of the social insurance schemes. While the employers were willing to risk their role in the administration of the scheme and pressed for a clarification of budgetary authorities between insurance schemes and the government, the unions showed more office-seeking behaviour. Although they supported the employers in demands for a more stable revenue basis for the insurance scheme, they were reluctant to endanger their role in the system. In Germany, the increasing participation of the federal government in the financing of pension benefits also went along with demands for more budgetary powers. Similar to France, this resulted in common resistance by the social partners. But again, this coalition between employer and employee representatives had quite different motivations as they anticipated different consequences of the proposed changes: while the employers feared further attempts by the government to use the insurance budgets for its own fiscal benefits, the unions feared further benefit cuts.

In contrast to the increase of tax financing and the connected increase of state influence in the German and French first-pillar schemes, the administrators of the French second-pillar schemes were keen to avoid any budgetary links with the central state or other insurance schemes, but had as a result to dea l with the consequences of financial pressures themselves. This forced them to pursue unpopular contribution increases and benefit reductions. But it seems that blame-avoidance arguments even have validity in this example, as the social partners were keen to hide those benefit cuts as much as they possibly could, for example through the increase of the gap between 'contractual' and 'applied' contribution rates instead of direct benefit cuts.

(4) Is there evidence that the French governments focused more strongly on cost containment than the German ones? While institutionally the position of the French finance minister is said to be more dominating in political decisionmaking processes

than in Germany, also in the case of the latter the aim of cost containment in the welfare state became a central issue after 1991 not only for the finance minister, but for the whole government. But a stronger orientation towards cost containment did not always prove successful in welfare reform processes: in order to push through more comprehensive pension reforms, Chancellor Schröder detached decisionmaking processes as far as possible from the corporatist pension policy network, and the influence of the Ministry of Labour and Social Affairs was restricted by centralising decisionmaking power in the chancellery (see Der Spiegel, 29 January 2001; Lamping and Rüb 2004: 187; Busemeyer 2005: 584). In 1996, the French Prime Minister Alain Juppé had tried to do the same and prepared its plans of a public pension scheme reform without consultation of the social partners and in strong co-operation with the finance ministry. But in both cases, this strategy of pushing through reforms completely backfired due to the resulting resistance of the social partners, and future reforms followed a more consensus-oriented bargaining approach (see Vail 1999: 319). It seems that an overall stronger position of the finance ministry in reform decisionmaking processes is irrelevant if this causes the unified resistance of the social partners, since they have considerable possibilities to block reforms if they can agree on common policy positions. This strengthens institutionalist arguments that "devolved forms of social administration have a significantly tempering, if not always completely paralysing, influence on social security reform (Crouch 1999)" (Clasen and Clegg 2003: 375).

Furthermore, the assumption that the finance minister has a general interest in containing spending and should therefore push for more cost containment in social insurance schemes if he or she has a strong position in the budgetary allocation process needs to be put into perspective: while this assumption might apply to the federal or central state budget, reforms in the pension sector in both countries have often rather worsened than improved the financial situation of the schemes. In line with arguments from the literature about fiscal federalism (see Ter-Minassian 1997; Oates 2005), the arguments about finance minister strength therefore need to be put into perspective with regard to the specific budgetary connection of insurance schemes with the government budget.

Conclusions

The results of the in-depth analysis of pension insurance developments strengthen institutional lock-in arguments insofar as high degrees of commitment in pension insurance schemes seem to indeed provide effective barriers against successive reductions of this fiscal commitment in times of financial pressures. But the analysis of the developments on the individual dimensions of fiscal commitment has also provided first insights into the question why a straightforward relationship between high degrees of commitment and low degrees of cost-containment reforms could not be observed equally on all dimensions (that is, the budgetary and revenue dimensions): whereas high degrees of commitment do make it generally more difficult to reduce commitment on all dimensions, the degree to which (a) retrenchment advocates target commitment on the different dimensions, and (b) the degree to which the social partners defend commitment on the different dimensions, differs.

Commitment on the revenue dimension of the schemes was often reduced despite high or very high degrees of commitment due to ambiguous position of the social partners – torn between their interest to maintain financial independence of the schemes, and their interest to receive more revenues. In both first-pillar schemes the social partners lacked the necessary authority to impose spending reductions or to reduce contribution revenues themselves, which often made demands for federal subsidies the only available option to react to financial difficulties. A reduction of fiscal commitment on this dimension then often resulted in attempts by the government to also gain more budgetary authority. In contrast, there have been no attempts to directly challenge the formal self-administration structure of each of the observed schemes (but a lower degree of managerial independence in the CNAV has enabled the government to further expand its powers in this respect). Despite various reforms of the benefit regulations in both countries, existing commitments have been maintained also on the spending dimension of all three analysed schemes. Here it seems that the intention to avoid blame has shaped the content of these reforms considerably – regardless of whether the social partners (ARRCO/AGIRC) or the government (GRV or CNAV) had decisionmaking authority. All decisionmakers made changes to the benefit regulations as invisible as possible, which resulted in more tightening and avoiding than the breaking of commitments. In practice this meant a strengthening of the insurance principle and concentration of resources on long-term contribution payers, combined with a strong reduction of pension levels for future generations.

Overall, these results neither directly confirm the institutional lock-in arguments of Hypotheses 1, nor do they confirm the hypotheses that due to different corporatist relationships in the two countries and different strength of retrenchment advocates in government we should see stronger cost containment in France. Instead, the results of the pension reform developments indicate that those actor-centred factors are strongly influenced by institutional factors of the individual insurance schemes, and that - vice versa – the development of fiscal commitment on the individual dimensions is also dependent on the motivations of the involved actors to challenge or defend these commitments. The findings furthermore confirm the hypothesis that partisanship factors did not play a decisive role in times of strong financial pressures: while in both France and Germany reform measures introduced by the conservative governments in the first half of the 1990s were partly reversed after the election victories of the left-wing parties in 1997 and 1998, all cost-containment measures were successively reintroduced and even intensified in the face of increasing budget deficits.

6 Regaining Fiscal Control: Welfare Reforms in the Health Sector

The health sector has – due to a combination of demographic developments, the advancement of medical treatments and in many countries problems to avoid cost inflation and to control supply (Giaimo 2001) – been one of the main expenditure growth sectors since the 1970s. This 'cost explosion' has been often made responsible for the increasing difficulties of mature European welfare states to finance their healthcare bills. But the term 'cost explosion' is insofar incorrect as in most cases not above-average expenditure growth rates, but rather an erosion of revenues led to financing difficulties (see Braun et al. 1998; Alber 1998). Nevertheless, public health expenditure has been growing faster than the GDP in all OECD countries (except Finland) between 1990 and 2004: its share of the GDP rose from 7 percent in 1990 to 8.9 percent in 2004. This has also been the case for Germany (1990: 8.3%; 2003: 10.9%) and France (1990: 8.2%; 2004: 10.5%).[78]

Pressures to consolidate health spending have similarly increased in both countries, as deficits in this insurance sector were growing rapidly after 1990 (see Graphs 1.2 and 1.2). The following analysis investigates how the two countries have dealt with these financial pressures in the period between 1990 and 2005, taking into account the different fiscal commitment scores of the health insurance schemes in 1990 (13 out of 20 in the case of the main French health insurance scheme CNAMTS, and 16 in the case of the German Statutory Health Insurance). The reason for the overall higher score for the German scheme has been a higher degree of both administrative independence and budgetary autonomy than in the French scheme. As the previous chapter on the pension sector, this chapter analyses the effect of the degrees of fiscal commitment on the four dimensions for successive reform paths in the health insurance schemes, and focuses on the particular modes of change visible as well as the role played by the social partners and different governmental actors in the reform processes.

[78] Data Source: OECD Health Data 2006

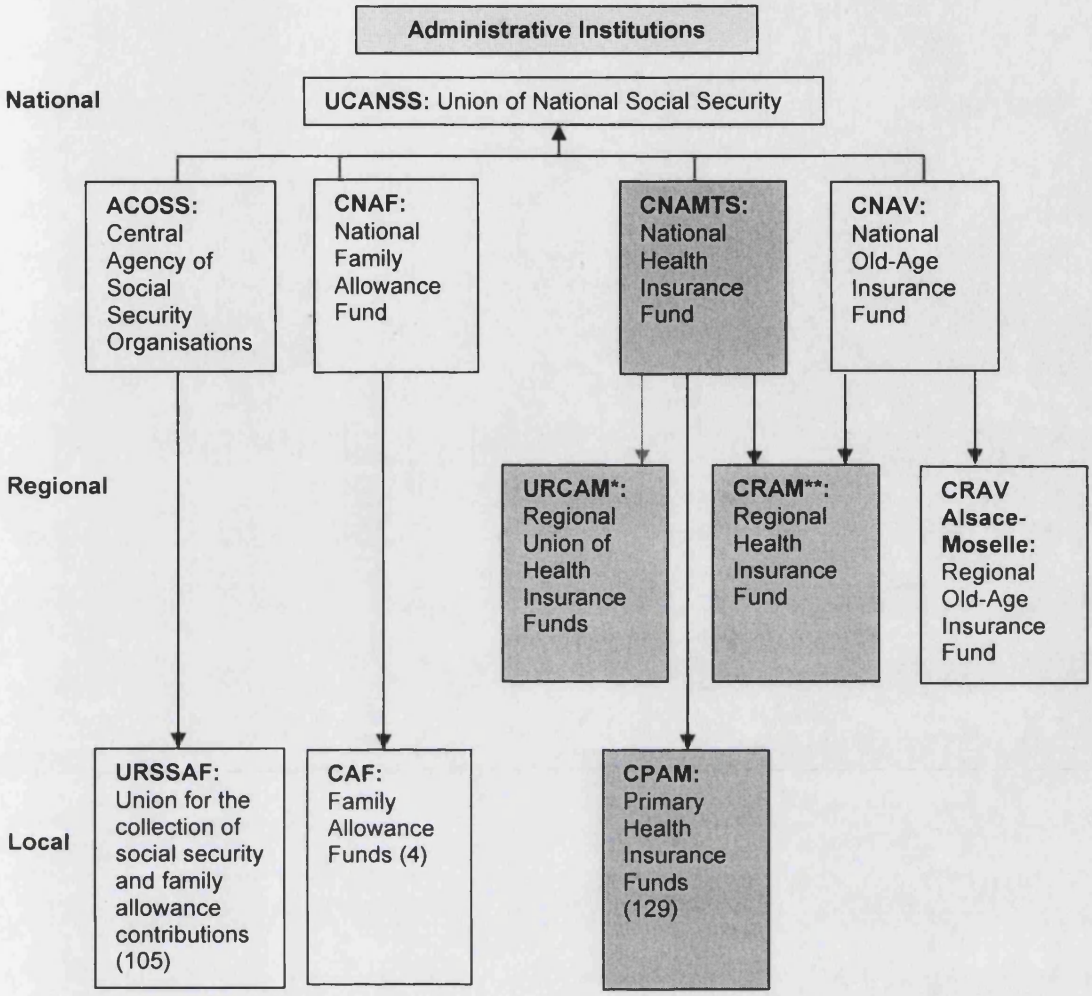
6.1 Lacking Commitment: Health Reforms in France

6.1.1 Administrative Independence

In 1990, the administrative structure of the dominant French health insurance scheme CNAM corresponded to the one of the pension insurance scheme CNAV, as both schemes were part of the Régime Général. The existence of a formally independent, bipartite governing board, combined with a high degree of state intervention and control powers, created a medium high degree of administrative independence.

During the following years, the managerial independence of the social partners was further reduced. The 1996 reforms affecting the governance structure of the national funds in the Régime Général also applied to the CNAM: besides reintroducing equal representation of the social partners, the government increased its direct control powers in the administration of the social insurance institutions by appointing board members directly and attempted to exercise stricter control of internal administration processes through the Objective and Management Agreements. But reforms went much further in the health insurance than in the pension sector, and the discretionary co-management system was replaced by a much tighter regulatory framework under control by the state (see Bellanger and Mossé 2000; Sandier et al. 2004). A main aspect of the reform process was the regionalisation of the organisation, management and control of the health insurance system. In this context, the 1996 reform directly affected the basic institutional framework of the health insurance branch of the Régime Général, since its introduction in 1967 a pyramidal structure (see Figure 6-1).

Figure 6-1 Administrative Structure Régime Général



Note: not included are the four overseas CGSS's (Caisse Générale de Sécurité Sociale)
* introduced as part of institutional reform in 1996
** Although pension and health administration are separated on a national level, the pension administration on the regional level is executed by the regional health insurance funds.

In 1996, the Directorates of Health and Social Affairs in the Regions (DRASS) were given more responsibilities for hospital planning and hospital budget allocations. In addition, newly established Regional Hospital Agencies (ARHs) brought together the health services directly provided by the state and those of the health insurance funds, which previously shared management of this sector. The ARHs became responsible for hospital planning, the financial allocation to public hospitals and the setting of tariffs for private hospitals (within the framework of national agreements). Government control over the ARHs was considerable, as it appointed the directors which were also directly responsible to the minister of health. Furthermore, half of the members of the ARHs were state representatives. Compared to the previous shared management of the sector, the government therefore considerably extended its control powers.

The primary funds of the Régime Général were gathered around a new institution, the Regional Union of Health Insurance Funds *(Union Régionale des Caisses d'Assurance Maladie, URCAM)*, which monitored ambulatory care expenditure. The social partners therefore again lost independence, as also these new institutions were dominated by state representatives. In relation to the ARHs, whose role was operational, the function of the 22 URCAMs was to secure co-operation (between the funds on the regional level as well as between the different health insurance schemes) and to enforce expenditure reductions. Their role in this respect was further strengthened in a new governance framework introduced in 2004: each URCAM was now committed vis-à-vis the new National Union of Sickness Insurance Funds (*Union nationale des caisses d'assurance maladie,* UNCAM) to quantitative objectives of improving the efficiency of healthcare provision. The foundation of UNCAM was the most important of the four new national representative bodies established in 2004, whose purpose was to improve co-ordination between the different health sectors and organisational levels, but also to improve control over spending.[79] In contrast, the rather weak system of ex-post control of the health insurance scheme has not been changed since 1990.[80]

The social partners had to share administrative and bargaining powers with state representatives to an even greater degree than they already used to in 1990. Overall, the government had moved from being one of many players in the system to being "the central figure shaping the provision of the system" (Bode and Veil 2003: 35). This loss of administrative independence led – not surprisingly – to major conflicts between the social partners and the government. Discrepancies also erupted between the social partners themselves which had very different positions regarding the appropriate strategies to react to the increasing state involvement. The unions could rarely agree on a common position and some of them acted increasingly as 'internal opposition' (Bode 2002: 44). While the socialist FO had traditionally provided the chairperson of the CNAM administrative committee, this tradition ended in 1996 due to the reintroduction

[79] In order to improve co-ordination on the national level, two other bodies - the National Union of Supplementary Health Insurance Bodies (*Union nationale des organismes d'assurance maladie complémentaires)* as well as the National Association of Healthcare Professionals (*Union nationale des professionnels de santé*) - were set up.

[80] In 1990, the system of ex-post control had been executed by three public authorities: The *Inspection générale des affaires sociales* (IGAS) exercised control over the internal operations of all social security services but it had no direct intervention powers. Similarly, the *Inspection Generale des Finances* (IGF) – which specialised in the financial control of the organisations of social security – issued recommendations, but final decisions were taken by the Ministry of Finance. Finally, the *Auditors Court (Cour des Comptes)* controlled the accounts of all social insurance schemes. Also this institution did not have any sanctioning authority, but merely issued recommendations.

of parity, and a new dominating coalition between the more moderate CFDT (who since 1996 provided the chairperson), CGC, CFTC, FNMF and the employer representatives developed (Bandelow 2005).

In September 2001, the employer representatives withdrew not only from the boards of the pension, but also of the health insurance funds after the conflict with the government had culminated with the debate about the financing of the 35-hours work week (see Chapter 5). Efforts by the employers to strike a deal with more moderate unions (the CFDT and CFTC) in order to create a common opposition against the further state involvement and to exit from the committees together were not successful. In 2004, the employer representatives returned into the administration of the health insurance funds by nominating representatives for the newly established UNCAM. One reason for their return was the fact that they now had a much stronger voice in the committees than they had in the CNAM.[81] But while the employers strengthened their position vis-à-vis the unions, the introduction of the UNCAM also strengthened the position of the government, as the general director of the UNCAM was the president of the CNAM – and this person was, as outlined above, since 1996 nominated directly by the ministry of health.

Parallel to their (conditional) return into the self-administration, the French employers also repeatedly pushed for the transfer of health provisions to private providers and for the introduction of stronger competition. MEDEF suggested to their self-administration partner CFDT at the end of 2000 to develop an initiative for introducing insurance fund competition, but the union rejected this idea. After the employer representatives rejoined the self-administration boards in 2004, they repeated their demands for a privatisation of the system, but still failed to gain enough political support for this proposal.

While overall, the basic self-administration structure of the CNAM has been maintained during the observed period, the degree of independence of the administrators has been further reduced to a low level – both via changes within the self-administration bodies but also via the introduction of new institutions under much more direct state control. This has connectedly also reduced commitment not only towards future spending, but

[81] In the CNAM, the Mutualité was represented with three voices besides 13 voices each for employers and employees; in the UNCAM, the Mutualité was not represented, which gave employer representatives 50% of the votes and therefore veto power.

also towards the maintenance of the scheme itself by its administrators and in particular the employer representatives.

6.1.2 Budgetary Autonomy and Constraints

6.1.2.1 Budgetary Autonomy

The analysis of budgetary decisionmaking authorities in the French social insurance schemes in 1990 has shown that the French state had considerable influence on the health insurance budgets: despite the fact that the CNAM had formal budgetary autonomy, most of the structural or resource-related decisions were subject to ministerial regulation and control – either ex post via necessary approvals as in the ambulatory sector, or upfront via decree as in the hospital and pharmaceutical sector (Döhler and Hassenteufel 1995; Bode 2002). The budget autonomy of the insurance funds was therefore in practice reduced to approving externally pre-determined revenue and spending decisions.

The health insurance carriers retained their formal budgetary autonomy in the successive years, but lost influence regarding the determination of revenues: in line with the 1996 reforms which introduced the annual Social Security Financing Law, the French parliament not only gained powers in defining spending targets for all mandatory basic schemes, but also gained influence in determining the resources available to the Sécurité Sociale. The legislator now set objectives for the solvency of the social security schemes, provided different types of revenues to fund the mandatory basic schemes and also decided about the contribution rates – a power originally exercised by the government departments. The government also increased its control over health insurance funding with the increasing replacement of health contribution payments with the Contribution Sociale Generalisée (CSG) after 1991, a tax on wages earmarked for social security (see 6.1.3 for details). Although many unions repeatedly demanded that the CSG should be clearly labelled as insurance contribution, it did not lose its status as a general income tax and therefore remained part of the general revenue fund exclusively controlled by the government. This was also the reason why the ministry of finance, once opposed to the CSG out of macroeconomic reasons, finally supported it: while the government had no control over the assignment of contribution payments as they were paid to the insurance funds directly, it was in direct control over the assignment of the CSG revenues to the different insurance schemes. The government had therefore regained control over a considerable share of the social budget (see Kato 2003: 105ff.). Together with the far-reaching authority of the government regarding the determination of spending parameters, the degree of budgetary autonomy of the CNAM was overall reduced to a low level.

6.1.2.2 Budgetary Constraints

Despite the fact however that the state retained and even expanded its decisionmaking power over all relevant revenue and spending parameters, this gave it only limited effective control over the amount of health spending. In contrast to the pension insurance, where the government decided about the rules of how entitlements translated into benefits, the quantity of healthcare supplied as well as the remunerations paid for health services were largely beyond its control. This uncontrollability of health expenditure was facilitated by the very structure of the French healthcare system, which was characterised by unrestricted freedom of choice for the patients, fee-for-service payments for doctors and retroactive reimbursements by the insurance funds (see Huteau 2001; Sandier et al. 2004). The responsibilities between the state and the health insurance funds were basically divided between sectors: while the state was responsible for most aspects of public hospitals and the provision of drugs, the health insurance funds were widely in charge of the independent, ambulatory sector on the basis of contracts with service providers. Bargains about those contracts took place on a national level between the insurance funds and the health professional organisations. The government formally only oversaw this process and approved it in the end, but often exerted considerable influence on the outcomes in informal pre-bargains with the provider associations (see Bode 2002; Bandelow 2005). This practice created a medium high degree of fiscal constraints in 1990.

Fiscal reforms during the following years were – besides efforts to improve effectiveness and efficiency through better regional co-operation – focused on increasing fiscal constraints mainly on the supply side. The only true economic constraint until the early 1990s had been the global budget system for public hospitals, which had replaced per diem rates in 1984. But after 1990, expenditure caps were introduced in all sectors and the overall control over spending was strengthened. From 1996 onwards, parliament voted an *Annual National Ceiling for Health Insurance Expenditure (ONDAM)*. All formerly existing expenditure frameworks had been subsumed under this new ceiling, which was based on reports of the Auditors Court and the National Health Conference. But as parliament itself did not dispose of sufficient professional knowledge to determine these expenditure ceilings, it was in fact the government which decided about the spending limits (Hassenteufel and Palier 2005). It was also the ministry of health which was now responsible for dividing the budgetary expenditure between the different sectors and, where hospitals were concerned, between the different regions. Furthermore, it set the prices of specific medical procedures and drugs and also engaged directly in the supply control (see Hassenteufel 1997). The government therefore gained considerable direct allocation powers, further reducing the powers of the health insurance carrier CNAM.

Particularly in the hospital sector, which was already widely under state control, the government attempted to further increase spending constraints. It defined a separate budget for the sector after parliament decided about the ONDAM, and also the budget for private hospitals was now subject to an annual maximum target set by the ministry of health – which, after 1999, was no longer negotiated but unilaterally imposed. But the capped budget system did not have the intended effect, as it did not provide incentives to improve the efficiency of health provisions.[82] In the case of private hospitals, the payment system led them to specialise in those treatment areas where the difference between the fee schedule and costs were widest. As a consequence, the ministry of health introduced a new financing method in 2002 (*Le plan Hôpital* 2007) which progressively moved the system from capped budgets towards pricing based on activity *(Tarification à l'activité* or T2A; see OECD 2005).

But efforts to expand financial control also focused on the ambulatory sector: in 1993, the French government attempted to change from an open-end reimbursement system to a system of prior spending agreements (see Bellanger and Mossé 2000). It decided to force the medical professions and the health insurance funds to agree so-called 'Medical Care Agreements' (*Conventions Médicales*) that contained quantified national spending targets for overall healthcare spending and practitioners remunerations. Applying an "apparent consultation and divide-and-rule strategy" (Vail 1999: 316), the strategy of the reforms promoted by prime minister Balladur was to breach the unity of the medical profession and to allow for more cost-saving individual bargains (see Sandier et al. 2004: 13).[83] In order to increase pressure on both sides to reach such agreements, the

[82] Public hospitals became extremely constrained by excessive regulation and red tape: the appointment of a hospital doctor, for example, required the signature of the national minister (OECD 2005: 74).
[83] In an attempt to further reduce the freedom of the ambulatory sector in providing services, medical practice guidelines (Reference Medicale Opposables, RMOs) were introduced. It was originally intended

1995 Juppé plan established that the government could unilaterally impose regulations if the insurance carriers and providers were not able to reach an agreement.

Within the framework of the ONDAM, a separate budget was also decided for the ambulatory sector and a specific expenditure target was set for the self-employed healthcare professionals. The management of this expenditure target was delegated to the health insurance funds, who were supposed to negotiate with the relevant health professionals how to meet this target. But after such an agreement could only be reached for 2000 and failed in other years due to the resistance of the medical professions against a pre-defined ceiling, the target was no longer defined from 2002 onwards (see Sandier et al. 2004: 25). Also the previous introduction of the Medical Care Agreements, to be negotiated between the insurance funds and the doctors representatives, proved ineffective: between 1996 and 2002, the Confederation of French Medical Unions (CSMF) did not sign a single agreement, and agreements with representatives of particular medical professions were annulled by courts as the unions supporting them did not represent a sufficient number of affected professionals.

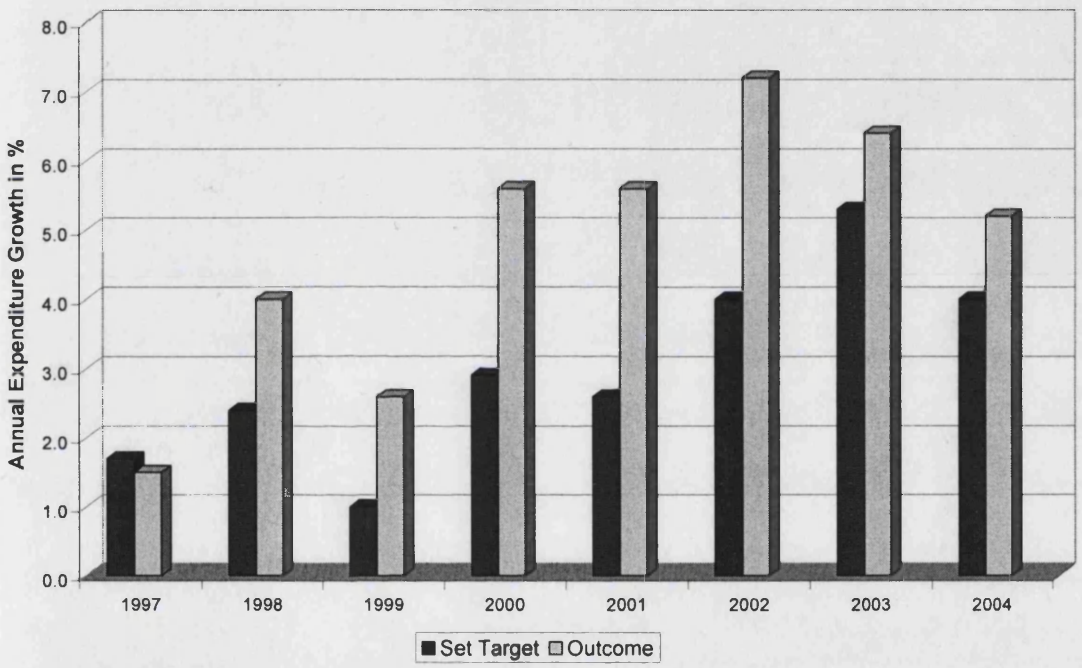
A further attempt to clarify budgetary responsibilities between the state and the health insurance funds was made in 2000. According to the terms of the Social Security Financing Law for 2001, the whole hospital sector was to be the responsibility of the state, but in return the government delegated to CNAM the dual responsibility of regulating the fees charged by all self-employed healthcare professionals and negotiating with them target ceilings for expenditure. However, these negotiations only took place in 2001 and were, due to the inability of the funds to reach stable agreements with the service providers, subsequently abandoned (Sandier et al. 2004: 11). The effect of the new regulations on cost containment had anyway been arguable: "New institutional arrangements by themselves will not change the nature of the economic incentives that in the past encouraged over-consumption and over-prescription" (OECD 2000: 122). But a first step towards the breaking of the expenditure-increasing spiral resulting from the direct reimbursement of doctors was taken with the introduction of the CMU in 2000 (see 6.1.4): The law prescribed that all health professionals providing treatment under the CMU system had to work under a system of fixed fees (which was in the absence of agreements between health insurance funds and professionals set by

that non-compliance with the RMOs should result in financial penalties, but these penalties were opposed by the Conseil d'Etat and therefore not applied.

the ministry of health). This step was heavily criticised by most doctors unions, which saw this as the first step towards a salary-based system.

Despite the considerable strengthening of the allocatory powers of the government, as well as the extensive use of fiscal targets in an attempt to limit spending, the effects of the reforms during the 1990s were limited: since its introduction, the overall health expenditure ceiling was exceeded every year which shows the rather ineffective nature of ONDAM (see Graph 6-1).

Graph 6-1 The Systematic Overrun of ONDAM



Source: Projet de Loi de Financement de la Sécurité Sociale pour 2005

The continuous overrun of the spending ceiling was also a consequence of the fact that ONDAM rather resembled a mere expenditure target instead of being an enforceable limit. Due to the continuing overspending, the calculation procedure was changed in 2000: in its annual revision of the spending ceiling, parliament now based its calculations on the actual spending of the former year. This further weakened the already limited effect of ONDAM on spending levels – many commentators saw this move therefore as a capitulation of the government in its effort to effectively restraining expenditure: "Cette acceptation des faits scelle la déconfiture d'une ambition irréalisable" (Les Echos, 16 Nov 2001).

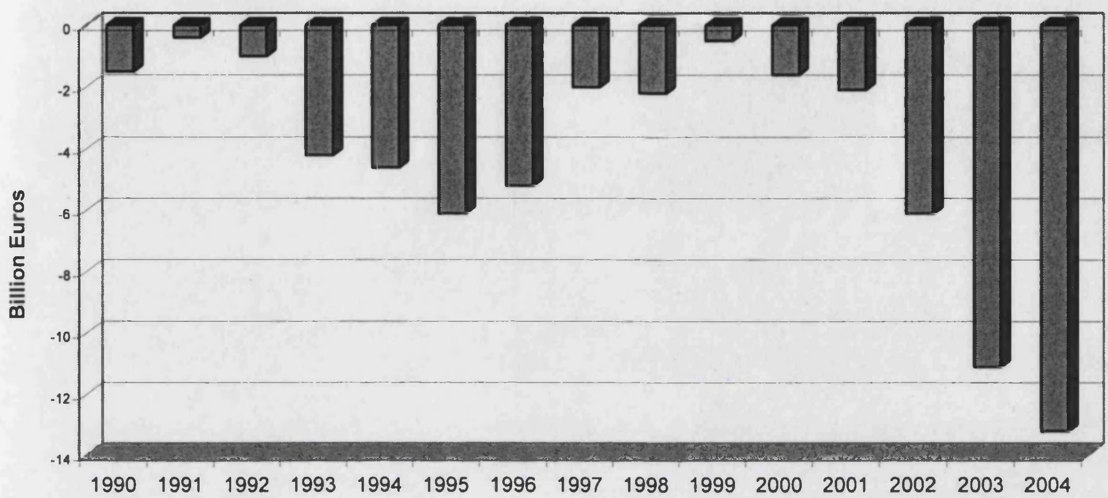
In 2004, a major health insurance reform introduced a new form of fiscal governance for the health insurance sector in order to improve financial discipline: all national health insurance funds were required to submit an 'estimated budget proposal' in the first half of every year. A Health Insurance Spending Increase Watchdog *(Comité d'alerte sur l'évolution des dépenses d'assurance maladie)* was made responsible for developing remedial measures when spending overran estimates by 1 percent or more. In return, the new National Union of Health Insurance Funds (*UNCAM*) became the authority in negotiating fee agreements with health professionals. In an attempt to shift expenditure control measures towards steering demand, all sickness insurance beneficiaries were now only eligible for standard user fees if they had a regular general practitioner which limited patients free choice.

A further factor which reduced the overall importance of voting an expenditure target as part of the LLFS was also tackled: in contrast to the state budget, the LLFS had no associated balance because the range of expenditure programmes (obligatory schemes) and revenues (all of the schemes and funds that contribute to their financing) was not identical. As deficits therefore did not occur in the financing law, it accordingly did not contain measures to cope with these. From 2005 onwards parliament now voted on the balance of the main sickness insurance schemes which was supposed to increase transparency of the financial situation of those and to subsequently increase cost containment pressures (OECD 2005: 53). But one major reason for uncontrollable spending – the system of mixed responsibilities between the government, the insurance carriers and the providers – remained untackled.

Deficit Coverage:

Besides the allocation of resources and the degree of enforceable fiscal target, the regulations of deficit coverage play an important role in determining the degree of fiscal constraints on spending. The deficit regulations for the Régime Général in 1990 did not create incentives for the schemes to contain spending, and neither did the regulations regarding contribution and benefit legislation give them the competency to do so (see Chapter 3). Since then, the balance of the CNAM had continuously been negative (see Graph 6-2). After a short-term recovery between 1997 and 1999, the deficit in the following years grew larger than ever before which was a consequence of increasing expenditure (the volume of benefits increased by 7 percent in 2002, and expenditure in the ambulant sector by nearly 9 percent) on the one hand, and sinking contribution revenues on the other (the lowering of contribution rates for employers due to economic considerations were a burden for the insurance budgets, and in 2003 alone the decline in revenues amounted to 9 percent; see Bode and Veil 2003: 32).

Graph 6-2 Deficits of the CNAM 1990-2004



Source: Cour des Comptes 2005

At the beginning of the 1990s, the French government solved the increasing financial needs of the CNAM via instalments by the finance ministry (see Cour des Comptes 1995: 90) and took over liabilities in 1993 amounting to €16.77 bn. As the deficit continued to grow over the following years, ACOSS (the financing body of the Régime General) took out considerable loans from the public Caisse des Dépôts. In order to refinance these loans as well as to refund the state for the liabilities it had taken on in 1993, the government established a Social Debt Redemption Fund (*Caisse d'Amortissement de la Dette Sociale*, CADES) in 1996. As an administrative public agency, CADES was a separate entity from the French state, but operated under its strict control.[84] Every year until its planned abolition in 2005 – when it was supposed to have accomplished its mission – CADES was under the obligation to make a €3 bn payment to the state budget. The repayment of these funds was mainly financed via the *Contribution au remboursement de la dette sociale* (CRDS), a 0.5 percent charge levied on all income as well as capital gains introduced in 1996. But the government did not stick to its original plans to use CADES exclusively for the amortisation of the debts

[84] CADES operated under the dual authority of the Minister of Economy, Finance and Industry and the Minister of Employment and Social Security, which appointed CADES senior managers and closely monitored their operations.

which it had accumulated until 1996, but repeatedly shifted new liabilities into the institution.[85] In addition, any surplus from the health insurance branch was allocated for its financing.

CADES did through these continuing assignments of new social security debt become "inseparable from efforts to balance the accounts of the French social security system" (Court des Comptes 2004: 143). As the Auditors Court pointed out, burdening the fund with these new debts was a contradiction of the initial principle of creating a temporary institution. The transformation in a quasi-permanent institution that enabled the state to repeatedly transfer the social security debt without having to account for it in its own budget was counterproductive to efforts to bring the social insurance schemes into a financial equilibrium and to increase pressures for cost containment. The overall effect of the reforms in the observed period in terms of cost containment has therefore remained limited.

6.1.3 Revenue Structure

As illustrated in Graph 5-2, tax revenues gained increasing importance in social insurance financing between 1990 and 2005. This was mainly related to the introduction and then continuous increase of the Contribution Sociale Généralisée (CSG), replacing health contribution payments by employees from 1991 onwards (see Appendix III). The CSG was introduced as a 1.1 percent tax on wages, accompanied by some reductions in contributions to the Régime Général. Although once opposed by the Conservatives, the CSG was in the following years used extensively by both political camps and its rate was increased multiple times - in 2005, it stood at 7.5 percent (see Kato 2003). While the increase of the CSG in 1993 by 1.3 points had been a pure revenue-raising measure for the FSV, the replacement of employees' health contributions with the CSG in 1997 was initially announced by Prime Minister Jospin as a zero-gum game. But in fact, it resulted in a net increase in revenues (see Kato 2003: 105). In 2004, the CSG generated €66.8 bn and constituted over 80 percent of the taxes assigned to the social budget (Source: DREES 2005b).[86]

[85] A first reform in September 1997 extended the duration of the fund by five years until 2014 in order to deal with the absorption of the additional debts from the years 1996 and 1997 (in total amounting to €34.2 bn between 1994 to 1998). In 2004, the Health Reform Act stipulated that the accumulated deficit in 2004 (a total of €35 bn), as well as the forecasted deficits for 2005 and 2006 (up to a maximum of €15 bn), would also be transferred to CADES.

[86] While the majority of CSG revenue was assigned to the CNAM, it also paid into the FSV, the Family Allowance Scheme and, since 2002, to the Financing Fund of the Allocation Personnalisée a l'Autonomie.

Although earmarked for social security purposes, the CSG had the legal status of an income tax levied on all types of earnings. It was therefore a 'hybrid' deduction, neither traditional social security contribution, nor general tax revenue. Due to this special status, it is debatable whether these revenues counted as 'state expenditure', as they were collected with the sole purpose to contribute to the social insurance system. According to the traditional Bismarckian insurance logic, CSG revenues were clearly no contributions, as they lacked the distinctive aspect of creating entitlements corresponding to the amounts paid in. The refusal of the French government to label the CSG as a social security contribution rather than taxation, despite continuing demands by the labour unions, clearly shows the reduction of the commitment factor through this change in revenue sources. The replacement of contribution revenue also gave the government more scope in rechannelling the funds, as in contrast to contribution revenues which were clearly earmarked for one special insurance scheme, CSG revenues were freely assigned by the government to various schemes and financing funds.

Due to the replacement of employee health contributions by the CSG, the CNAM was most strongly affected by its introduction: in 2004, it accounted for a third of its revenues. Besides this, also other tax revenues (stemming from charges on tobacco, alcohol and car insurance) allocated to the CNAM were increased in 1996, 2001 and 2004 (see Appendix I-5). Overall, the share of tax revenues increased from 1.6 percent in 1990 to 36 percent in 2004.

Table 6-1 Revenue Structure CNAM 1990-2004

	1990		2000		2004	
	€ (m)	%	€ (m)	%	€ (m)	%
Employees' contributions	20.1	32.2	3.4	3.4	4.0	3.4
Employers' contributions	39.3	63.1	49.8	51.1	56.1	47.3
Contributions covered by the state (CMU)	-	-	-	-	7.8	6.6
Total contributions	**59.4**	**95.2**	**53.2**	**54.4**	**67.1**	**57.3**
CSG	0.0	0.0	33.8	34.6	39.5	33.3
Specific taxes (cars, tobacco, alcohol)	1.0	1.6	4.0	4.1	3.1	2.6
Total taxes	**1.0**	**1.6**	**37.8**	**38.7**	**42.6**	**35.9**
State compensation for loss of contributions[1]	0.3	0.5	4.8	4.9	5.2	4.4
Adjustment between health insurance schemes	0.7	1.1	0.3	0.3	0.6	0.5
Other	1.0	1.5	1.5	1.6	4.7	1.9
Total revenues	**62.3**	**100.0**	**97.6**	**100.0**	**113.2**	**100.0**

Source: Commission des Comptes de la Sécurité Sociale 2001; Commission de Comptes de la Securite Sociale: Rapport June 2004; own calculations

As argued already in the case of pension insurance financing, the replacement of contribution with tax revenues strengthened the influence of the government at the expenses of the social partners as it gave the government increased leverage about the assignment of funds. Particularly the employer representatives continued to press for an end to this trend: their return in the self-administration committees in 2004 was connected with the fulfilment of a set of their demands, such as a stop of additional tax financing and a stabilisation of the C3S tax rate. Furthermore, it was agreed with the government that the CNAM had to be in financial balance by 2007, which meant savings of around €16 bn and a stronger financial participation of the patients. The package of additional revenues provided by the state was also fixed (€5 bn), and it was agreed that the CSG was not to be increased from its level of 7.5 percent. But overall, the drastic changes which occurred on the revenue dimension between 1990 and 2005 decreased the degree of fiscal commitment in the French health insurance scheme from very high to low.

6.1.4 Spending Structure

The degree of fiscal commitment inherent in the spending structure of the CNAM had only been low in 1990 – eligibility for healthcare and sickness pay was restricted to insured with a minimum contribution time, but the free co-insurance of dependent family members strongly weakened the insurance factor. Since then, the circle of people eligible for healthcare has been even further expanded. Until 2000, the basis of entitlement for health insurance benefits had been the employment status. But with the introduction of the Universal Health Coverage Act (CMU) in 2004, the small proportion of the population without public health insurance was now also entitled to healthcare on the basis of legal residence in France, with the state taking over their contribution payments. Furthermore, the co-insurance of dependants was widened (see Appendix I-4.2). These measures further reduced the link between contribution payments and eligibility for healthcare.

The reciprocity factor, which is generally low within most health insurance schemes due to the widely non-earnings-related benefit provision, has also been further reduced since 1990 through a series of reforms breaking former spending commitments. Not only in France, but in many other European health insurance schemes it has been common practice to increase co-payments by patients in order to lower health expenditure, which can be interpreted as a 'benefit reduction through the back-door' (see Couffinhal and Paris 2003: 17). In the French scheme, the daily hospital fee charged to patients was raised several times between 1990 and 2005 and the rules for the inclusion of drugs in the positive, reimbursable list were tightened repeatedly while reimbursement rates were lowered (see Appendix I-5). As a consequence, the share of private health spending increased slightly from 23.4 percent in 1990 to 23.7 percent in 2003.[87] But it were not private households which spent more on healthcare: while out-of-pocket payments by the patients decreased considerably from 48.7 percent of private health spending in 1990 to 40.9 percent in 2003, the bill had been picked up by private health insurance providers. This explains why the increasing co-payments did not have a moderating effect on healthcare demand: most of the population had supplementary medical insurance while others were fully covered by means-tested arrangements, so that only few were directly affected by the lower reimbursement rates (see Spicker 1998: 210).

The overall effect of broadening the circle of insured while reducing reimbursement rates and increasing co-payments has been a further reduction of the degree of fiscal commitment inherent in the spending structure of the CNAM from low to very low (see Appendix I-4.2). Together with the changes on the other three dimensions, this means that fiscal commitment in the French health insurance scheme has been considerably reduced from an overall score of 13 in 1990 to a score of 6 in 2005. The second part of

[87] Source of data: OECD Health Data 2005.

this chapter will assess to what degree fiscal commitment in the German equivalent to the CNAM, the GKV, has been affected by reforms during this period.

6.2 Formal vs. Effective Commitment: Health Reforms in Germany

6.2.1 Administrative Independence

In 1990, the degree of administrative independence in the German Statutory Health Insurance (GKV) had been very high due to a very high degree of institutional fragmentation and very restricted possibilities of government influence in institutional and managerial matters (see 4.2.1). But in the following years important changes in the institutional landscape of the GKV took place. One of those changes was the extensive reduction of the number of insurance carriers (from over 2000 in 1991 to 262 in 2005). In contrast to the Statutory Pension Insurance, the reduction of insurance schemes occurred through voluntary mergers, a consequence of increased competition between the different health insurance providers. Following the introduction of the Healthcare Structure Act in 1996, all insured were allowed to freely choose their insurance funds instead of being assigned according to profession and residence. In 2001, it was made even easier to change providers, which strengthened this competitive element. The reduced fragmentation in the insurance sector and the introduction of free choice of insurer turned the individual schemes into competitors, which weakened their potential for common resistance against government interventions, and strengthened the influence of the central state. While this had no direct impact on the administrative independence of the schemes, it had a considerably effect on the degree of fiscal constraints in the insurance sector (for details see 6.2.2.2). In 2005, health minister Ulla Schmidt demanded an even further reduction of the number of insurance companies to around 30 in order to achieve further efficiency gains, particularly regarding administrative spending (see SZ, 17 November 2005).

During the same period there were also moderate changes regarding the internal governance structure of the health insurance providers: while the degree of administrative independence regarding the selection of administrators and the degree of governmental supervision remained very high, the composition of the administrative bodies was changed with the Healthcare Structure Act passed in 1992. The health insurance funds were restructured following the example of public limited companies, and received a full-time, professional board of directors. This reduced the influence of the social partners in the daily management of the schemes, but again did not directly impact the administrative independence of the schemes regarding budgetary control as the board of directors was not nominated by the government but by the social partners themselves (see Bandelow 2004). The GRV therefore sustained its very high degree of administrative independence.

6.2.2 Budgetary Autonomy and Constraints

6.2.2.1 Budgetary Autonomy

Although the federal government was at the beginning of the 1990s not participating in the financing of the GKV, it had a growing interest in reducing health insurance contributions. The reason was that a reduction in this sector enabled it to increase contributions in other insurance sectors without increasing the overall non-wage labour costs (see Alber 1992). But the possibilities for the government to interfere in budgetary decisions of the GKV were limited, mainly as the health insurance carriers had the right to set their own contribution rates. In 1996, the Contribution Relief Act in 1996 temporarily abolished this right and the contribution rates of the GKV were compulsorily reduced by 0.4 percent. Many insurance carriers criticised that this solely served the purpose to counter-balance the parallel rise of pension contributions (see Appendix III). This "declaration of war" (Kania and Blanke 2000: 579) to the self-administration bodies of the health insurance funds however did not have the intended effect, as insurance funds circumvented the imposed contribution stability with early contribution increases.

The government subsequently changed its strategy from direct enforcement to indirect pressure: the Healthcare Reorganisation Act in 1997 intended to link contribution increases of insurance funds with an automatic increase of co-payments for the insured of this fund. The idea was to exert pressure on the funds to stabilise their rates, as increased co-payments would result in insured changing their providers. But after the change in government in 1998, this regulation was abolished and therefore never implemented. As fiscal pressures in the pension insurance became more severe in 2002, the SPD/Green coalition agreed on another 'contribution rate exchange' between old age and health insurance (see Trampusch 2003): the contribution rate in the health insurance was fixed in order to counterbalance an increase in pension contributions by

0.4 percentage points to 19.5 percent. A further intrusion in the contribution autonomy of the insurance funds was undertaken in 2005, when an exceptional, compulsory contribution of 0.9 percent of gross wages – solely funded by the insured – was introduced. Parallel, the other contribution rates were reduced by law.

In contrast to a high degree of revenue autonomy, the degree to which the health insurance carriers could determine their spending – that is, make decisions regarding the range of services provided and reimbursement rates – was only medium high in 1990. Although the self-administration gained authority during the 1980s in defining the provisions paid for by the GKV, this had been restricted to the ambulatory sector and main changes still had to take the form of a law and therefore remained under the control of parliament. But during the 1990s, the self-administration gained further authority in this respect. With the Second Restructuring Act in 1997, the *Federal Committee of Doctors and Insurance Funds* gained the authority to issue binding guidelines to nearly all areas in ambulatory care (§ 92 SGB V), and furthermore to assess all insurance fund provisions regarding their quality and economic efficiency, which gave it a big influence in designing the catalogue of provision (Urban 2001).[88] But this delegation did not mean that the central state had reduced its influence – the government secured itself a decisive influence on the content of regulations via objection rights, conditions of approval and the threat to impose decisions unilaterally in case decisions were not taken within a time limit or were found professionally faulty.

Besides this, a similar form of self-administration was also created in the hospital sector with the foundation of a "*Committee Hospital*" ('*Ausschuss Krankenhaus*') in 2000. This Committee disposed of similar competencies as the '*Bundesausschuss Ärzte und Krankenkassen*' in the ambulatory sector, which means that it had the task to evaluate whether the services provided in the hospital sector were 'sufficient, appropriate and cost-effective'. If the committee found these criteria not fulfilled, certain services were no longer covered by the GKV (see Sachverständigenrat 2005: 57). It was complemented by a '*Co-ordination Committee*' which was supposed to improve the co-

[88] The Federal Committee of Doctors and Health Insurance Funds (*Bundesausschuss der Ärzte und Krankenkassen)* was founded in 1956 order to issue (non-binding) guidelines regarding the content and capacity of the ambulatory provision (see Döhler 1994; Urban 2001). Its role was strengthened during the 1980, when it became limited powers to define the benefit provided by the health insurance carriers. But the self-agreements by insurance carriers were subject to considerable state intervention and were subject to approval by the ministry (see Alber 1992: 160). Furthermore, legal frameworks existed for the guarantee of sufficient ambulatory provision which set considerable limits to the independence of the self-administration bargains.

ordination between ambulatory and hospital sector. In 2004, a central corporatist 'super-organisation', the *'Collective Federal Committee'* (*Gemeinsamer Bundesausschuss*), was created. This Committee, which replaced all three previously existing ones, disposed of much greater regulatory authority as the former organisations and had competencies to exclude or restrict provisions from the benefit catalogue of the GKV. It therefore represented the most relevant decisionmaking body for the allocation in the health sector, and its establishment meant an important intensification of centralised corporatist steering in the ambulatory sector (Sachverständigenrat 2005: 57). While the chairman of the Federal Committee had been nominated by the Ministry of Health, the new committee had an independent chairman which strengthened the self-administration.

6.2.2.2 Budgetary Constraints

Particularly in the health insurance sector, the ability to contain spending did not depend on the decisionmaking power over the budgetary parameters alone, but to a very high degree also on the ability to implement spending constraints. Also in this respect considerable changes have been implemented between 1990 and 2005.

Budgetary Allocation Process/Enforced Fiscal Targets:

At the beginning of the 1990s, the mechanisms used to allocate the scarce resources were very different for the three sectors of health provision in the German Statutory Health Insurance (see Bandelow 2004; Sachverständigenrat 2005). In the ambulatory and the dental sector, the allocation of funds was carried out via corporatist co-ordination mainly on the state level: the Associations of Insurance Funds negotiated with the representatives of healthcare providers – the Associations of Insurance Doctors (*Kassenärztliche Vereinigungen*) – over the total allowances paid for the provision of health services (see Moran 1994).[89] This system of bargains without any direct state involvement made the control of expenditure very difficult, and the 'fee for service' payment system for the health service providers furthermore created incentives for them to maximise the number of services provided and respectively their share of the funds. Possibilities of cost control for the government in both the ambulatory as well as the pharmaceutical sector were therefore only limited, which created a high degree of fiscal

[89]In order to increase the co-ordination between the different payers and providers in the negotiations, the *'Konzertierte Aktion'* - consisting of around 60 representatives of providers, insurance funds and the state - was introduced in 1977 to develop benchmarks regarding the development of expenditure and structural reforms (see Oberender and Zerth 2002: 16).

commitment.[90] In the hospital sector the allocation of funds was mainly carried out through public planning. But again, the federal government lacked direct regulatory powers as the most important actors in this sector were the federal states, so that health policy decisions demanded difficult consensus building processes between federal government and states (see Alber 1992). Fiscal constraints were therefore weak in this sector. This, together with the absence of spending caps or enforced budgetary targets, created a high degree of fiscal commitment.

Despite increasing pressures on the insurance administrators and the service providers by the central government in annual spending bargains since 1990, the lack of effective instruments and powers to constrain spending in the health sector remained. In 1989, the government made an (unsuccessful) attempt to balance revenues and expenditure of the GKV via the institutions of self-administration (see Kania and Blanke 2000: 572). In line with the goal to stabilise the contribution rate, the *Healthcare Reform Act* contained a series of instruments which primarily focused on a reduction of available provision and a limitation of doctors' freedom regarding prescriptions. The corporatist bargaining structure with service providers remained untouched, but in return they were supposed to agree benchmarks regarding the amount of provisions prescribed by doctors. "Overall the GRG can be interpreted as punctually targeting symptomatic therapy, in which the cost-driving structure has remained widely untreated" (Oberender and Zerth 2002: 25; author's own translation). But the limitations of corporatist bargaining models when faced by declining distributional scope became quickly visible, as neither the peak associations of the insurance funds nor the German Hospital Association could agree on the demanded spending volumes and as a result asked the federal government for the provision of a legal directive. This shows that a governmentally imposed solution created fewer legitimatory problems for the associational elites than a self-agreed compromise (see Alber 1992: 116).

After the failure to contain spending in the medium and long term through the reforms became obvious in 1992, the government changed its strategy of relying on the social partners to reduce spending (see Lauer-Kirschbaum 1994; Blanke 1994; Kania and Blanke 2000). The 1993 Health Structure Act – made possible through a broad cross-party agreement and the successful exclusion of negatively affected provider groups –

[90] There was no state control of pharmaceutical prices and also price competition between producers only played a minor role. The pharmaceutical providers were subject to an 'associational self-control', but its influence was rather weak (see Alber 1992: 132).

increased governmental powers vis-à-vis the self-administration (see Perschke-Hartmann 1993; Hinrichs 1994). Instead of relying on the corporatist structures to achieve cost containment through consensual decisionmaking, widespread budgeting was introduced for all expenditure sectors in the health insurance, which represented a strong intervention in the domains of self-administration. In an attempt to limit political conflict the government also automatised the future development of expenditure ceilings, which was linked to the development of the base rate of pay.[91] Furthermore, the government announced plans to draft a 'positive list' of prescribed drugs and the abolition of the principle of automatic cost coverage ('*Selbstkostendeckungsprinzip*') in hospital financing. Pressure was also put on dental provision with the intention to lower payments by 10 percent in 1993.[92] This widespread introduction of fiscal targets was propagated as only a temporary solution while the new regulatory system based on competition between the insurance carriers was implemented (see Kania and Blanke 2000: 567).

Expectations were however once more disappointed: the introduction of different budgets for the different health sectors lead to the shifting of patients between sectors, or the delaying of service provision into the following budget year. As a result, the budgeting for the contractual ambulatory sector was broken up again in 1995 and the expenditure limit was raised beyond the increase of the base rate of pay. Furthermore, the plans for a 'positive list' of drugs were abandoned again.

After this attempt to achieve cost containment via centralised control had failed, the government changed its strategy again. The new idea was to force the self-administration to improve the efficiency in the health provision via a restrictive resource regulation. In 1997, the insurance carriers and service providers gained – under the heading 'right of way for self-administration' – not only more influence on defining the catalogue of provisions, but also more scope for contractual designs.[93] But parallel, the legal and financial framework for decisions became increasingly tight. With the change of government in 1998, a stronger focus on capping budgets in order to limit expenditures was reintroduced. The *1999 Act for the Strengthening of Solidarity in the*

[91] The Base Rate of Pay is the sum of the income of all insured in a Statutory Health Insurance fund up to the contribution assessment ceiling.
[92] Main mechanism was the introduction of a degressive point value for all dental services in case of the exceedance of a certain amount of points.
[93] Insurance carriers were now also allowed to offer additional provisions besides the legally regulated provision catalogue.

Health Insurance aimed again at automatising expenditure growth in linking the developments of budgets with those of revenues. But plans for a 'global budget' for all sectors promoted by health minister Andrea Fischer were not realised.[94] Instead, the 2000 *Health Reform Act* maintained the system of sectoral budgeting – but the expenditure of the GKV was to only increase according to the annual rate of pay. The reform also introduced a new case-based lump-sum price system for hospitals from January 2003 onwards.

But the limits of the state-imposed capping of expenditure became obvious relatively quickly: in 2001, the regulations prescribing a lowering of the overall pay for the ambulatory sector in the case of an exceedance of the budget limit for pharmaceuticals – introduced in 1993 – were abolished again (see Lehmbruch 2003). The reasons for the elimination of the collective recourse were 'problems of acceptance' of the former regulations by doctors. In fact, during the nine years since the introduction of the pharmaceutical budget, doctors were never subject to reductions of pay despite continuing and sometimes quite drastic overruns of the budgetary limit. Instead of the former pre-defined budget, the self-administration was now supposed to reach annual agreements about the expenditure volume for pharmaceuticals on the regional level. In the case of non-agreement, this volume could be defined by the ministry of health via decree. Thus, while the self-administration gained allocatory decisionmaking authority, the government strengthened its powers in the case this allocatory procedure did not produce results – which became, due to the difficult financial situation, increasingly likely. The implemented fiscal targets however remained widely ineffective due to the lack of enforcement powers.

The Healthcare Modernisation Act 2004 loosened the centralised corporative structures in many respects, for example by granting the health insurance funds more options in their statues and by granting more contractual freedom to hospitals and ambulatory medical care centers. Also in the hospital sector the trend to increasingly assign authority to the insurance funds and hospital associations continued: now the German Hospital Association became, together with top associations of insurance funds, responsible for the fixation and development of case-based lump sums (§ 17 Abs. 2a

[94] Not only the resistance by the service providers against a global budget led to the failure of the plans, but it was in the end the federal chamber who blocked the reform. The reason was that Fischer was planning to unite the authority for hospital financing in the hands of the insurance funds, which would have meant a loss of influence for the Länder governments.

KHG). But again, this strengthening of corporatist decisionmaking powers was accompanied by tighter financial frameworks: from 2004 onwards, also administrative costs of the insurance funds were linked to the development of the base rate of pay until 2007 or were frozen, in case they were 10 percent above the average of all insurance funds.

Deficit Coverage:

Since the foundation of the GKV and still the case in 1991, every health insurance had been obliged to set its contribution rates for the budget year in a way that the expected revenues would be sufficient to cover the expected expenditure and – if necessary – to fill up the compulsory financial reserve. Credit financing was generally not allowed, except for the bridging of a short-term financial gap within a fiscal year. The fact that deficits were not covered by the federal state put pressure on the health providers to consolidate their budgets. On the other hand, the fact that they had the possibility to adjust the contribution rates to match their spending development meant that incentives to reduce spending were low. Overall, these regulations ensured sufficient funds for the health insurers while incentives for fiscal constraints were minimal. The degree of fiscal commitment on this dimension was therefore high in 1991.

These regulations of deficit coverage worked well as long as expenditure and contribution revenues increased at the same pace, and as long as contribution increases did not create undesired economic side-effects (such as low employment levels due to high non-wage labour costs). But with the worsening of the financial situation in the 1990s, the limits of this system became quickly apparent. As the fiscal reserves after the deficits in the middle of the 1990s barely covered the legal minimum of a quarter of a monthly expenditure, the new deficits could often only be covered through borrowing – even despite the legal regulations which did not allow this. The government, keen on avoiding further contribution increases, reacted in March 1998 with the 'GKV Finance Strengthening Act'. The insurance funds in the new Länder now became the legal possibility to avoid contribution rate increases until the end of 1998 by taking up loans. All insurance funds who had previously taken out loans against the legal regulations had to present detailed plans to the supervisory authority how to cancel their debts within five years, and how to repay all the new debts within a ten year period.

But despite the fact that insurance funds were still not allowed to accumulate debts beyond a fiscal year, the reality of budgeting looked very different. From the year 2001 on, the public health insurance schemes had continuous deficits ranging from €3 bn to €31.2 bn, although the average contribution rate rose from 13.6 to 14.3 percent during the same period. Driven also by desires to lower the contribution rates in order to be competitive, many insurance institutions took out loans to overcome financial difficulties. But as the financial situation failed to improve as expected by most insurance carriers, these initially short-term loans turned into long-term debts. The exact amount of debts accumulated between 2001 and 2004 by the insurance funds is hard to calculate, as the balances of the funds often did not show these outstanding amounts. According to Der Spiegel (15/2004), those 'hidden debts' amounted to €14.4 bn at the beginning of 2004. Even health minister Ulla Schmidt admitted that she was surprised by the figures, and commented that she "would have wished the number was lower" (SZ, 18 June 2004). In order to put pressure on the insurance funds, the GKV Modernisation Act 2004 stated that those funds with debts had to reduce those until 2007 by at least a quarter. But in 2005, Schmidt complained that the insurance funds used their positive results in 2004 to eliminate their debts 'too quickly' – instead, Schmidt wanted to push through further contribution rate reductions. But despite these demands by the health minister, some health insurance funds did not even reduce their contribution rates by the legally prescribed 0.9 percentage points (which was approved by the Federal Insurance Agency due to their difficult financial situation (Spiegel Online, 12 July 2005).

In 2004, the government had to introduce a federal subsidy in order to cope with the high deficits in the health insurance. The law stated that these revenues had to be used for the reduction of contribution rates and could not be used for the reduction of debts. According to the coalition agreement between CDU and SPD in 2005, the subsidy was supposed to be abolished in 2007. But the agreement did not contain plans to also lower the tobacco tax, which had been increased in 2004 to finance the subsidy. This meant that from 2007 onwards the additional revenues from the tax increase would flow into the federal budget instead of into the health insurance schemes.

6.2.2.3 Conclusion

Overall, fiscal commitment on the budgetary dimension of the GKV has been reduced from high to medium between 1990 and 2005. Although direct attacks on the contribution autonomy of schemes have remained widely ineffective and the GKV has sustained its high degree of formal budgetary autonomy, the degree of fiscal constraints has been increased considerably. Despite the fact that the government formally granted more autonomy regarding spending bargains with the service providers and therefore budgetary authority to the insurance scheme associations, it defined the increasingly tight bargaining scope and increased its authority in the case of non-agreement. Also in terms of deficit coverage, no sufficient regulations have been put into place which would have allowed the insurance funds to effectively manage their outstanding liabilities – instead, the revenues generated to finance a temporary federal subsidy to the GKV were successively channelled back into the state budget. While fiscal pressures have steadily increased over the observed period, the GKV has therefore increasingly lost its ability to independently react to them.

6.2.3 Revenue Structure

As outlined in the paragraphs above, the health insurance funds had continuing problems in balancing their budgets since the mid-1990s. While these financing problems had often been attributed to a 'cost explosion' in the health sector, they had in fact several reasons – the availability of more expensive treatments being only one of several. The probably biggest problem in healthcare financing was in fact reclining revenues as the amount of wages on which contributions were paid was not growing as fast as health expenditure.[95] Another factor was the changing structure of membership, with a growing number of dependents, pensioners and unemployed insured, which also reduced revenues as they paid no or lower contributions. But there were also a series of political factors which had negative effects on the revenues of the GKV.

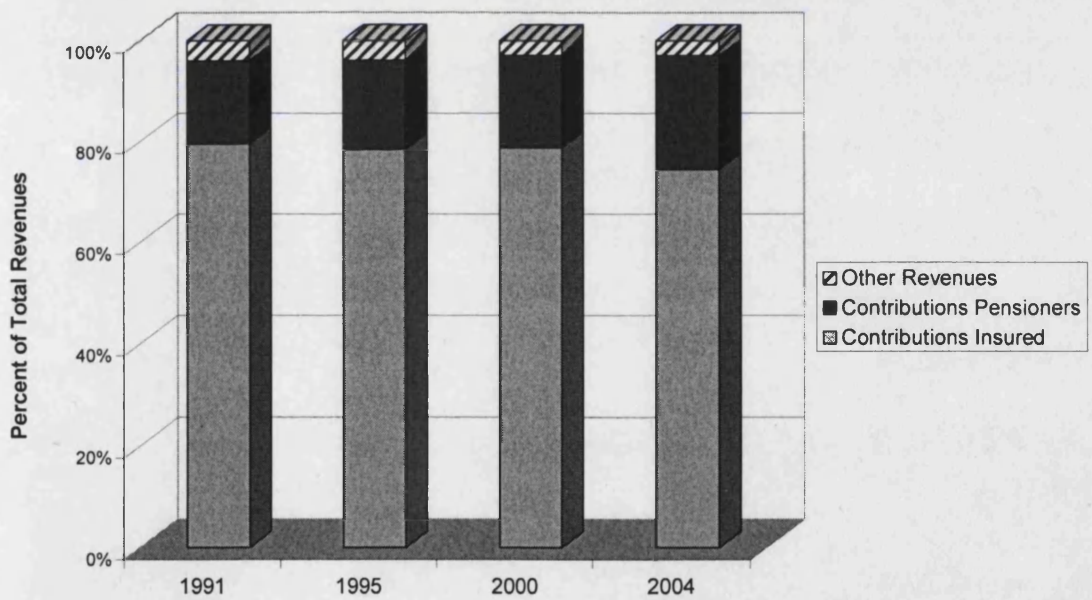
Contribution vs. Tax Revenues

In order to tackle the problem of a widening gap between expenditures and revenues, every German government since 1990 tried to increase contribution revenues by increasing the circle of contributors. A series of consecutive reforms limited the possibilities for voluntary members in the Statutory Pension Insurance to automatically

[95] As the Advisory Council (Sachverständigenrat 2003: 15) pointed out, the growth of assessable income per member in the old *Länder* was 31 percentage points lower than the growth of GDP per worker between 1980 and 2000. If the assessable income had grown at the same rate as GDP, €17.8 bn more in GKV revenues would have been created in 2000 alone.

become members of the health insurance for pensioners.[96] This had the effect that they had to insure themselves voluntary, which increased their contribution payments. But the widening of the circle of contribution payers was not restricted to pensioners: with the Laws for Modern Services in the Labour Market passed in 2002, it was introduced that also employees in minor employment – formerly exempt from social contribution payments – had to pay a compulsory contribution to the GKV. Revenues were also increased by raising the contribution assessment ceiling.[97] In 2004, it was furthermore decided that insured had to pay an additional exceptional contribution of 0.5 percent of their gross wage subject to contributions from 2006 onwards. In order to avoid looming contribution increases for 2005, this exceptional charge was in 2004 brought forward and increased to 0.9 percent. This new split between a general and additional contribution rate meant that the basic approach of parity between employers and employees was given up for the first time since the introduction of social insurance in Germany.

Graph 6-3 Revenue Sources GKV 1991-2004



Source: BMG, Statistisches Taschenbuch 2005

[96] 1993 Healthcare Structure Act, 2001 AvmErgG (see Appendix II-5).

[97] From 2001 onwards, the social security ceiling as well as the contribution assessment ceiling in the new Länder had been raised to the level of the old Länder, along with the level of co-payments – which meant an increase of revenues for the East German funds.

Overall, the very high share of contributions in the revenue structure of the GKV remained stable between 1991 and 2004 at around 97 percent of total revenues. But due to the increased contribution rate for pensioners and the reduction of possibilities for free co-insurance, the share of contributions paid by this group increased considerably (from 16.5 to 22.7 percent). In contrast to France, the share of tax-financing did not increase – the introduction of the federal subsidy financed via taxes in the GKV in 2004 accounted for only a marginal share of overall revenues, and was intended to only be temporarily (see 6.2.2.2).

Transfers:

Another important aspect regarding the volatility of revenues of the GKV were existing financial interdependencies between the GKV insurance carriers, as well as between them and other institutions. The degree of such interdependencies had initially been relatively low. Until 1994, each insurance fund was solely responsible for the balancing of its revenues and expenditures. The only exception was the equalisation process in the health insurance of pensioners introduced in 1977, which covered all insurance funds and partly reimbursed them for their relative expenses on pensioner's provisions. But in 1994, the degree of financial interdependencies between the different insurance carriers increased considerably.

As a pre-condition for the introduction of more competitive elements in the form of free insurance fund choice for all insured, the Healthcare Structure Act introduced a national and comprehensive revenue-oriented risk equalisation process ('*Risiko-Strukturausgleich*', RSA). In order to provide equal 'starting positions' for the funds in the competition between each other, socio-demographic factors of their insured which had an impact on contribution revenues (such as the base rate of pay, the quota of co-insured, the age and gender structure) were financially compensated. While the equalisation process was initially designed to be separate for the new and old Länder, this separation was abolished in 1998 which lead to an expansion of West-East-transfers. From 2000 onwards, a national equalisation process was introduced. Basis for the calculation of the transfers was the standardised expenditure for provisions on the one and contribution-based revenues of the health insurance schemes on the other hand. This had the effect that the GKV East and GKV West had the same base rate of pay available for the financing of their individual, risk-weighted expenditure – which also increased the volume of transfers.

Not only because of these large payments from insurance funds in the old to the ones in the new Länder the equalisation process was subject of much criticism and conflict between the insurance funds. Some funds argued that it was not in the interest of the insured, but rather purely served the purpose of securing the continuing existence of more inefficient health insurance funds (see Oberender and Zerth 2002: 30). In 2000, the *Ersatzkassen* and the AOK demanded corrections of the equalisation process mechanism after experiencing a massive decline in their respective memberships, as they had higher contribution rates. They argued that this was not due to bad management, but due to their membership structure (consisting of a high share of pensioners and other groups with above average healthcare needs). On the other hand, insurance funds with a profitable membership structure (mainly the company-specific *Betriebskrankenkassen*), demanded a reduction of the redistributive elements with the argument that they did not want to co-finance the inefficiency of other insurance fund types (see Bode 2002). Despite this opposition, the government decided to even extend the equalisation mechanism: for a transition period from 2002 until 2006, the equalisation factors of the existing transfer process were expanded and supplemented by a risk pool. From 2007 onwards, the contribution demands of insurance funds within the RSA were to be determined on the basis of direct morbidity characteristics of the insured.

Besides increasing the amount of transfers between the insurance carriers, there have also been several reforms which have increased the extent of financial interdependences between the GKV insurance carriers and other insurance schemes. Repeatedly, financial burdens were shifted from other social programmes to the health insurance carriers: according to calculations by Beske (2004), the extent of these burdens resulting from political decisions between 1989 and 2002 amounted to €30.41 bn. Major reforms in this respect were changes in the contribution assessment base for recipients of unemployment benefits and unemployment assistance (see 5.2.3.4). The reforms in the unemployment insurance since 2002 burdened the health insurance funds with additional €6.04 bn (2002-2005), as did the pension legislation since 2002 (€0.48 bn from 2004-2005; see Beske 2004). But on the other hand, the GKV has also been disburdened with the introduction of the long-term care insurance (see Table 6-2). The overall degree of fiscal commitment on the revenue structure remains therefore very high.

6.2.4 Spending Structure

The main element creating an only low degree of contribution-based eligibility in the GKV in 1991, the free co-insurance of family members, has remained untouched since 1990. But some reforms of the Schröder government focused on reducing redistributive elements in the eligibility for healthcare: the *GKV Healthcare Reform 2000* implemented that persons who after the age of 55 became eligible for statutory insurance were excluded from public insurance if they had not been insured in the GKV during the previous 5 years. According to former regulations, these persons were able to become a compulsory member of the GKV even if they never contributed to the scheme at any time before. Spouses, who were formerly privately insured, did not longer have access to the family co-insurance during times of pregnancy or child rearing. These measures represented a process of commitment-tightening, as the conditions for eligibility were more closely linked to former contribution payments.

Reciprocity between contribution payments and benefits – only low in 1991 – was also tightened and redistributive elements were reduced. A basic principle of the GKV had been that all members were generally eligible for free healthcare treatment. But due to mounting fiscal pressures since 1991, several diversions from this principle were introduced. One major element in this respect was the continuing increase of patients' co-payments (see Appendix II-5). These increases were also a consequence of a report by the Council of Advisors (*Sachverständigenrat*: *SVR*) in autumn 1996, which acknowledged the health sector as an important economic growth and employment area. Accordingly, the political agenda changed from being exclusively focused on saving to rather stabilising health expenditure. In order to allow for continuously high healthcare spending – while avoiding contribution rate increases – the government decided to make patients contribute more to the financing of provisions (see Kania and Blanke 2000: 578). Certain benefits were excluded from the list of provisions provided or reimbursed by the GKV, and allowances and reimbursement rates were reduced.[98] Regarding the effect on reciprocity, these measures strengthened the insurance principle: "The effects of the solidarity principle decrease as the definition of the benefits catalogue narrows, for such measures are a greater burden on insured persons

[98] In 1989, death benefits were reduced and for newly insured completely abolished, while also the reimbursement of orthodontic treatment for adults and the provision of dental prostheses were step by step removed from the list of provisions.

with low incomes; i.e. from the perspective of distribution policy, it has a regressive effect" (Sachverständigenrat 2003: 14).[99]

As in the other social insurance sectors, the health insurance saw a short-time reversal of tighter regulations in the first months after the change of government in 1998: the *Strengthening of Solidarity in the Statutory Health Insurance Act* reduced co-payments for drugs, reintroduced the free provision of dental prostheses and abolished fixed co-payment regulations. But a consequence of the revision of the previous reforms was rapidly mounting cost pressure, which after much political conflict not only between the government and the opposition (see FR, 16 August 2003), but also with the insurance schemes and doctors associations (see FR, 15 November 2003), led to the passing of the *2004 Statutory Health Insurance Modernisation Act.* This reform more than re-implemented the formerly abolished cost-reducing measures. Co-payments were increased to generally cover 10 percent of the costs for all provisions. Furthermore, a €10 practice fee for ambulatory treatment was introduced despite much criticism, and some provisions (such as death benefits and dental prostheses) were eliminated from the benefit catalogue. But after strong protests from both provider as well as patient groups, some provisions – such as dental prostheses – were revoked in 2005, and the former regulation regarding hardship cases was reintroduced.

Besides burdening patients with increased co-payments, the share of health expenditure covered by public households did only increase moderately between 1992 and 2003 (see Table 6-2).

Table 6-2 German Health Expenditure by Carrier (in percent)

	1992	1998	2003
Public Households	11.0	8.4	7.8
GKV	61.9	56.1	56.7
Long-Term Care Insurance	-	7.0	6.9
GRV	2.3	1.6	1.8
Statutory Accident Insurance	1.7	1.7	1.7
Private Health Insurance	7.3	7.7	8.6
Employers	4.4	4.1	4.1
Private Households and Organizations	11.4	13.4	12.3

Source: Gesundheitsausgabenrechnung 1998; 2003; own calculations

[99] To limit this effect, the Healthcare Reform Act in 1989 contained a 'hardship clause' which regulated that all insured with a household income below 40% of a defined threshold were exempt from co-payments.

In contrast, the share covered by the GKV decreased more markedly. This was mainly due to the establishment of long-term care insurance in 1995, which reduced spending of the GKV carriers for care services – an insurance-external provision – considerably.

Reforms between 1991 and 2005 also targeted the element with the strongest reciprocity in the health insurance, sickness pay. In 1997, this wage-related benefit was with immediate effect reduced from 80 to 70 percent of the former net wage. In 2000, the provision was reduced further as the *Budget Recapitalisation Act* changed the annual adaptation of the benefits from net wage developments to price developments. In the following year, the annual adjustment was then linked to the last pension adjustment rate – again a reduction compared to inflation adjustment. While the internal link of sickness pay to previous wages has therefore been maintained and accordingly the degree of 'internal reciprocity' remained high, the degree of external reciprocity between the factual value of contribution payments and the equivalent benefit payments decreased which represents a case of commitment-breaking.

Overall it can be concluded that the degree of fiscal commitment on the spending structure has remained low. Despite the reduction of redistributive elements mostly with regard to eligibility for health and the introduction of the long-term care insurance, the overall financing share for insurance-external elements remained very high. The introduction of the federal subsidy from 2004 onwards failed to make a big difference: while the GKV was supposed to receive €1 bn from the federal budget in 2004, €2.5 bn in 2005 and from 2006 onwards €4.2 bn annually, this did not cover all the insurance-external costs which were estimated to be at least €10 bn annually (Beske and Drabinski 2003). Furthermore, the generosity of the only benefit provision in the GKV with a strict reciprocal character between the amount of contribution payments and the generosity of benefits, sickness pay, was reduced overall, which meant a reduction in the degree of external reciprocity between contribution and benefit values.

6.3 Common Patterns and Differences in the French and German Health Reforms

The analysis of reform developments in the main French and German health insurance schemes has shown that in both cases, fiscal commitment has been reduced in the period from 1990-2005. But the extent of these reductions differs considerably between the schemes: in the case of the German GKV, the reduction of fiscal commitment has remained moderate with only slight reductions on both the budgetary and revenue dimensions. In contrast, fiscal commitment inherent in the French CNAM decreased from a score of 13 in 1990 to a score of 6 in 2005. While commitment has been reduced on all four dimensions, this reduction has been particularly strong on the revenue dimensions due to the switch from contribution to tax financing. The in-depth analysis of the reform processes which have led to these reductions of fiscal commitment has shed light on the questions to what extent previous commitments have had an impact on successive reform developments, as well as on the role that the social partners as well as retrenchment advocates in government have played in these processes:

(1) To what extent did the differences in the overall commitment scores between the schemes, but also the differences on the individual dimensions matter for future reforms in times of fiscal pressures? Reforms on the administrative dimension have gone much further in France than in Germany: the restriction of managerial independencies by the social partners in the French CNAM went hand in hand with an organisational reorganisation process which reduced the institutional fragmentation in the scheme on both national and regional level, and increased central administrative control by the government. At the same time the French government expanded its control powers via the creation of new institutions for closer spending monitoring. These measures have reduced the score of administrative independence from medium high in 1990 to low in 2005. In contrast, the very high degree of administrative independence of the German GKV carriers has been maintained throughout this period in spite of an overall reduction of the number of insurance carriers and an internal shift of authorities towards professional staff. This supports the hypothesis that a high degree of fiscal commitment on the administrative dimension builds an effective barrier against further state involvement.

In contrast, we can observe reductions of the degree of fiscal commitment on the budgetary dimension in both countries – despite the fact that the German GKV had a high degree of commitment on this dimension in 1991, while the budgetary autonomy of the French CNAM was only medium high. The formal budgetary autonomy of the CNAM decreased when the state for the first time took over formal responsibility for the social insurance budgets with the introduction of the SSFL in 1996. The government further widened its grasp over the determination of revenues with the introduction and expansion of the CSG (which gave it powers to assign revenues more freely than it was the case with contribution revenues) as well as with the centralisation of the allocation process in both the ambulatory and hospital sector. But while the hierarchical steering of the healthcare system was further reinforced, the French government did not succeed in increasing fiscal constraints (see also Bandelow and Hassenteufel 2006). Despite the widespread introduction of expenditure ceilings and the foundation of new institutions for the monitoring of spending, the new budgetary framework did not prove effective in limiting expenditure growth. One of the main reasons was the lack of enforcement power behind the introduced spending caps. Another reason was that while the insurance carriers have been increasingly deprived of their bargaining powers with the service providers, this has not solved the problem of reaching stable agreements. The health professionals still disposed of considerable veto powers and showed strong resistance against all attempts to enforce spending limits. Parallel, the introduction of CADES to finance social security debts counteracted those efforts to increase spending constraints as new health insurance debts were repeatedly shifted into this semi-independent institution instead of tackled effectively.

While the formal budgetary autonomy of the German GKV has never been formally abolished, it has been factually constantly undermined which also reduced the degree of fiscal commitment on the budgetary dimension in this scheme. On the one hand, the mandatory reduction of contribution rates in 1997 was an unprecedented interference in the authority of the self-administration institutions. But on the other hand, the government granted the self-administration actors more authority in determining spending: the German government seemed to "systematically abandon intervention powers in the healthcare system" (Bandelow 2005: 8). The self-administration was increasingly seen as a steering instrument for the restriction of costs and for the development of the GKV. But while this strengthened the formal independence for the insurance carriers regarding spending, it was accompanied by a process which has limited the financial scope of the insurance carriers and increased spending constraints. The governmental frameworks set for the bargains in the self-administration were due to the difficult financial situation becoming increasingly tight, which made the reaching of bargains ever more difficult. Increased budgeting in all sectors as well as stronger intervention powers for the government in the case of non-agreements between the actors of the self-administration showed the 'mistrust towards the ability and willingness of the self-administration to comply with global expenditure goals out of their own instigation" (Gerlinger 2002: 22).

For the government, this combination of delegating bargaining powers while retaining the definition powers over the rules of the game had the advantage of it not being directly responsible in the case of the exceedance of spending. Instead the self-administration was left with the task of bargaining provisions and remunerations in the government-defined framework – and was therefore responsible for the outcome.

> "Under the heading 'right of way for self-administration' and talks about the 'model of partnership', a strategy has been continued with which the legislator – through the transfer of central regulatory tasks – has integrated the social self-administration directly in the process of cutting back provisions, in order to disburden itself – in best corporatist manner – from potential conflict and legitimatory risks" (Urban 2001: 29; author's own translation).

The result was a situation which Noweski (2004) describes as "self-administration in the shadow of hierarchy": while the government was no longer directly involved in the conflict-ridden budget bargains, it had considerable powers in the increasingly likely incident of non-agreement. A growing number of decisions about the allocation of scarce resources was shifted to arbitrations boards, or in cases of non-agreement, the Ministry of Health had to issue regulations (see Sachverständigenrat 2005: 36). Parallel, the goal of cost containment has been internalised in both the incentive structures of the insurance funds (via competition between them) as well as of the service providers (via incentives in the financing structures) – in this way, the state exploits the corporatist structures for its own cost containment goals (see Noweski 2004). In terms of fiscal commitment, the distinction between 'formal' and 'effective' commitment is important in this case: while formally assigning authority to the social partners, they did in fact not gain much decisionmaking scope while being used by the government as a tool for cost containment. The increased formal autonomy in spending bargains is therefore not effective in terms of commitment-maintaining.

With regard to fiscal commitment on the revenue structure, the French health insurance scheme has seen a drastic reduction between 1991 and 2005 mainly due to the replacement of contribution revenues with the earmarked income tax CSG. In contrast, the high share of earmarked contribution-financing has remained stable in the GKV. The only limited reduction of fiscal commitment on this dimension in the German scheme has been due to the introduction of a limited purpose-earmarked federal subsidy in 2004 – which has opened the door for further financial interventions by the federal state. Furthermore, the health insurance has been struggling with the reduction of overall contribution revenues, also due to political decisions which disburdened other insurance carriers at the expenses of the GKV. This represents a case of commitment-breaking (which remained however limited due to the parallel disburdening of the GKV with the introduction of the long-term care insurance).

The decoupling of health insurance eligibility from the employment status and the further expansion of the coverage of the French CNAM has also further reduced the degree of fiscal commitment on the spending dimension. Regarding the generosity of benefits, the consecutive increase of co-payments as well as the lowering of reimbursement rates did in fact represent benefit cuts. The repeated use of these measures to curb public spending seems to confirm the hypothesis that benefit cuts should be easier to implement if the benefit-contribution link is weak. The increasing share of healthcare financing by private, supplementary insurers shows however that the private sector gained increasing importance in securing against health risks, which avoided future commitments for the public insurance schemes. Also in Germany, the low degree of spending reciprocity seemed to have made it easier to implement benefit cuts: there has been a continuous increase of co-payments as well as the exclusion of provisions from the catalogue of financed services. Also the only provision which was equivalent to contribution payments, sickness pay, has been cut back which broke prior spending commitments. In contrast to France, the eligibility for benefits has not been further expanded by extending the insurance cover to those in the society previously without insurance protection. Instead there has been a process of commitment-tightening through the aggravation of eligibility rules. Due to the maintenance of strong administrative independence, the employment-related eligibility for health insurance benefits still played a greater role than it was the case in France. Here the social partners did not only lose managerial authority, but the employers also left the administrative boards temporarily and did not hide their willingness to completely privatise the health insurance schemes even if this would have meant the loss of their direct administrative authority. This indicates a strong link between the governance form of the insurance scheme and the development of benefit reforms.

(2) What have been the predominant modes of change and what were the implications of reforms for the degrees of fiscal commitment on the future? France experienced reductions of fiscal commitment on all four dimensions: existing spending commitment is more directly controlled by the state via reductions of administrative independencies of the social partners, and commitment is also more strongly restrained in budgetary terms due to a more centralised allocation process (although the effect remained more limited than intended by the government). But the major shift in the financing structure away from contribution to tax financing also represents a major case of commitment-avoiding in the future as no new benefit entitlements are created.

In contrast, future commitment in this respect was much more maintained in Germany. Here the less visible restraining of commitment on the budgetary dimension via the increase of financial constraints has been the dominating mode of change. Commitment-breaking on the spending dimension has remained marginal with the introduction and increase of patients co-payments, and has been accompanied by a tightening of eligibility rules.

(3) What role did the social partners and their relationship with the state play in the reforms? The incentive for governments to limit blame for unpopular decisions via the delegation to other decisionmaking bodies has, among others, been pointed out by Fiorina (1982: 53): "Legislators have incentives to shift the costs of making decisions and to take advantage of imperfect information on the part of constituents by evading responsibility for the consequences of policy decisions". In the German health sector, exactly this shifting of unpopular decisionmaking into the self-administration sphere could be observed. But as the government still held the powers to set the frameworks for bargains and had the capacity to intervene in cases of non-decisions, it was in the comfortable situation to then blame the social partners for having failed to make use of their responsibilities if bargains could not be reached. The social partners were rarely able to resist this development as they formally gained budgetary authorities while still maintaining their full administrative independence. Furthermore, the increased competition between both insurers as well as providers had led to a fragmentation of interests, which made common resistance more difficult and unlikely. The parallel process of centralising the self-administration committees also had a positive effect on the regulatory capacity of the government (see Noweski 2004: 77): the centralisation of decisionmaking brought with it a reduction of possible veto points and made

decisionmaking processes more efficient, which weakened the possibilities of fragmented interest groups to interfere in the process.

In contrast, the French state assumed administrative and budgetary authority much more direct in the health sector. But despite this fact, it remained unable to push through its goals of a further liberalisation of the system and the implementation of stricter cost containment mechanisms against both the resistance of the insurance carriers and the service providers (see Bandelow 2005). One explanation is that these attacks on the existing system of healthcare financing and provision were much more direct than in the German case. But in contrast to Germany, the French sector also lacked a system of organised group bargains to which unpopular decisions could have been delegated.

Within the French corporatist administration, the employers gained a stronger presence compared to the unions. But their return into the self-administration committees cannot be interpreted as an expression of strong support for the system: the employers' continuing demands for a further privatisation of the system showed that their 'office-seeking' attitude was in fact limited. Their main concern seemed to be the control of the system's costs. If that was not possible within the old system, that is if the interfering hand of the government could not be held back or be pushed back, they preferred a transfer of social security provision to the private sector. In other words, they did not seem to care about the governance system as a whole, but more about the restriction of state involvement in the Régime General. Their withdrawal further reduced the legitimisation of the bi-partite governance structure of the health insurance scheme. In contrast, the maintenance of the corporatist administrative structure of the GKV has not been challenged by any side of the social partners.

(4) Is there evidence that the French governments focused more strongly on cost containment than the German ones? As outlined in the conclusions to the previous chapter, there is strong evidence that in times of considerable, long-lasting financial pressures the aim of cost containment is not only pursued by the finance ministry alone, but also becomes a major goal of the relevant spending ministries in order to safeguard their competencies. In both countries, the ministers responsible for health were involved in a continuing battle to regain control over the finances in their sector. Equally regarding the extent of cost containment measures implemented there existed no major differences between the two countries.

Even if we assume that pressures for cost containment were stronger in the French case, they did not have much effect: while the French scheme developed towards a centralised, state-regulated system and the German scheme towards a delegated bargaining system in the area of self-administration, we can paradoxically observe a strengthening of budgetary influence and cost containment pressures in the German case, while the efforts in France remained without much effect. This was the case although the French government did not face powerful veto players such as the centrally organised associations of insurance funds and service providers in Germany. Instead, it was the absence of such strong self-administration bodies which hindered the French state from finding a way to effectively implement its cost containment plans (see Bandelow 2005: 22). In the German case in contrast, the delegation of bargaining powers was combined with the parallel introduction of more and more competitive elements between the insurance carriers. This led to a process of internal fragmentation between the insurance funds as well as the service providers, which weakened their bargaining powers. The pressure on the self-administration to reach unpopular restrictive decisions itself has therefore grown considerably, as have the institutional pre-conditions for the enforcement of these decisions. This confirms that the withdrawal of the state actually can sometimes contribute more to cost containment than the other way around, i.e. more direct state authorities as in the French case (see also Sachverständigenrat 2005).

The analysis of the reform developments in the health sector also confirms the observations made in the previous chapter that the state is also more concerned with its own budget than with the apparent 'independent' insurance budgets. The reduction of budgetary autonomy in the French case has reduced the possibility for the shifting of financial burdens to the social insurance schemes (although the foundation of CADES can also be seen as a way to avoid responsibilities for the health insurance deficits). In the German case, the introduction of the temporary subsidy for the GKV had the positive side-effect that it also increased revenues for the federal budget. While after the planned abolition of the subsidy in 2007 the additional revenues were to fully flow into the federal budget, the deficit situation of the GKV – for years ignored by the federal government who pretended not to be informed about the illegal credit-financing strategy of many insurance funds – served as a welcome justification for the tax increases which were necessary to pay for the subsidy.

Conclusions

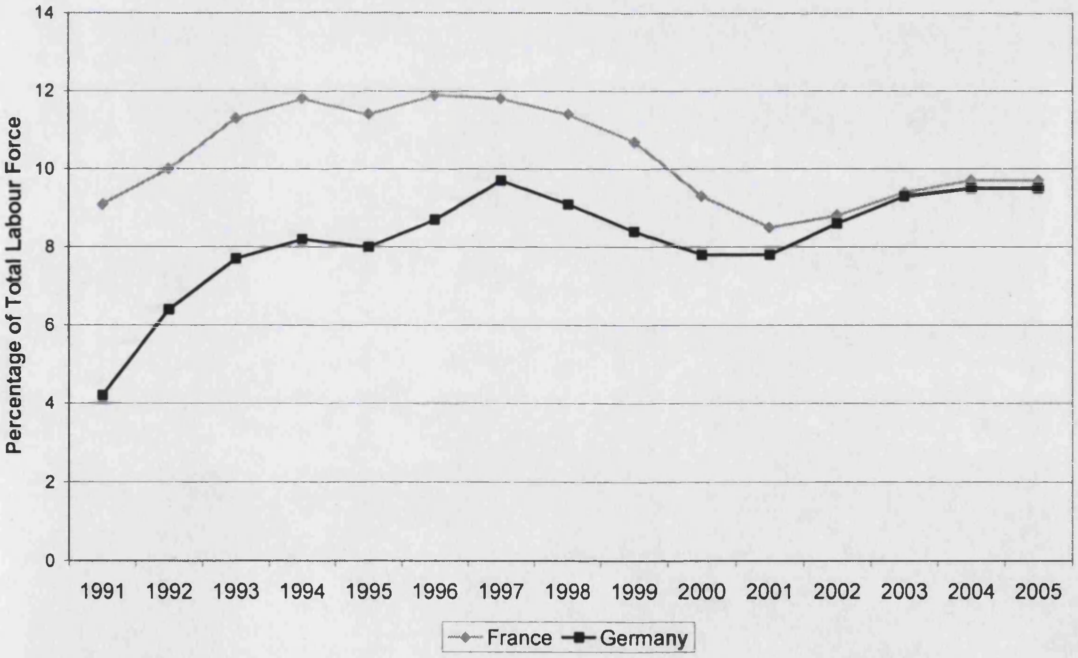
The analysis of the reform developments in the French and German health insurance schemes confirms the findings of the previous chapter that fiscal commitment on the individual dimensions and the behaviour of actors are connected, and not independent, aspects of the reform process. The willingness of the French social partners to defend their administrative authority in the scheme was reduced drastically with their ongoing loss of budgetary authority and the increasing shifts in the revenue provision due to the shift to tax-financing, which effectively left them in charge of the scheme without having any relevant influence regarding its performance or development. The extension of insurance cover to the whole population with the introduction of the CMU in 2004 also abolished the occupational character of the insurance scheme – another reason why the employer representatives showed only limited commitment towards the maintenance of the scheme and proposed alternative solutions such as privatisation or competition between funds. In contrast, their German counterparts heavily defended their authority against further state involvement – here fiscal commitment was mainly maintained, as was the occupational character of the insurance. But also here the government managed to increase indirect influence by increasingly setting tight frameworks for the self-administration while leaving the formal authorities of the social partners untouched.

In line with the findings of the previous chapter, the results of the analysis do not confirm the hypothesis that the French government should pursue cost containment stronger than the German one due to the strong position of the French finance minister in policymaking. In Germany there were also several attempts, mainly led by the health ministry, to impose tighter spending constraints on the health insurance schemes but due to the higher degree of independence of the GKV schemes those were more able than their French counterparts to counter-act those attempts. The results also do not support partisanship arguments: although a short-term revision of some cost containment measures could indeed be observed in Germany after the election victory of the Social Democrats in 1998, these measures were all reintroduced after a short while due to the difficult financial situation. The change in government therefore had merely a delaying effect on cost containment measures in Germany, while no visible change in the cost-containment strategy could be observed in the French case.

7 The Effects of Fiscal Dependence: Welfare Reforms in the Unemployment Sector

The financing of unemployment provisions has, due to the rise of unemployment rates in both Germany and France, become a major issue since 1990. While high unemployment had already been a problem in the mid 1980s, the situation in Germany improved considerably at the end of the 1980s while the recovery in France was less pronounced. But in both countries, the problem worsened again after 1990: in France, unemployment rates climbed above 10 percent from 1992 onwards which was a level unprecedented during the 1980s. Also in Germany unemployment rates increased drastically during this period due to mass unemployment in the Eastern part of the country after unification and slow economic growth from the mid-1990s onwards. In both countries, the situation on the labour market improved in line with economic performance at the end of the 1990s, but worsened again thereafter (see Graph 7.1).

Graph 7-1 Standardised Unemployment Rates, 1991-2005



Source: OECD, Quarterly Labour Force Statistics

The following chapter examines the development of unemployment insurance provision during this period in the two countries, with particular focus on the fact that at the beginning of the 1990s France and Germany had very different degrees of fiscal commitment in this insurance sector. While in France, fiscal commitment in the unemployment insurance scheme UNEDIC had been very high or high on all four dimensions, the degree of fiscal commitment in the German Federal Employment Agency (BA) had been the lowest of all three examined schemes with an overall score of 13 out of 20. While the share of earmarked contribution revenues in the financing structure of the BA has been very high, this was counterbalanced by strong limitations to the administrative and, particularly, the budgetary autonomy of the administering institution. The spending structure furthermore entailed a high degree of redistributive elements. This chapter examines the impact of these different degrees of fiscal commitment in the two unemployment insurance schemes on successive reform paths and analyses, as in the previous two chapters, the particular modes of change as well as the roles played by the social partners and different governmental actors in the reform processes.

7.1 The Price of Independence: Unemployment Reforms in France

7.1.1 Administrative Independence

The French unemployment insurance scheme UNEDIC – founded as an autonomous scheme based on national agreements between the social partners – enjoyed a considerable degree of formal independence from the state in 1990. The government had no direct hierarchical control powers over the scheme, which also selected its own officials. This wide-reaching administrative autonomy had been connected with a strong decentralisation of the unemployment insurance system, with UNEDIC consisting of 30 ASSEDIC which did not only have their own legal status, but also their own scope for administrative and budgetary decisionmaking.

But despite this formally high degree of administrative independence, there were various ways in which the government could and did exert influence (see Mosley et al. 1998). One channel of state influence derived from the fact that the scheme was based on regularly negotiated agreements between the employers' associations and trade unions which determined all important organisational, administrative and financial aspects of the scheme and which were binding upon employers and employees alike. These agreements had to be approved by the government. Furthermore, in cases of non-agreement, the government had the right to impose measures through a decree – in the past, often the threat of making use of this power alone was sufficient to exert influence on the social partners' decisions. Another aspect of state influence derived from its direct responsibility over the solidarity system, as institutional or programmatic changes in this institutionally separate system could result in adjustment reactions which forced the administrators of UNEDIC to successively implement changes as well (Erhel et al. 2000: 126).

The unemployment insurance sector already faced financial as well as managerial problems during the 1980s, and these continued throughout the 1990s. The government increasingly took advantage of the difficulties of the social partners to reach agreements and often interfered in the bargaining. But this repeated intervention led to conflicts and the relationship between the government and the social partners, as well as between the social partners themselves, became increasingly fragile. In particular, the employers increased their pressure in trying to re-establish the autonomy of the scheme and those of the social partners within it, as part of their strategy for 'selective disengagement' decided in 1999 (see Woll 2005).

As in the pension and health insurance sectors, the employers raised their profile at the end of the 1990s by repeatedly threatening to withdraw from the self-administration committees of UNEDIC. This put pressure on the unions to reach agreements with the employers if they did not want to endanger the system of self-administration. This proved repeatedly successful: a threat to leave UNEDIC led to the agreement between MEDEF and the majority of unions about an unemployment insurance reform in 2000, which limited access to unemployment benefits and imposed a set of new obligations for long-term unemployed (see 7.1.4.1). For the first time, the employers had struck a deal exclusively with the unions, while excluding the Socialist-led government under Prime Minister Lionel Jospin from any direct involvement. But the agreement was only signed by the three trade union federations covering mostly private sector employees, headed by the moderate CFTD. The leftist CGT and Force Ouvrière, representing mainly public sector workers, opposed the deal and urged the government to intervene by denying the pact the necessary ministerial approval (see Financial Times, 15 June 2000). Initially, the Minister of Finance, Laurent Fabius, and the Minister of Employment and Social Affairs, Martine Aubry, did refuse to approve the agreement and demanded re-negotiations. They argued that the implications of the proposed reforms particularly on long-term unemployed would be too severe, and furthermore challenged the sustainability of the proposed financing concept. But the refusal of the ministers to approve the agreement by the social partners had also different motivations: "If Martine Aubry, the labour minister, had approved the scheme, she would have given a new political dimension to MEDEF, since the state would have been seen to surrender part of its traditional role as arbiter of social policy" (Financial Times, 28 July 2000).[100] But the fact that the majority of the unions and the employers were – for once – united in their reform plans gave the government no real possibility to block the reform. The MEDEF threatened to place the matter before France's State Council, as it considered the governments' refusal an abuse of its powers. The hopes of the government that the CFDT would back out of the agreement due to pressure by the other unions as well as the government did not materialise either. In October, after months of fierce battles about the agreement and one week after the departure of Aubry from the cabinet, Jospin – who was according to government officials in 'no mood to pick a fight with business' due to falling public support and a negative economic outlook (see Financial Times, 27 October 2000) – solved the confrontation by approving the agreement. The final retreat of the government meant that the social partners successfully fought off the increasing involvement of the state in its decisionmaking processes, and UNEDIC retained its high degree of administrative independence without any further challenges to its regulatory and administrative authority.

7.1.2 Budgetary Autonomy and Constraints

7.1.2.1 Budgetary Autonomy

Corresponding to its high degree of administrative independence, UNEDIC also enjoyed a high degree of autonomy in budgetary issues in 1990. In contrast to the social insurance schemes of the Régime Général, it was able to determine its own revenues by setting the contribution rate and also defined the regulations of benefit provision independently (with ex-post approval by the government). This has not formally changed since then, but the importance of the necessary governmental approval – particularly with regard to the contribution rate – increased with the financial difficulties of the scheme. As a parliamentary report of 1993 emphasised, "in reality the bipartism of the system is widely fictitious, as a change of contribution rates has to be approved by the government – which is, due to the financial situation of the associations, in the

[100] With the signing of the employment contracts, UNEDIC and the social partners would have also entered the area of employment services, administered by the employment service agency APNE under direct governmental control. This would have further limited the influence of the government on employment matters, which explained its strong resistance to the plans.

majority of cases in the position to get its way" (Delalande 1994, cf. Erhel et al. 2000: 126). The increasing financial difficulties of the scheme due to rising unemployment at the beginning of the 1990s enabled the government to gain influence on decisions of the social partner in exchange for monetary help. In 1993, it committed itself to pay a subsidy to UNEDIC, and the social partners committed themselves in exchange neither to lower the contribution rate nor to increase benefits (see Mosley et al. 1998: 15). As part of this agreement, the state also formally gained influence over the unemployment insurance budget through the establishment of a tripartite supervisory council, the *Conseil d'Orientation et de Surveillance* (COS), which was responsible for the auditing of UNEDIC's accounts as well as for co-ordination and control measures. Furthermore, the budget of UNEDIC was from 1994 onwards underlying a duty of parliamentary permit which was justified by the provision of the state subsidy (see Erhel et al 2000: 127).

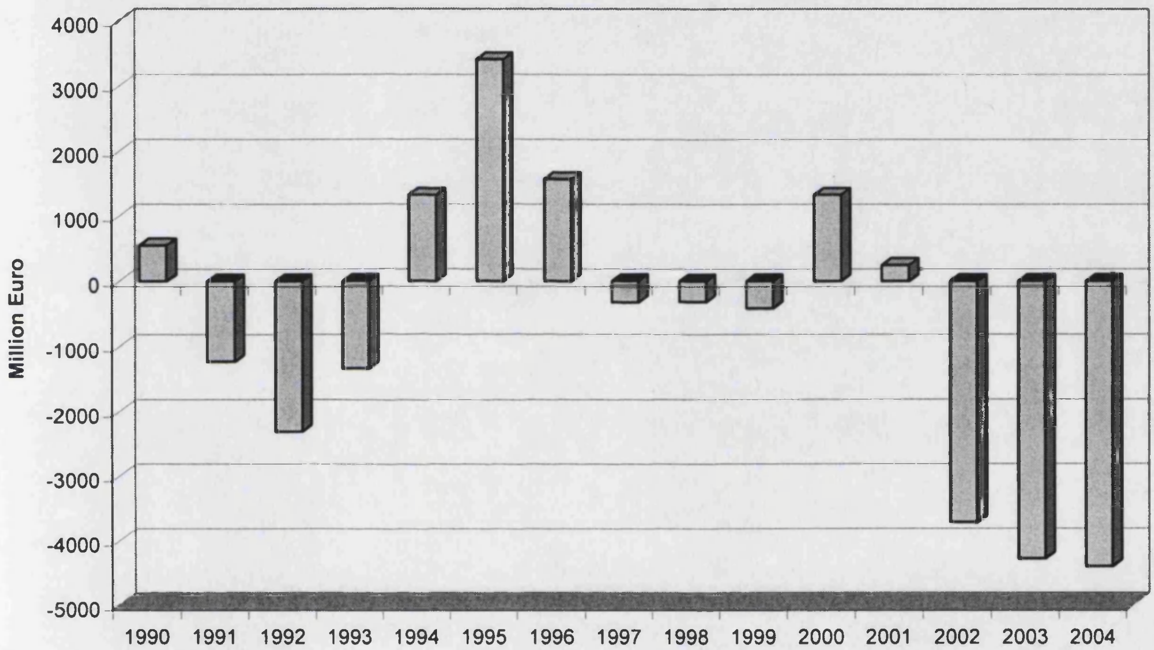
But in line with the 2000 reform, with which the social partners had pushed through their reform plans against the will of the government, the budgetary autonomy of the scheme in determining its own revenues was also reinforced. While the government had initially challenged the sustainability of the financing plan of the reform, it finally accepted the proposal by the social partners. One important factor which certainly contributed to the final acceptance of the agreement was the fact that UNEDIC offered to provide €2.3 bn in the following two years to the state budget, financed from its surpluses. Additionally, the government cancelled the subsidy of €770 million annually which it had previously agreed to pay to the unemployment scheme. In a way, it seemed that the government 'sold' its consent to plans of the social partners, and in this way part of its budgetary powers over the unemployment insurance. But although the state subsidy had been abolished, the parliamentary permit of UNEDIC's accounts which had been introduced with it remained.

7.1.2.2 Budgetary Constraints

Due to its high degree of formal budgetary independence, UNEDIC had not been subject to fiscal targets or pre-defined budgets by the state, but allocated its finances via settlements between the social partners. However, the deficit regulations in place resulted in strong budgetary constraints and pressures to contain spending. In contrast to Germany, deficits were not automatically covered by the state but had to be financed via credits. But as a special entity recognised as 'pursuing a mission of general interest', UNEDIC's liabilities were guaranteed by the state (see OECD 2003: 128).

As the financial situation of the insurance scheme was highly dependent on the development of the overall employment situation in France, the increase of unemployment at the beginning of the 1990s had strong negative effects on the fiscal situation of UNEDIC. Between 1991 and 1993, the scheme was in deficit (see Graph 7-2).

Graph 7-2 Balances UNEDIC, 1990-2004



Source: Unistatis (UNEDIC)

As a consequence, UNEDIC was forced to take out a €5 bn credit in 1993. In addition, measures to limit expenditure were agreed in the 1993 settlement between the social partners (see 7.1.4). The important aspect of this agreement was that besides an increase in the contribution rate, the government and the social partners agreed the provision of a state subsidy for the next 10 years amounting to a third of the deficit of UNEDIC (see Financial Times, 24 November 1993). In turn, the social partners agreed to repay their debts (particularly to the *ASF* which financed early retirement benefits partly from transfers by UNEDIC, see 5.1.2.3). But in 1995, the government broke its promise of providing the subsidy to UNEDIC and stressed that public deficits had to be cut. In an interview, President Chirac said that he was 'confident' that employers, unions and the government would find a way of solving the funding problems (see Agence France Presse, 5 September 1995). Both the employers' federation CNPF as well as the unions reacted angrily to the government's backtracking on its funding promises, but were – due to an improvement of the employment situation and savings resulting from the former benefit reforms – able to avoid deficits in the coming years. After this short-term financial recovery, the situation worsened significantly again after 2001 and after three consecutive years of deficits, the accumulated debt of UNEDIC had reached almost €10.3 bn at the end of 2004 (see Table 7-1).

Table 7-1 Financial Situation UNEDIC (Accumulated Accounts)

	2003	2004	2005	2006 (P)	2007 (H)	2008 (H)
Revenues	25 784	26 732	27 695	29 328	30 288	31 083
Expenses	30 067	31 152	30 887	29 024	27 492	25 704
Annual Result	-4 282	-4 420	-3 192	304	2 796	5 379
Financial Situation 31/12	-5 836	-10 260	-13 452	-13 148	-10 352	-4 973

Source: Unedic, Direction des Etudes et de Statistiques, 2006
P: Prediction ; H: Hypothesis

As UNEDIC's deficits were not taken over by the state, it was forced to turn to the financial markets to solve its liquidity problems.[101] The interest charges associated with this way of financing amounted to €236.6 million in 2005 alone (Unedic 2005: 28). But the government also helped out, albeit temporarily: in May 2004, Social Affairs Minister Jean-Louis Borloo agreed to bail out UNEDIC in order to fund benefits of long-term job-seekers, who won a legal battle against the cutting back of their monthly benefits implemented in January 2004.[102] In order to further improve the financial situation of the unemployment insurance scheme, Borgoo agreed to forgo the collection of €2 bn owed by UNEDIC to the state. It was reported that finance minister Nicolas Sarkozy was not very happy about this deal (Market News, 4 May 2004).

In order to cope with future deficits, the 2004 convention of employers and trade unions contained plans for the creation of a reserve fund – equivalent to 3 months of expenses – designated to guarantee the stability of benefits and contributions during periods of economic instability (Unedic 2005: 12). Due to the difficult financial situation however, the building up of this fund was by the end of 2005 still only an intention. The danger of

[101] Deficits were covered via the emission of bonds after obtaining a state guaranty, state loans as well as short-term credits (see Unedic 2005: 11).
[102] In this case, the implementation of the PARE contracts between the beneficiaries and UNEDIC backfired (see 7.1.4): the courts ruled that UNEDIC had to life up to the agreements of the initial contracts made with the beneficiaries, which meant that successive reductions of the duration of benefits were not possible.

future financial difficulties, and with it the possibilities for further state involvement, therefore remained.

7.1.2.3 Conclusions

Despite several attempts by successive French governments to increase their budgetary authority in the unemployment insurance scheme, UNEDIC retained its high degree of budgetary autonomy during the observed period. This has been in spite of considerable and re-occurring financial pressures, which have made state subsidies necessary. But as these subsidies have always only been temporary and UNEDIC did not enter into automatic coverage arrangements with the government, this did not have a direct impact on its budgetary independence. Other attempts by the state to increase fiscal control, such as the institutionalisation of a tripartite supervisory council and the ex-post approval of the budget by parliament, have also only had a limited effect and the bi-partite bargains between the social partners remained the central decisionmaking mode in the unemployment sector.

7.1.3 Revenue Structure

Since the separation between the solidarity and the insurance scheme in 1984, the state had gradually withdrawn from the financing of unemployment. Despite the short-term payment of a state subsidy in 1993 and 1994, the relative share of taxes in unemployment financing sank after 1987 – even during periods of strongly increasing unemployment as at the beginning of the 1990s (see Erhel et al. 2000: 144). The very high contribution share of around 90 percent in the revenue structure of UNEDIC remained stable throughout the 1990s.[103] From 2000 onwards, contribution revenues even increased to nearly 93 percent of revenues in 2005 (see Table 7-2).

[103] Data Source: UNEDIC, Statis No 174.

Table 7-2 Revenues Unemployment Insurance 2000-2005

REVENUE SOURCES	2000 (m €)	%	2003 (m €)	%	2005 (m €)	%
Contributions	**20376**	**89.46**	**23780**	**92.23**	**25685**	**92.74**
Surcontribution	234	1.03	0	0.00	0	0.00
Other Technical Revenues	136	0.60	121	0.47	98	0.35
Prelevements Retraite	**228**	**1.00**	**910**	**3.53**	**1011**	**3.65**
Conventions Diverses	179	0.79	191	0.74	213	0.77
Part Etat AFR	348	**1.53**	4	**0.02**	0	**0.00**
Participation Enterprise CRP	0	0.00	0	0.00	38	0.14
Frais de Fonctionnement IDE	31	0.14	0	0.00	0	0.00
Gestion Administr. Hors IDE	239	1.05	193	0.75	213	0.77
Contribution ARPE	202	0.89	1	0.00	0	0.00
Cotisations Licenciement	**550**	**2.41**	**585**	**2.27**	**32**	**0.12**
Subvention Etat	0	0.00	0	0.00	0	0.00
Revenus Financiers	252	1.11	9	0.03	0	0.00
TOTAL	22776	100.00	25784	100.00	27695	100.00

Source: Own calculations based on data from UNEDIC UNIstatis

But there have been indirect ways in which the state contributed to the scheme: from 1996 onwards, it paid the social security contributions of older unemployed workers, which was effectively a subsidisation of UNEDIC's de facto early retirement scheme financed via the ASF (see OECD 2003: 147). The 2004 agreement also contained the creation of a specific fund intended to finance benefits of artists and technicians in the media industry, previously hit hard due to their irregular employment patterns by reforms to the eligibility rules. The provisions of this fund were to be financed by the state with €80 million via the *Allocation du fonds spécifique provisoire* (AFSP), which represented an indirect subsidisation of UNEDIC's accounts. But as the amount of these tax allocations remained marginal compared to contribution revenues, the degree of fiscal commitment on the revenue dimensions remained very high.

7.1.4 Spending Structure

In 1990, a high degree of fiscal commitment had derived from the spending structure of UNEDIC: eligibility for benefits was strongly related to the former contribution record of the insured, and insurance-external provisions were mainly financed by the state.

7.1.4.1 Eligibility

With the strong increase of unemployment and the worsening of the financial situation of UNEDIC, the 1992 agreement between the social partners tightened the already restrictive benefit conditions even further (see Bonoli and Palier 2000). The three different forms of unemployment insurance benefits were replaced by the *Allocation*

Unique Degressive (AUD). The AUD was characterised by an even stricter proportionality between the duration of contribution times and the duration of benefits and was meant to 'activate' the expenses of the unemployment insurance: depending on the contribution record, the amount of the benefit decreased with time (between 8 and 17 percent) and entitlements expired after 30 months. After eligibility for the AUD ran out, the unemployed had to rely on a variety of other measures. Most important of these was the *Allocation de Solidarite Specifique (ASS),* which was – although still contributory – subject to a means test. Besides this, the minimum contribution time for general eligibility for unemployment benefits was raised sharply, which again restricted the circle of beneficiaries.

As a consequence of these tighter eligibility regulations which disadvantaged the unemployed with short employment and contribution records, the share of employment-seekers reimbursed via the unemployment insurance fell.[104] As unemployment rose again after 1999, further reforms became necessary in order to cope with rising deficits. In 2000, the social partners signed a new agreement that limited access to unemployment benefits further and imposed new obligations on the unemployed. The new *Plan d'Aide et de Retour a l'Emploi (PARE)* ended benefit degressivity but required recipients to sign a contract with the national employment office that obliged them to participate in a personalised job search.

This new programme was part of the reform that followed the power struggle between the government, MEDEF and the trade union confederations which signed the deal (CFDT, CFE-CGC and CFTC). As outlined before, the government at first refused to approve the agreement, arguing that the right to establish benefits should remain the prerogative of the state (see Vail 2004: 162). But unable to break the union between the social partners, the government had to finally back down. The system of contracts finally came into force, but the unemployed were assured by the government that their benefit entitlements would also then be maintained if they would not enter a PARE contract. This meant that despite the restriction of eligibility through UNEDIC, commitment was maintained as the new eligibility rules introduced were not enforced. Therefore the state effectively maintained its promise towards the social status protection, as a move towards workfare models did not seem acceptable regarding the

[104] More and more people received means-tested instead of insurance benefits: the number of people receiving ASS increased from 34 800 in 1992 to 467 000 in 1995 (Join-Lambert 1997: 576).

high support of the traditional insurance model in the French society (Barbier and Theret 2001; Clasen and Clegg 2003; Bode and Veil 2003; Smith 2005).

But as a consequence of enduring financial pressures, in 2002 the former maximum duration of unemployment insurance benefits within the PARE scheme was reduced from 30 to 23 months. This led to a massive shift of beneficiaries from the contribution-based to the tax-based benefit systems.[105] The French government reacted to this expected increase in beneficiaries in their schemes with a tightening of eligibility rules and duration on their part: provisions from the ASS, formerly without duration limits, were now provided to a maximum of two years for new beneficiaries and three years for people already receiving them. Overall, the number of beneficiaries in means-tested solidarity schemes (ASS and Allocation d'Insertion) increased by more every year between 1995 and 2003 than the number of people receiving unemployment insurance benefits (see Table 7-3). But the tightening of eligibility rules in the ASS scheme in 2002 is also clearly visible, with an ever increasing share of unemployed people receiving the less generous Allocation d'Insertion.

Table 7-3 Development of Unemployment Compensations by Benefit Type (Number of beneficiaries, change compared to previous year in %)

	Potential Beneficiaries	*Allocation d'Assurance Chomage*	*Allocation de Solidarite Specifique (ASS)*	*Allocation d'Insertion*	*All Schemes*
1995	-1.1	-3.5	+7.0	-12.2	-1.6
1996	+4.3	+1.2	+5.6	-12.7	+2.0
1997	+2.8	+1.1	-6.4	+6.6	-0.5
1998	+0.7	+0.6	+0.4	+33.6	+0.8
1999	-3.6	-3.9	-2.5	+24.6	-3.4
2000	-9.7	-5.9	-9.5	+19.4	-6.4
2001	+1.0	+12.9	-7.9	+15.1	+8.8
2002	+3.5	+12.2	-5.0	+18.6	+9.6
2003	+5.7	+6.7	-6.3	+7.2	+5.8
TOTAL	**+3.6%**	**+21.4%**	**-24.6%**	**+100.2%**	**+15.1%**

Source: DARES (Première Synthèses; various issues)

7.1.4.2 Reciprocity

The link between contribution records and benefit generosity had also been very strong in 1990, whereas the provision of insurance-external benefits had been very marginal. As the financial situation still looked favourable in 1990, the basic unemployment

[105] This shifting of insured into the solidarity system was also the case in 2002 with the foundation of the Allocation Equivalent Retraite (AER), a special benefit securing a minimum income for unemployed under 60 who already had 40 contribution years. While a former similar scheme had been financed by the social partners, this new benefit was now also part of the state-financed solidarity scheme.

allowance was slightly increased and contribution rates were reduced. But this situation changed quite rapidly in 1992, and the focus shifted more towards fiscal consolidation. In 1993, benefit payments did not follow the usual annual adaptation and were not increased. Insurance benefits were, however, reduced to a lesser extent overall than tax-financed means-tested benefits – despite the fact that in 1993 the benefit regulations had once more been tightened. This was also the case after 1998: the replacement rates of the state-financed benefits as the ASS remained stable, while insurance-based benefits (ARE) increased more strongly:

Table 7-4 Replacement Rates Unemployment Insurance and Solidarity Benefits

	1998	1999	2000	2001	2002	2003
Aide au retour a l'emploi (ARE)						
RR(gross) (1)	56%	57%	56%	58%	59%	60%
RR (net)	68%	68%	68%	70%	72%	72%
Alocation de Solidarite Specifique (ASS)						
RR (gross)	35%	35%	36%	36%	36%	34%
RR (net)	43%	44%	45%	45%	45%	43%

(1) Replacement Rate: Relationship between gross or net monthly benefit and the gross or net monthly reference salary of the beneficiary
Source: Dares, Insee, Unedic; DARES: Premieres Syntheses 2005-No 10.2

In 2001, the surplus due to the improvement in the labour market allowed a reduction of the contribution rate and also meant the end of the decline of unemployment benefits. But this had a quick ending in 2002, when facing a deficit of €3.7 bn, the social partners decided to increase the contribution rate again and to also modify the benefit regulations (see OECD 2005: 127). Allied to the further tightening of eligibility criteria (see above), the amount of benefits was generally reduced according to household income of the beneficiary (see Veil 2004: 144). But overall, benefit levels in the insurance scheme have remained fairly stable between 1990 and 2005.

7.1.4.3 Conclusions

Generally, both the very high commitment scores with regard to eligibility and internal as well as external reciprocity have been maintained in the French unemployment insurance scheme between 1990 and 2005 – despite a series of reforms which have had considerable impacts on the nature and generosity of benefit provision. This has been possible as the reforms have mainly targeted redistributive elements and those insured with only short-term contribution records, which have been shifted into the state-financed solidarity schemes. Spending commitments have therefore not been broken, but have been widely maintained via the strengthening of insurance elements.

7.2 Breaking Fiscal Commitments: Unemployment Reforms in Germany

7.2.1 Administrative Independence

Reforms of the governance structure of social insurance carriers in Germany have been the most far-reaching in the case of unemployment insurance. As outlined in Chapter 4, the managerial independence of the *Bundesanstalt für Arbeit* was in 1990 restricted as the government was not only represented in the tripartite administrative committees of the institution, but had also wide-reaching intervention and supervisory powers both in administrative and budgetary matters (see 4.2.1). These interlinked decisionmaking processes led to conflicts between the administrators of the BA and the government when the financial situation deteriorated due to mass unemployment in Eastern Germany after 1991: unions, employer representatives and the government found it increasingly difficult to agree the amount and distribution of spending in the annual budgeting process, which resulted in lengthy bargains as neither side could unilaterally impose the budget (see 4.2.2). In order to avoid these annual struggles, the Kohl government made an attempt in 1996 to disempower the self-administration of the BA nearly completely. The draft law of the AFRG reform planned to grant the Ministry of Labour and its statutory ordinances categorical primacy, which would have resulted in the function of the central administrative level of the BA being reduced to a mere legal oversight. But the draft law did not survive negotiations in the parliamentary committees, in which the social partners had great influence: "Like Don Quichote with the windmills the coalition parties failed with their plans due to the committee for labour and social affairs, and therefore due to the social partners" (Trampusch 2002: 30; author's own translation).

Parallel to the CDU/CSU-FDP reform initiative, the Social Democrats came up with their own version of an unemployment insurance reform. Their draft of an 'Employment and Structural Promotion Act' (*Arbeits- und Strukturförderungsgesetz*) granted the social partners not less, but more administrative and budgetary powers: the right to pass ordinances was to be clearly assigned to the administrative committee of the BA, and the Ministry of Labour was not to act paramount, but subordinate to the self-administration. Furthermore, the right of the government to enforce an amended budget – introduced in 1993 (see 7.2.2.1) – was to be abolished again. But these reform plans also failed in parliament.

After taking over power in 1998, the position of the Social Democrats took a 180 degree turn: the reform of the BA implemented in 2002 and the successive Hartz legislation represented the greatest interference in self-administration powers of a social insurance body since WWII. The changes implemented were a direct response to a report from the Federal Auditors Court which in 2002 discovered the systematic falsification of placement statistics by BA officials who wanted to improve their activity levels. All actors agreed that a major reform of the governance structure of the BA was inevitable, but the ideas of how such a reform should look differed widely. The BDA, representing the employers, demanded the abolition of the tripartite administration in the unemployment insurance and its replacement with bipartite committees without any state representation (see BDA 2004). It accused the state representatives of 'massive self-interest' in budgetary decisions which hampered the economical and efficient use of budgetary funds (see Trampusch 2002: 36). In the eyes of Jürgen Husmann, member of the executive board of the BDA, the presence of the state representatives had "the effect that both employers as well as employees always try to pull them to their side at the expense of efficiency" (Financial Times Germany, 22 February 2002). In addition, the BDA argued for the strengthening of self-administration on the local level. The unions also wanted more independence for the insurance institution: in line with the employer representatives, they demanded that the executive board had to be responsible to the administrative committee, which included the right of appointing and dismissing its directors (see DGB 2003; BDA 2004).

But the demands of the social partners for more independence of the self-administration remained unheard, as the government publicly blamed the self-administration of the BA for not taking appropriate action after the scandal. Chancellor Schröder stated that "unfortunately it had to be accepted" that the federal government did "not dispose of the necessary powers to draw consequences" in the current administrative framework.[106] It is debatable whether Chancellor Schröder was just ill-informed and did not know that it was not the BA's executive board, but his very own labour minister Walter Riester who was responsible for the appointment and dismissal of the BA's president and vice-president, or whether it was a strategic move to publicly blame the self-administration

[106] Interview Gerhard Schroeder with the NDR (Northern German Broadcasting Corporation), 17.02.2002.; author's own translation.

for the discovered failures.[107] In light of the subsequent reform of the BA, which was announced just three weeks after the scandal became public, the latter seems more likely: instead of expanding self-administration authority as demanded by the social partners, their competencies on the top-level of the BA were further restricted. The election of employee representatives to the supervisory board of the BA, as well as the structure of this board, was reformed. The board now consisted of three directors (recommended by the government), who were employed on a contractual basis for 5 years and could be replaced by the government if the 'mutual trust' was destroyed. The tripartite administrative committee was transformed into a supervisory board, which had extended information rights but fewer formal executive functions. These wide-reaching changes of the upper level of self-administration met harsh criticism from both sides of the social partners, which were opposed to the further reduction of their administrative authorities and the even stronger governmental powers in administering the institution. But, parallel to the restriction of budgetary and administrative authorities of top level of BA, there was an expansion of self-administration capacities at the regional level: 'decentralisation' became the main topic of the AFRG reform, which contained numerous regulations that gave the administrative boards of the local employment agencies more decisionmaking scope.

These first reforms were the forerunner for the following major organisational reform of the BA following suggestions developed by the so-called 'Hartz Commission'.[108] In January 2004, the former 'Federal Employment Office' (*Bundesanstalt für Arbeit*) was turned into the 'Federal Employment Agency' (*Bundesagentur für Arbeit*). The agency structure consisted of a head office, executives on the regional level and employment agencies on the local level. That the unions had a stronger 'office-seeking' attitude than the employer representatives showed their opposition to the connected abolition of self-administration on state level which provided 3,600 administrative positions (see DGB 2003: 6). In contrast, the employer representatives – interested in streamlining the administrative structures – approved of this reform.

The Hartz reform also implemented changes regarding the legal oversight of the BA's procedures: From 2005 onwards, the Ministry of Economics and Labour had to

[107] Admittedly, Riester's hands were also tied: as non-political civil servant, then BA president Bernhard Jagoda could only have been dismissed by the minister if 'severe misconduct' in his actions could be legally proven; this was, despite the placement statistics-scandal, not the case.
[108] The Commission was named after its chairman Peter Hartz, then personnel director at Volkswagen.

negotiate an *agreement of objectives (Zielvereinbarung)* with the BA. This new tool aimed at separating policy formulation from implementation was supposed to give the BA the autonomy needed to implement the necessary measures without interference from politicians (see Kemmerling and Bruttel 2005: 4). But this apparent granting of managerial independence to the BA administration did not really give the social partners any real influence on managerial decisions due to the dominant representation of state officials in the BA. The overall degree of administrative independence, and with it the degree of fiscal commitment, has therefore been reduced from medium-high in 1991 to very-low in 2005.

7.2.2 Budgetary Autonomy and Constraints

7.2.2.1 Budgetary Autonomy

As has been the case in the main German pension and health insurance schemes, the budget of the unemployment insurance scheme was in 1990 formally fully separated from the federal state budget. But the de facto autonomy of the budget was considerably restricted: the BA had no direct influence over its revenues, as contribution rates were determined by law. This did not change after 1990, but in line with the organisational reform of the BA in 2004 it was introduced that the federal government could now decide how the federal funds were distributed to the local Employment Agencies. This allocation could also be amended during the budget year by the Ministry of Economics and Labour (in agreement with the Ministry of Finance). This meant that besides not having control over the amount of revenues, the BA lost influence regarding the internal distribution of funds, and therefore the decisionmaking competency over where and how the money would be spent.

With regard to the federal process of budgetary allocation in the unemployment insurance sector, the authority of the Ministry of Labour was also expanded. These changes were a consequence of a distributional conflict between the federal government, the Länder, the councils and the BA, which erupted during the consultations about the BA budget in 1993. The then Minister of Finance, Theo Waigel, increasingly criticised the high level of expenditure of the BA. Within the framework of his 'Savings, Consolidation and Growth Programme', he therefore initiated a reform which enabled the ministry of labour to reinstate the budget against the will of the administrative committee of the BA in case the budget was showing a deficit (§216

AFG). This step represented a major reduction in the budgetary autonomy of the BA and – as the federal government decided on the main revenue and spending parameters of the unemployment insurance and therefore also about its financial situation – basically represented the complete abolition of the budgetary decisionmaking powers of the BA.

7.2.2.2 *Budgetary Constraints*

In 1990, budgetary constraints and therefore pressures for cost containment had been low for the BA. As the preparation of the annual budget was the task of its administrative committee, the finance ministry had no direct say while the ministry of labour had only indirect influence via its representatives in the committee. Furthermore, the procedures of deficit coverage created no incentives for the BA administration to contain spending: any surpluses in the unemployment insurance were accumulated in a reserve fund, which was supposed to cover any subsequent deficits. But as the unemployment insurance was usually particularly badly affected by economic recessions (as increasing unemployment not only resulted in higher spending for unemployment benefits, but at the same time also reduced contribution revenues due to the declining number of employees), this reserve fund was usually not sufficient in times of high unemployment. As the BA had no legal instruments available to either reduce provisions or to increase contribution rates, the federal government was in the end responsible for ensuring the financial liquidity of the institution and paid a federal loan amounting to the exact amount of the outstanding balance (Art. 120 GG). If the BA was unable to repay this loan from its receipts at the end of the financial year, it was converted into a non-refundable subsidy.

But while these procedures ensured the fulfilment of the spending commitments towards the insured, they gave the German government not only a strong motive, but also the opportunity to intervene in the BA's budget. First of all, it gave the government discretion in deciding on whom to place the burden for the financing of deficits: increases of the contribution rate burdened the insurance members, whereas increases of the federal subsidy burdened the general taxpayer (see Schmid et al. 1992: 90). In case subsidies were necessary to cover the outstanding charges, the regulation also gave the government influence on the BA's budget: as Bruche and Reissert (1985: 76) argue, the self-administration of the BA had largely lost its autonomy of preparing the budget in case of anticipated deficits already before the introduction of a governmental approval of the budget in 1993. During the parallel budgeting processes of the BA and the federal state, the latter usually calculated a lower federal subsidy than the BA. As this was the determining factor, the BA was forced to adapt its budget according to the approved subsidy by the government. This meant that the finance minister and the parliamentary budget committee gained considerable influence of the BA's budget in times of austerity.

As outlined above, the necessary governmental approval of the BA budget introduced in 1993 increased these powers considerably. The Ministry of Labour did not hesitate to make use of its new competencies and, for the first time since the foundation of the BA, pushed through a revised budget in 1993 against the resistance of the BA's administrative committee. The strong reduction of the subsidy payments to the BA in this revised budget led to a conflict between government and the social partners, particularly with the unions[109] : Ursula Engelen-Kefer, deputy chairperson of the DGB, accused the government of 'bending, pulling and massaging' the budget so it could avoid a subsidy (SZ, 8 May 1993). In the end, the reversed subsidy for the 1993 budget turned out much too small – instead of the calculated €2.5 bn, €6.3 bn were necessary in the end (mainly to cover overspending for active employment measures). The blame for overrunning the budget lay mainly with the BA, actuated by the government itself: "We have to protect the contribution payers from their self-administration" (Ina Albowitz, FDP; Focus, 5 July 1993). But Engelen-Kefer defended the overrunning of the budget, arguing that the self-administration had "tried to receive the money in the correct way", that is via the initial budget proposal, but the government representatives in the BA had been 'stringing her along' (Focus, 5 July 1993).

The conflicts continued in the following years as the ministry of labour corrected the budget plans in 1994 and 1995. The ministry of finance, with a strong interest to reduce the federal subsidy due to consolidation pressures stemming from the Maastricht Treaty, increasingly pressed for a reduction in expenditure. The mid-term financial planning of the federal government for 1995-1999 even envisaged an omission of the federal subsidy from 1996 onwards. In order to reduce the BA deficits accordingly, the ministry of labour reduced the proposed spending by €1.6 bn in 1995 and this mainly affected

[109] The original budget of the BA entailed a predicted deficit of €4.1 bn. With the changes in the Employment Promotion Act (AFG), strongly influenced by the Minister of Finance Theo Waigel (CSU), this subsidy was supposed to be eliminated or to covered by additional revenues. This – according to the great majority of the board of directors in the administrative committee – exceeded by far the budgetary implications of the AFG-reform (see SZ, 18 December 1992).

active employment measures (see Trampusch 2002: 29). Due to the continuing negative development on the labour market, the goal to avoid federal payments in 1996 was not achieved, but instead the necessary amount doubled compared to 1995 (€7 bn).

The persistent financial difficulties in the following years also increased tensions between social partners in BA budget decisions. In 1997, independent saving suggestions by the Ministry of Labour and the BDA were rejected by the majority of representatives from the Länder, communities and unions. In turn, the employer representatives complained about the fact the budget plans in 1997, 1999 and 2001 were accepted by the administrative committee against their votes (see Trampusch 2002). Changes implemented with the Hartz III legislation in 2004 finally put an end to these continuing disputes: now the administrative committees of the local employment agencies were no longer allowed to make suggestions on the drafting of the budget. Instead, the budget was now prepared by the federal board of directors which assumed sole responsibility. This again meant a sharp restriction in the budgetary authority of the social partners and indirectly increased pressure to contain spending, as the spending-oriented employment agencies were excluded from the process, while actors closer to government interests came to dominate. Parallel to these direct interventions in the budgetary allocation process, the internal spending monitoring process of the BA was also strengthened throughout the observed period.[110] Taken together, all measures aimed at increasing spending constraints had the effect that fiscal commitment on the budgetary dimension was reduced to a very low level.

7.2.3 Revenue Structure

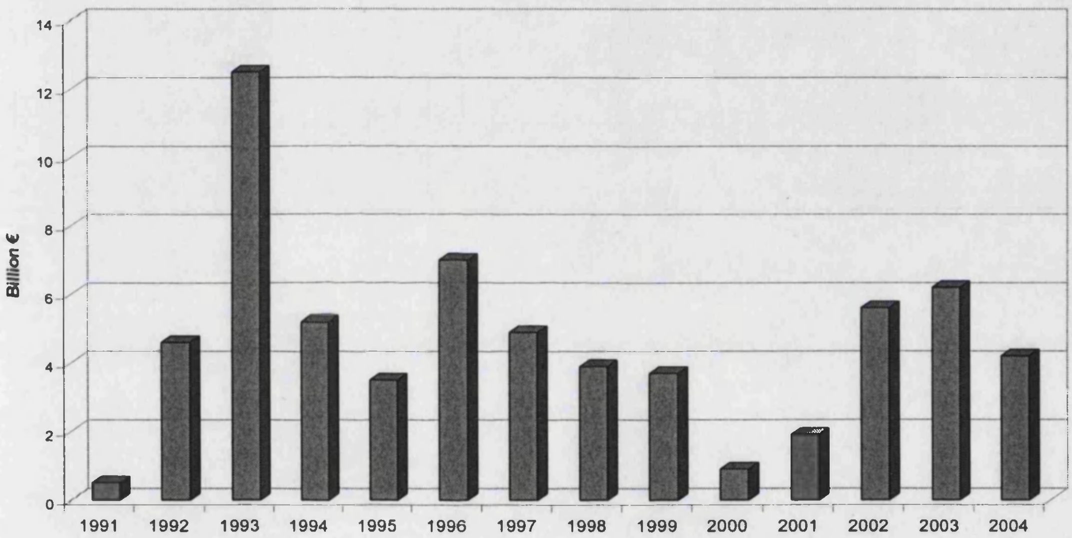
Contribution vs. Tax Revenues

In 1991, the BA was financed by 88.5 percent from contributions, with the remaining 11.5 percent predominantly coming from the taxpayer. After unification, the financial challenges which the mass unemployment in the Eastern Länder represented for the BA resulted in the biggest contribution rate increase in a social insurance sector since the pension reform of 1957 (see Appendix III). But despite these contribution increases, the revenues were not sufficient. The BA's deficits in East Germany between 1991 and

[110] In 1997, an internal revision was implemented with the AFRG reform act with the (limited) task to control whether the employment agencies followed the aim to prefer active to passive measures. With the Hartz-legislation in 2003, this task was expanded to the control of whether funds could have been used more 'appropriately and economically'. The revision reports were then submitted to the administrative committee for final acceptance.

1993 amounted to €46.3 bn, which were financed via the transfer of West German contribution surpluses of €29.3 bn and via €16.9 bn of federal subsidies. Two-thirds of the deficits resulting from unification were therefore covered by the West German contribution payers, while the federal government only covered one third (Kühn 1994: 17). As the situation on the nationwide employment market worsened once more in 1993, the federal government had to provide a record subsidy of €12 bn – which made up 23 percent of the total insurance revenues of the BA. In the following years, the BA remained dependent on federal subsidies, and after a short-term improvement in 2000, the fiscal needs increased yet again (see Graph 7-3).

Graph 7-3 Federal Subsidy to the BA, 1991-2004



Source: Bundesagentur für Arbeit 2005

Despite the strong increase of federal subsidy payments since 1991, the overall share of expenditure from the federal budget for unemployment remained nearly stable when comparing it with federal state allocations to the BA in 1991 and 2003 (see Table 7-5).

Table 7-5 Federal State Allocations to the Federal Employment Agency

Purpose	1991 (m €)	2003 (m €)
Unemployment Assistance	3 659	16 532
Early retirement benefits in the new Länder	2 920	-
Wage supplements for long-term unemployed	207	-
Unemployment Assistance Supplements in new Länder	93	-
Other supplements for long-term unemployed support	42	-
Other	20	-
Deficit Coverage	526	6 215
Arbeitnehmerhilfe	-	2
Eingliederungshilfe	-	198
Jump Plus (Sonderprogramm Unemployed Youth)	-	39
Zuschüsse Vermittlung Arbeitslosenbezieher	-	2
Innovative Measures Fighting Unemployment	-	29
TOTAL	**7 466**	**23 017**
Revenues Total	**25 397**	**74 378**
% of BA Revenues	**29%**	**31%**

Source: Bundeshaushaltsplan 1993, Einzelplan 11; Bundeshaushaltsplan 2005

Note: Unemployment Assistance does not count towards BA revenues, as the federal state is the spending carrier and the BA only the administrator.

This stability has been the case as other reimbursements paid by the federal government to the BA were abolished or reduced. Except for years in which the deficit of the BA was extremely high (as in 1993 and 1996), the increasing costs of unemployment have been mainly covered by the contribution payers and therefore by the BA, not the federal budget.

Moreover, the federal government found several ways to redirect funds from the BA back into the federal budget. One was the assigning of additional tasks to the BA without financial compensation in order to relieve the federal budget.[111] Another, more direct way of channeling funds back into the federal budget was introduced with the Hartz IV legislation (§46 SGB II): for unemployed people who – after exhausting their eligibility to unemployment benefit – made use of the tax-financed basic cover for job-seekers, 'Unemployment Benefit II', the BA now had to pay the federal government a so-called 'displacement fee' [*Aussteuerungsbetrag*], which corresponded to the one year expenditure for an unemployment benefit II beneficiary. In 2005, the BA transferred €6.72 bn to the federal budget. A large share of Unemployment Benefit II was therefore financed via contributions to the unemployment insurance and not, as originally

[111] The costs of the 1999 introduced emergency programme against youth unemployment were mainly covered by the BA. In 2000, the financing of the 1989 introduced special programme ,Action Employment Assistance for Long-Term Unemployed' was transferred to the BA (extension of §421c SGB III). From January 2001 onwards, the federal state also did not participate any longer in the financing of the structural adaptation measures (SAM §§272ff SGB).

intended, via taxes. The 'displacement fee' even exceeded the envisaged federal subsidy for the budget 2005 by €2.7 bn. This means that without this payment, the BA could actually have had a positive budget balance. Employer representatives and unions fiercely rejected the new rules:

> "The 'displacement fee' is nothing but a haphazard penalty fee, and the argument of the legislator is obviously invented: the money from the displacement fee flows openly in the general tax fund of the finance minister. Therefore the displacement fee is not only an absurd, system-violating misconstruction burdening the contribution payers, but also an unacceptable subsidy of the federal budget, which has to be abolished as quickly as possible" (BDA 2005; author's own translation).[112]

As the Federation of German Unions criticised, the unemployment insurance had with this fee to "assume liability also for cyclical and structural long-term unemployment, although it has only a very marginal influence on it" (DGB 2004b). Despite the large amount of the fee and the strong negative consequences for the BA finances, its introduction only attracted limited public attention.[113]

Besides this channelling of contribution funds into the state budget, it was decided by the new coalition parties CDU, CSU and SPD in 2005 to replace contribution revenues partly with taxes.[114] The unemployment insurance contribution rate will be reduced from 6.5 to 4.2 percent in January 2007, counter-financed by an increase of VAT. This represents a further important change regarding the revenue independence of the BA, and a significant reduction of the degree of fiscal commitment.

Transfers/Interdependencies:

Another important aspect with regard to the volatility of unemployment insurance revenues was the financial interdependencies of the BA with other social insurance institutions. "The redistribution of burdens between the different public budgets and funds is a long-standing noticeable characteristic of the financing of unemployment and employment policy in the Federal Republic of Germany" (Bruche and Reissert 1985: 12; author's own translation). The same applied for the period between 1994 and 2005.

---

[112] Source: http://www.bda-online.de/www/bdaonline.nsf/id/AFB40F0F8796D97EC12570 4B00447E01

[113] For a rare example, see Die Zeit, 17 March 2005, "Hans Eichels ominöse Milliardenquelle".

[114] See coalition agreement: 'Gemeinsam für Deutschland – mit Mut und Menschlichkeit', Koalitionsvertrag zwischen CDU, CSU und SPD, 11 November 2005, p. 21.

Unemployment and employment policies were still financed by various sources, and the organisational and structural reforms during this period did not reduce this high degree of fiscal interdependencies, but rather increased it.

Due to its difficult financial situation and the deficit coverage through the federal state budget, the BA was more often the beneficiary when it came to financial shifts between insurance carriers (see Trampusch 2003). But as already noted (in 5.2.3.4), financial burdens were also shifted from the pension to the unemployment insurance in 1998 through improved conditions for taking up partial retirement, which was mainly financed by the BA. But within the sector of unemployment provision, financial responsibilities were also highly fragmented: replacement benefits in unemployment were financed by three different bodies (unemployment insurance benefit by the BA, unemployment assistance by the federal state, and social assistance by the municipalities) which created incentives for each of these bodies to shift beneficiaries from one benefit programme to the other. This problem was to be tackled by the 'Fourth Law for Modern Services in the Labour Market' implemented in January 2005: unemployment assistance and social assistance were integrated into a new benefit type, the 'Unemployment Benefit II' (see 7.2.4.2). The financing body was now the BA, whose expenses were then compensated by the federal government. Unemployment Benefit II was administered by consortia (*Arbeitsgemeinschaften)* of local offices of the BA and the municipalities, or in some cases exclusively by the municipalities or the employment agencies.[115] But, by the beginning of 2005, it became clear that the goal of clarifying responsibilities between the financing bodies had not been achieved, as the municipalities took advantage of the new regulations and declared many more former social assistance beneficiaries as 'generally employable' than had been expected. This meant that their benefits had to be financed by the federal government, and not the municipalities. This resulted in a conflict between federal government and communal social assistance providers about the correct classification of the recipients.[116] Furthermore, the different financing sources of unemployment benefits and the new Unemployment Benefit II had been maintained.

[115] At the beginning of 2005, 345 consortia existed besides 69 exclusive communal administrators and 30 cases of separate management of the tasks between municipalities and employment agencies.
[116] Random inspections discovered that homeless people, prisoners as well as a coma patient had been declared 'employable' (that is, aged between 15 and 65, and able to work at least three hours per day) by the communal bodies (see Article SZ, 12 February 2005).

> "The goal of the Hartz Commission to abolish the 'financial switching yard effect' is unfortunately not achieved in this way. The two regulatory circles are neither organisationally, nor financially or with respect to their clientele separate from each other. Every year around 700.000 unemployed people switch over from the SGB III area to the Unemployment Benefit II. As a result the separate provision systems, which were actually supposed to be abolished, have been reintroduced for an ever bigger group of people" (Engelen-Kefer 2005: 3; author's own translation).

The fiscal interdependencies have therefore not been reduced, but instead intensified. This has reduced the degree of fiscal commitment, as instead of clearly earmarking revenues for the unemployment insurance purposes, the revenue base of the BA has been made more unstable as well as dependent on the behaviour of other actors such as the federal government and the municipalities. Overall, the volatility of the BA revenues has increased, which as a result decreased the degree of fiscal commitment from high in 1991 to medium-high in 2005.

7.2.4 Spending Structure

As has been the case in the pension and health insurance schemes, the German unemployment insurance scheme did not focus exclusively on the financial safeguarding of income risks, but also pursued redistributive goals. Some characteristics of the benefit regulations in 1990 therefore violated the principle of a strict reciprocity between contribution payments and benefit entitlements (see Römer and Borell 2002): benefits were increased due to social criteria such as age or the number of dependent children, and certain provisions were only granted to certain occupational groups or were predominantly used by them.[117] Furthermore, the employment agencies provided consultation and placement services available to everyone, yet these services were only financed by the insured employees. Most active labour market instruments were granted either universally to everyone registered as unemployed, or depending on social criteria. In 1992, such active measures amounted to a spending share of over 50 percent which shows that this was a factor considerably reducing the degree of reciprocity (see van Suntum and Schlotböller 2002). As the financial situation of the BA deteriorated during the 1990s, the board of directors and administrative assembly of the BA made repeated calls for a regular subsidy to cover those insurance-external provisions – and to avoid cutbacks for active measures in order to finance wage-replacement benefit entitlements

[117] Examples are the so-called short-time working benefits or the winter-break benefit paid to employees of the building industry.

(see Reissert 1994). But as the attempts to acquire additional revenues remained unsuccessful, the increasing financial difficulties of the BA made considerable reforms of the benefit and service provision of the insurance scheme necessary.

7.2.4.1 Eligibility

Traditionally, the social partners had made extensive use of the active employment promotion programmes to accommodate workers who fell victim to industrial adaptation processes – particularly through early retirement regulations partly financed by unemployment insurance. These regulations which allowed the early and relatively comfortably exit from the labour market were extended at the beginning of the 1990s.[118] Despite increasing financial difficulties of the BA from 1992 onwards, this practice continued in order to ease pressure on the labour market all throughout the 1990s (see Trampusch 2002). Due to changes in the pension legislation which connected early retirement with benefit reductions from 1995 onwards, other measures such as part-time models for older workers co-financed by the BA (*'Altersteilzeit'*) gained in importance. These changes had financial benefits for the pension insurance, while the bill for the status-maintaining benefit provision to older unemployed people was picked up by the BA.

But the cost pressures did eventually result in some eligibility restrictions: In 1997, the Employment Promotion Act shortened the duration of extended eligibility for unemployment benefit due to former contribution duration and age of the unemployed. More far-reaching plans of the government to abolish any right to unemployment assistance for claimants without prior receipt of unemployment benefit and to limit the maximum duration generally had been blocked by the Social Democratic opposition in the Bundesrat (see Clasen 1997b: 73). However, the majority of unemployment insurance reforms in the first legislative period of the Schröder government focused on strengthening the insurance principle. With the 1998 Employment Promotion Reform Act it was introduced that unemployment benefit eligibility could now only be gained through contribution times and no longer through 'equated times'. In 2000, the Red-Green government introduced exactly what it had formerly blocked in the Bundesrat: the eligibility for unemployment assistance without former eligibility for unemployment benefit was abolished.

[118] In 1991, the age limit for the receipt of the Old-age Transition Pay (Alüg) was reduced from 57 to 55 years and its duration of eligibility accordingly extended from 3 to 5 years.

With the Hartz legislation came a further strong tightening of eligibility rules: with effect from February 2005, only those who had paid twelve months compulsory contributions for unemployment insurance were still generally eligible for unemployment benefit. Special regulations of a reduced insurance duration of 6 months, for example for people formerly in military service, were abolished. Furthermore, the necessary minimum insurance time of 12 months for general benefit eligibility had to be fulfilled in the time frame of two (formerly: three) years and the possibility to extend the time frame was abolished. In addition, the Hartz legislation also increased the pressure on jobseekers to take up jobs. In particular for long-term unemployed, definitions of 'suitable work' were tightened. The requirement to take up jobs irrespective of a jobseeker's occupational status before becoming unemployed was again a radical break from Germany's status and occupation oriented unemployment benefit regime. Overall, the tightening of eligibility regulations mainly affected those insured with shorter insurance times, while the comfortable exit regulations for older insured members from the labour market were further extended. It seems that the financial relief for the pension insurance that was connected to these measures, as well as the purpose the benefits for older unemployed workers served for the social partners in wage bargains, played an essential role in this respect.

7.2.4.2 Reciprocity

Not only the eligibility, but also the generosity of benefits has been tackled since 1991. While cutbacks were initially focused on very specific benefits, the 1996 *Unemployment Assistance Reform Act* implemented widespread cuts: for the first time since 1982, both insurance and assistance benefits were generally reduced (by on average 3 percentage points), and the maximum payment of primary unemployment assistance was limited to one year. It was also made sure that beneficiaries, who were eligible for an old-age pension, took this pension up as soon as possible as they would otherwise lose their eligibility for benefits. In doing so, they were then financed by the pension insurance funds and no longer by the BA.

The 1996 reform brought savings of around €10 bn, equivalent to the amount already saved through the 1993 reforms. In both cases, measures followed the new approach of '*Fördern und Fordern*' and cuts in benefits were accompanied by a tightening of work requirements and a compromise on employment standards (Bieback 1997b; Rabe and Schmid 1999; Trampusch 2000; Zohlnhöfer 2001; Aust et al. 2002). In 1997, the annual adaptation of the assessment base for the wage replacement benefits of the BA was abolished ('*Ent-Dynamisierung*').[119] This negatively affected the degree of external reciprocity between the respective value of contributions and future benefits. In contrast, the degree of internal reciprocity was strengthened in 1998 with the Employment Promotion Reform Act, as the assessment period for the calculation of benefits was extended from 6 to 12 months.

The 'Fourth Law for Modern Service Provision in the Labour Market', implemented in January 2005, constituted the most far-reaching reform of unemployment provision since its introduction after WWII. Unemployment assistance and social assistance were merged into a new benefit type, the 'Unemployment Benefit II', which provided flat-rate benefits on the level of social assistance. Employable claimants received Unemployment Benefit II, non-employable claimants received social assistance. In contrast to former reforms, which focused on tightening eligibility regulations or strengthening the insurance principle, these changes represented a case of strong commitment-breaking as all unemployed, regardless of whether they paid in for 40 years or for 5, received only up to 12 months of benefits. The extended durability of up to 18 months was only granted to unemployed people aged 55 and older. "The cuts in unemployment benefits for the long-term unemployed show that the system of status orientation, arguably the backbone of the German welfare system, has been relinquished for a large share of the dependent population" (Kemmerling and Bruttel 2005: 15).

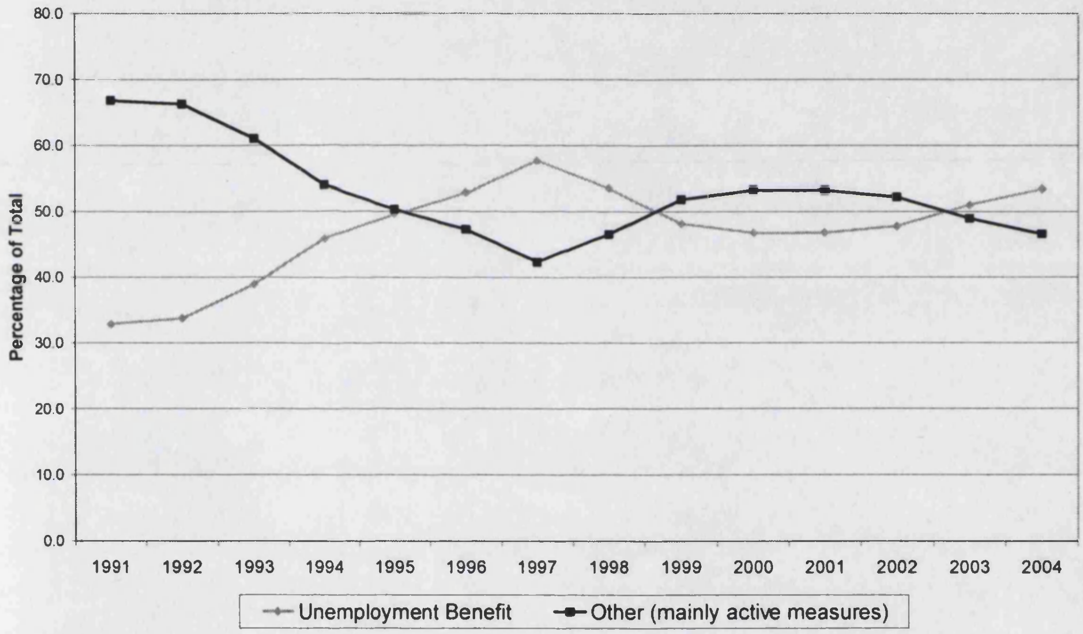
While these benefit cutbacks have broken fiscal commitment on a large scale, it is a different question whether they had a beneficial financial impact for the BA. It is important to keep in mind the financing bodies of the different benefits reformed with the Hartz legislation: the abolished unemployment assistance scheme had been financed by the federal government via taxes, but nevertheless applied the same equivalence principle between former wages and benefits as the unemployment benefit (just on a generally lower level). The abolition of this status protection and the provision of a flat-rate benefit regardless of former wages was therefore a logical consequence of its way of financing, which was not contribution but tax-based (see Kemmerling and Bruttel 2005). But as the unemployment assistance had in any case been financed by the federal state, this did not mean that more funds of the BA could now be focused on the

[119] While this was initially reversed under the Schröder government with the 2001 *Old Age Assets Supplementation Act*, cost pressures forced the Red-Green government to re-introduce this regulation with the Hartz legislation in 2003.

insurance aspect of unemployment benefits rather than on redistribution. The insurance-external provisions which were financed or co-financed by contribution revenues remained (that is, placement and advice services as well as active measures). The abolition of unemployment assistance therefore served merely the fiscal interests of the federal budget, not the one of the BA.

Another indicator for the degree of redistribution in the unemployment scheme is the degree of spending for non-contribution-based active measures. Since 1991, the share of spending for active measures compared to passive, contribution-related spending declined (see Graph 7-4) – which seems to indicate that redistribution has been reduced.

Graph 7-4 Unemployment Insurance Spending for Active and Passive Measures, 1991-2004



Source: Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung 2006: 118

But due to the financing of active and passive measures from the same revenue pool, increasing unemployment and therefore necessary spending for passive measures inevitably leads to a reduction of the funds available for active measures (see Bruche and Reissert 1985). This means that the reduction of spending for active measures was not a consequence of a reduction of redistributive elements, but merely a consequence of the interlinked financing of both passive and active measures. This accordingly means that the degree of fiscal commitment has not increased on this dimension, but is instead lower than in 1990 due to the strong reduction of the contribution-benefit link (see Appendix II-4.3).

7.3 *Common Patterns and Differences in the French and German Unemployment Reforms*

In 1990, the French and German unemployment insurance schemes differed considerably with regard to their respective commitment scores: while the German BA had one of the lowest commitment scores of all analysed schemes, the French UNEDIC had one of the highest. This chapter has analysed how these differences have impacted on successive reform developments, which have resulted in the fiscal commitment inherent in the German scheme being strongly reduced, while commitment in the French scheme has been maintained.

(1) To what extent did the differences in the overall commitment scores between the schemes, but also the differences on the individual dimensions matter for future reforms in times of fiscal pressures? The results of the analysis of the French and German reform developments in the unemployment insurance sector strongly support the argument that a high degree of fiscal commitment in social insurance schemes makes successive retrenchment measures in those schemes less likely. This connection between high commitment scores and a high degree of commitment-maintenance could be observed for the aggregate scores, but also independently for each individual dimension.

In the case of the French UNEDIC, the high degree of administrative independence represented an effective shield against attempts by the government to expand its authority. At the beginning of the 1990s, the government had gained indirect influence on the regulatory and managerial decisions of UNEDIC in return for financial assistance and the approval of the agreements between the social partners. But the defeat of the government in the battle with the social partners during the reforms in 2000, in which the former openly attempted to impose its own demands on the planned measures, meant that UNEDIC in the end retained its high degree of administrative independence. As already observed in both the pension and health insurance sectors, it was mainly the employer representatives who were the driving force behind the battle for more autonomy. In contrast, the German social partners could not, despite their common resistance against reforms of the BA, avoid the drastic reduction of their administrative competencies in the wake of the statistics scandal in 2002. This was also the case as the government successfully managed to shift the blame for the failures exclusively to the social partners, although it had already been in the possession of considerable administrative and supervisory powers prior to the scandal and had therefore been jointly responsible. The social partners, unable to avoid the blame and successively the restriction of their competencies, were however compensated with increased self-administration powers at the local level. Comparable to the health and first-pillar pension schemes in France, the initial low degree of administrative independence had therefore represented a gateway for further governmental involvement.

In the French unemployment insurance scheme, the high degree of formal budgetary independence in 1990 also successfully prevented reductions of this independence despite several attempts of the government to do so. Following the improvement of the financial situation in the mid-1990s, UNEDIC regained its financial autonomy by avoiding the need for further state subsidies and instead guaranteeing payments into the state budget. The absence of sufficient internal deficit-coping mechanisms meant however that fiscal constraints as well as the danger of a future financial dependence from state subsidies remained high. In contrast to the French scheme, the restriction of administrative independency for the German BA went hand in hand with a substantial reduction of budgetary autonomy. The imposition of the budget by the Ministry of Labour and finally the organisational reform in 2004 stripped the social partners to a large extent of what remained of their independent budgetary powers on the top level of the institution. The BA is therefore the most straightforward example of how a social insurance with an administration still labeled as 'self-administration', and with a main financing source of contributions, is in the end fully subject to state control.

The financial dependence of the organisation on subsidies by the state represented 'a latent gateway for hierarchical intervention' (Heinelt 1994: 199), which raised the interest of the government in increasing its budgetary powers in order to gain control over this spending element (see Trampusch 2002). This confirms the observations in the previous two chapters that the revenue structure of insurance schemes is a determining factor in the extent to which governments have attempted to reduce budgetary autonomy of the social partners in those schemes. The fact that the BA had since 1991 been dependent on deficit-covering subsidies by the German government created both the intention as well as the justification for the repeated demolition of the self-administration authorities of the social partners. In contrast, the only short-term dependence of UNEDIC on state subsidies and the successive recovery of revenue independence limited both the intentions of the French government to gain control of the scheme as well as the justification to do so.

The reform developments in the unemployment insurance schemes also confirm observations in the health and pension reform chapters that the extent to which the social partners maintain administrative and budgetary competencies plays an important role for developments on the spending side of insurance schemes and the particular design of benefit reforms. If the social partners have strong administrative and budgetary authority, they are more likely to maintain the existing fiscal commitment towards 'standard' insured, i.e. such insured which have gained entitlements via contribution payments. This has been the case in the French scheme, in which the high degree of administrative independence of the unemployment scheme has gone hand in hand with a tightening of benefit eligibility and a strengthening of internal reciprocity. Spending commitments have only been broken for those insured with only short contribution records, while commitment has been maintained for those with long employment records. Those with fewer entitlements lost eligibility for unemployment benefits and were shifted into the state-financed and often means-tested solidarity schemes. Parallel, the proportionality between the duration of contribution times and the duration of unemployment benefits was further tightened which protected the interests of the long-term insured at the expense of those insured with fewer contribution records.

Despite a similarly high degree of support for status-protecting benefit provision in the dominating middle classes in France and Germany (see Mandin and Palier 2002), the developments in the German unemployment insurance show instead a move away from the strict application of the insurance principle of reciprocity between contribution payments and the generosity of benefits. Overall, the benefit reforms have reduced the degree of contribution-based eligibility as well as reciprocity from medium high to low. This confirms the argument that with the loss of corporatist control over the schemes, the social partners also lose both the interest and ability to defend the occupational and status-maintaining elements of the benefit structure.

(2) What have been the predominant modes of change and what were the implications of reforms for the degrees of fiscal commitment on the different dimensions? In France, commitment has been widely maintained via the tightening of eligibility to those who contributed to the schemes over a long period of time, and a tightening of the degree of

internal reciprocity. Commitment-breaking on the spending dimension has mainly focused on the short-term insured. In contrast, the strong reduction of fiscal commitment in the German unemployment scheme has taken both the form of increased controlling of commitment via the expansion of direct managerial authorities of the state, and the restraining of existing spending commitments via the reduction of budgetary autonomy for the social partners and an imposition of tighter spending constraints. But in the German case we can also observe a more far-reaching direct breaking of commitment on the spending dimension, affecting not only the short-term insured but also those insured for a long period of time.

(3) What role did the social partners and their relationship with the state play in the reforms? The analysis of the developments in France and Germany challenges the assumptions formulated in Hypothesis 1 that we should observe a stronger focus on reducing administrative independence in the French insurance reforms, as the consensual bargaining of reforms with the social partner is not possible. While administrative independence was indeed much more reduced in the French first-pillar pension and health insurance schemes than in the German schemes, the opposite is true for the unemployment sector. It therefore seems that sectoral elements play a stronger role in determining the path of reform developments than national factors, such as the different tradition of corporatist relations.

During the conflict about the UNEDIC reform in 2000, the French employers successfully managed to unite with a majority of union representatives, which gave the government no real possibilities to intervene. This had been different in the pension and health sectors, where the alliance between the social partners had not been stable. While the employers left the common self-administration, the unions remained which gave the government the possibility to further increase its powers in these schemes. In contrast, the final defeat of the government and the re-establishment of (nearly) full administrative and budgetary autonomy meant that the employers remained in the administration of UNEDIC. As in France, the German employers were also striving towards a clear assignment of authorities. In 2004, they renewed their demand of a further retreat of the state from the self-administration in this insurance sector: if the government would grant the BA managerial and budgetary independence, the BA would in turn forgo the automatic deficit coverage of the federal government said Peter Clever, member of the executive board of the BDA and alternating chairman of the

Federal Employment Agency (see Stuttgarter Zeitung, 11 May 2004). As the newly introduced 'displacement fee' was anyway more costly than the amount of deficit coverage, this made financial sense. But the already low degree of administrative and budgetary independence of the BA made it impossible to fend off the increasing centralisation of decisionmaking powers with the government. As a consequence of the fact that the government now defined all relevant administrative and budgetary parameters, the German social partners increasingly lost interest in maintaining their central role in the top-level self-administration of the BA, and focused increasingly on their authorities on the local level.

(4) Is there evidence that the French governments focused more strongly on cost containment than the German ones? Similar to the earlier two cases of pensions and health, there is strong evidence that a generally more powerful position of the finance ministry in the budgetary allocation process and generally in policymaking does *not* seem to play a decisive role for social insurance reforms. In France, the high degree of budgetary autonomy of the UNEDIC considerably restricted finance minister influence in the first instance. But also with regard to benefit reforms, the government repeatedly attempted to interfere in reform plans agreed between the social partners (for example, in the 2000 reforms as well as during the introduction of PARE) – not to impose further financial restrictions, but instead to avoid those as they would have also meant a restriction of its own influence. In Germany, where cost containment pressures should have generally been lower according to Hypothesis 2, we could instead observe a strong governmental interference in the administrative and budgetary decisionmaking of the BA in order to enforce budgetary discipline. Once again, the high financial stake of the government due to the automatic deficit regulation seemed to have created the strong interest in cost containment rather than a generally stronger position of the finance minister.

Conclusions:

The results of the chapter confirm the observation that the financing structure of insurance schemes is an essential element in determining the policy positions of all involved actors. There is strong evidence that the high financing stake of the German government in the BA was the determining factor in it pushing through much more encompassing institutional and programmatic reforms with much more wide-reaching commitment-reducing effects than it has been the case in the other two insurance sectors. But as in the other two insurance sectors, these interventions were mainly self-interested and often aggravated the financial problems of the BA. The interlinked financing system between tax and contribution-financed provisions has enabled the hidden re-channelling of funds into the state budget. These observations challenge fiscal institutionalist arguments that retrenchment advocates in government (mainly the finance minister) should have an interest in reducing deficits per se. Besides this, the results of the analysis provide further support to the argument that the political positions of the social partners are not predominantly defined by the specific national interaction patterns between employer representations, unions and the government, but instead are strongly shaped by their specific position in the individual insurance schemes.

The analysis of reform developments in the unemployment sector furthermore strengthens the hypothesis that partisanship arguments are no longer a decisive factor in determining the extent and shape of reforms. In Germany, the Red-Green government introduced several measures it had previously opposed, and also in France no change of the governmental strategy with regard to unemployment policies has been visible.

8 Conclusions: The Politics of Regaining Control over the Social Budget

8.1 The Effect of Sectoral Differences in Fiscal Commitment

The second part of this thesis has examined to what extent institutional commitment-devices in the French and German social budgets have influenced the extent and shape of cost-containment measures in times of fiscal austerity. In order to answer this question, the previous three chapters have analysed the reform processes which took place between 1990 and 2005 in the main social insurance schemes in both countries. The analysis has applied a sectoral perspective, which derived from the observation that although both France and Germany are usually considered as having welfare states with a high degree of institutional and policy stickiness, the degree of fiscal commitments in the individual insurance schemes differed in fact considerably. The comparison of fiscal commitment scores in 1990 and 2005 furthermore showed that while overall fiscal commitment in both countries has been reduced, this varied systematically with regard to previous degrees of commitment in the individual schemes. This observation challenges common understandings that despite similar degrees of financial pressures, we should expect nationally different developments as the two countries differ with regard to their corporatist traditions and the strength of cost containment pressures resulting from their budgetary allocation processes. The results regarding the patterns of commitment reductions indicated that other institutional elements and policies (which differed not only between the countries, but also between sectors within one country) did matter.

The sectoral analyses have addressed the open questions resulting from these observations. Firstly, they have investigated how the observed reductions in fiscal commitment took place: how did political change due to financial pressures work in the generally highly institutionally and programmatically committed environment, and what were the different modes of change? Were commitments broken outright, or were other modes of change predominant? The second aspect analysed were the conditions and driving forces for change: What role did the national factors mentioned above play in the reform developments in the insurance schemes? Does the absence of obvious cross-national differences mean that these factors did not play a role, or is it rather the case that we have to differentiate their effect with regard to the circumstances in the individual insurance sectors? The first part of this chapter brings together the results of the sectoral analyses and will try to shed light on these questions. In the second part, it then tests whether the conclusions derived from the analysis of the corporatist-continental French and German cases can equally be applied to the United Kingdom, a case situated on the other extreme of the fiscal commitment-scale.

8.1.1 Reducing Fiscal Commitment by Avoiding It

As illustrated in Graph 4-3, we can observe the systematic reform-blocking effect of high degrees of fiscal commitment in both France and Germany: policy sectors with an initially high degree of fiscal commitment see a small degree of institutional and programmatic change. This confirms 'new politics' theories of institutional lock-in and the 'stickiness' of social spending. But as outlined before, the reduction of fiscal commitment does not necessarily imply the straightforward breaking of commitment (see Chapter 3.2). In fact, the reduction of fiscal commitment has in both countries often taken more indirect forms.

The French unions defended their role in the management of the social insurance programmes via the mobilisation of public support and also the employer representatives increasingly resisted attempts by the government to increase its control powers over the social budget. French governments therefore resorted in many cases to a strategy of avoiding and restraining commitments instead of breaking them. Major examples were the implementation of the new national budgetary framework, as well as the changes in the revenue structure of the health as well as pension insurance schemes. The replacement of contribution with tax revenues increased the influence of the government without directly attacking the administrative powers of the social partners. Also on the spending dimension, the government rather restrained and avoided the development of new commitments instead of directly breaking existing ones. Particularly in the pension, but also in the unemployment sector we could observe the maintaining of commitments via the shifting of short-term insured into tax-financed solidarity schemes.

In Germany, the straightforward breaking of commitments was also often avoided due to fears of electoral backlash or strong resistance by the social partners. Commitment was in many instances maintained by making additional revenues available without contribution increases or the provision of additional federal funds. Reforms in this context have been the expansion of compulsory insurance, increases of assessment ceilings and also the increasing burdening of wage replacement benefits with social charges. On the spending dimension, moderate commitment-breaking has taken place in all three insurance sectors, but far more significant was the tightening of eligibility rules and the reciprocity between benefits and contribution payments. This has not only maintained spending commitment for the insured, but also created further barriers for future reforms as it strengthened the insurance principle. But fiscal commitment has also been reduced in the German welfare state: through stronger influence in administrative decisionmaking processes, the government has gained control powers over existing spending commitments. Furthermore, those commitments were also increasingly restrained via a strong reduction of budgetary authorities or the implementation of budgetary mechanisms enforcing budgetary constraints.

Overall, the reduction of budgetary autonomy, the increase of budgetary constraints and the gaining of influence via changes to the revenue structure of schemes have been the predominant form of change in both countries. Although the more visible dimensions of administrative independence and spending structure have remained comparatively less affected, these more 'hidden forms of policy retrenchment' (Hacker 2004) had considerable reducing effects on the degree of existing policy commitments.

8.1.2 Finance Minister Strength and Cost Containment in the Welfare State

Based on the dominant assumption in the fiscal institutionalism literature that in budgetary allocation processes the finance minister has an interest in restraining spending, Hypothesis 3 predicted differing degrees of commitment-breaking measures in France and Germany (see 2.2.2): as the position of the French finance minister in the allocation process was considerably stronger than its German counterpart, we should observe stronger pressures for cost containment in the French welfare state which should result in more breaking of fiscal commitments.

No evidence was found to support this argument. Instead, the observations challenge its underlying assumptions. It is unrealistic to assume that the utility function of the so-called 'spending ministers' is so different from that of the finance minister in times of fiscal pressures. The French and German case studies have shown that instead of striving for a further expansion of their portfolios, the responsible ministers were usually the frontrunners in trying to contain social spending during the observed 15 years. One reason has been that due to the pressures associated with the Maastricht criteria, the reduction of deficits in the social budget has no longer been solely an issue for the finance minister, but has become a general matter of concern for the government. But even more importantly, the 'spending ministers' have an intrinsic interest to ensure the continuing liquidity and sustainability of the social schemes in their policy sector in order to maintain the autonomy of their political domain.

Another major observation in the analysis of the two cases has also been that the budgetary authorities of the government are often very much restricted: due to the budgetary separation of social insurance accounts from the general state budget, the central state allocation process often does not have any impact on the budgets of the insurance schemes or does only affect the tax-financed part of the budgets. It therefore seems that the specific budgetary authorities of the government in the individual insurance schemes matter for financial decisions in those schemes, rather than the general position of the finance minister in the allocation process.

8.1.2.1 Self-Interested Intervention by the State

Does a tighter grip of the government on a specific insurance budget really lead to stronger pressures for cost containment and successively the reduction of fiscal commitment? The observed interactions between governmental budgetary authorities and fiscal policies in the three social insurance sectors suggest the opposite: a stronger government influence over budgetary decisions actually increased fiscal imbalances. The existence of formally self-administered social insurance budgets offers an opportunity to shift expenditure from the central budget into the insurance budgets. In other words, the central or federal state makes use of the social insurance budgets for its own fiscal purposes. As the sectoral analyses have shown, this has not only been the case in the fairly well-know example of the financing of German unification, but is rather a permanent feature of social budgetmaking. Although deficits in social insurance budgets count towards general government debt, the public perception that the government is not directly responsible for these debts seems to be an important incentive for such fiscal manoeuvres. The institutionalised commitment in most insurance sectors is too weak to protect the insurance schemes from this kind of interference.

In the case of France, the lack of symmetry between financial responsibilities and the possibilities to take budgetary decisions in both the main health and pension insurance schemes had important consequences for the way the state dealt with fiscal commitment since 1990. The combination of formal administrative autonomy and budgetary control by the state enabled the government to use the social security scheme for its particular social policy or economic purposes. While the social security code stated that the government had to consider recommendations by the social partners managing the schemes regarding measures which would contribute to the balancing of the schemes' budget, the state's ability to control the main budget parameters often made it follow different goals than the balancing of the schemes' finances. One major example has been the insufficient compensation of the social insurance schemes for contribution exemptions via FOREC (see 5.1.2.1). This reduction of revenues for the social insurance schemes represented a considerable weakening of fiscal commitment, as it reduced the resources of the system without providing adequate compensation. Important in this respect has been the introduction of financing funds, which had wider implications for the power distribution between the government and the social partners as the government gained more influence due to a higher share of tax revenues. Furthermore, the insecurity of the fund's resources strongly decreased the degree of fiscal commitment within the social insurance schemes.

Another major example of how separate insurance budgets were instrumentalised by governments who wanted to avoid increased spending from their budgets was the financing of the social costs of unification in Germany mainly via the social insurance schemes. But as the resulting contribution increases became a problem due to their negative labour-market effects, new revenue sources needed to be found – but again outside the governmental budget. The solution was to increase the available resources within the insurance schemes, which for them often meant an increased risk of financial volatility and therefore of future governmental intervention. In the pension insurance scheme GRV, this happened via the gradual reduction of the reserve requirements. In the health sector, fiscal rules were relaxed in order to acquire additional revenues for the system without raising contribution rates or burdening the federal budget: instead, the illegal credit-financing of the insurance schemes was tolerated by the government over the years, which resulted in an accumulation of debts. Balanced budgets were clearly not on top of the agenda of the government, as it accepted a greater financial risk for the schemes if this served the purpose of avoiding either governmental subsidies or difficult reform processes.

In the German unemployment insurance sector, the same motivations led the government to play a two-sided game regarding structural and policy-related reforms of the BA. On the one hand, it had an interest in reducing transfers from the state budget to the BA budget. On the other hand, the persistent deficits provided a good justification for a continuing reduction of self-administration powers on the top level of the organisation and a restriction of budgetary autonomy. The introduction of the 'displacement fee' in 2005 (see 7.2.3) showed the ambiguity of the fiscal policy in the unemployment sector: the amount re-channelled into the state budget via this fee was higher than the calculated deficit for the budgetary year. The effect of this re-channeling of funds meant that the deficit occurred in the accounts of the BA and not in the federal budget, which was in the interest of the finance minister. But also prior to the introduction of the rejection fee, the government had repeatedly shifted programmes originally financed directly by the federal budget into the financial responsibility of the BA.

The government therefore often did not take actions which would have enhanced the fiscal performance of the insurance schemes, despite the fact that the possibilities for state intervention existed. If – as a consequence of non-intervention or, in the fiscal sense, 'negative intervention' by the government – the financial problems became more severe, this offered the government not only the justification to implement benefit reforms, but also to conduct institutional reforms restraining the self-administration powers of the social partners. In this sense, a worsening of the fiscal situation in the social budget can also be in the interest of a government.

As the sectoral analyses reveal, the federal government also used deficits in social insurance sectors as justification for tax increases. While those additional tax revenues were promised to be earmarked for social insurance financing, they did in several cases not exclusively flow into the social insurance budgets but instead also partly into the state budget (examples are the additional pension subsidy via a VAT increase, the introduction of the Eco-Tax or an increase of the tobacco tax for the purpose of financing the GKV subsidy in Germany) or were successively re-channelled to other schemes or into deficit-covering funds (examples are the CSG and CRDS in France).

Other examples of the government making use of shared fiscal authority for its own purpose have been successful and unsuccessful attempts to shift the responsibility for the deficit coverage of some special schemes to other insurance schemes in order to avoid tax subsidies. In France, the deficit coverage of the subsidy-heavy military pensions scheme as well as the agricultural scheme BAPSA were shifted into the Régime General. In Germany, examples have been the attempt to integrate the miners insurance into the GRV, and after this failure the successive creation of an equalisation process between those (see 5.2.3.3). The expansion of the risk equalisation process in the GKV and the abolition of different equalisation processes for East and West multiplied transfers between the health insurance carriers, which avoided necessary subsidy payments from the general state. Furthermore, the existence of different budgets in Germany allowed for more hidden cuts through changes in cross-subsidisations between funds (see Clasen 1997b). In the period between 1991 and 2005, there have been repeated changes regarding mutual contribution payments by the insurance carriers for their beneficiaries. In this way funds were transferred cross-sectorally from insurance schemes with less financial difficulties to those with severe budgetary problems. This often avoided looming contribution increases or higher federal subsidies for the schemes in deficit. But while these financial transfers served the purpose to sustain commitments in the benefiting schemes, they represented a case of commitment-breaking in the contributing schemes as revenues which were earmarked for these schemes were channeled away to other schemes and even other insurance sectors. While the government avoided further payments from its own budget, the increase of transfers and financial interdependencies therefore reduced the degree of fiscal commitment in the insurance schemes.

8.1.2.2 Explaining Sectoral Variance: Financial Interdependence and Cost Containment

The higher the financial stake of the government in the individual schemes, the higher its motivation for self-interested fiscal intervention. This explains why certain sectors and insurance schemes have been more affected by fiscal manoeuvres which had negative consequences for their financial situation. In contrast to the assumption that governmental budget authority should lead to strong pressures to contain spending, there is strong evidence supporting the conclusion that instead the revenue and budgetary autonomy of insurance schemes creates more effective pressures for cost containment.

In the case of the main French pension and health insurance funds, the status of the administrative institutions as 'établissements publique' left the final responsibility for deficits with the government. This resulted in continuing efforts by the government to enforce more strict budgetary disciplines on the schemes, but as they were neither able to determine their own revenues nor to reduce benefit rates, this remained often without major effects. But instead of making use of its considerable intervention powers (such as the possibility to change benefit regulations or to enforce strict budgetary discipline) in order to effectively tackle the reasons for the increasing deficits, most reforms by the government – such as the introduction of CADES and the successive prolongation of its duration and mission (see 6.1.2.2) – aimed at avoiding the deficit-coverage responsibilities of the government. In contrast, the final responsibility for fiscal deficits in the French unemployment insurance scheme rested with the scheme itself. In order to solve the financial difficulties, extensive cost containment measures had to be implemented which also avoided a looming administrative and budgetary take-over by the central government in exchange for financial help. In contrast to the other schemes, this was possible as UNEDIC also had the decisionmaking powers to decide and implement the necessary cost containment measures.

Similarly, the greater financial stake due to the regulation of automatic deficit coverage explains why the German government was keen to interfere in budgetary decisions of the unemployment insurance. But since 1990, the state's financing share increased also in the GRV. An attempt to abolish the budgetary independence of the pension insurance funds with the planned organisational reform decided in 2004 failed due to resistance of social partners as well as the *Bundesrat*. If, in contrast, the budgetary autonomy of insurance schemes has been high, the government has attempted to force the self-administration to push through unpopular spending cuts by itself, as has been the case in the Statutory Health Insurance.

8.1.2.3 Budgetary Control without Administrative Responsibility

While there have been repeated (successful as well as unsuccessful) attempts by the governments to increase their budgetary as well as administrative powers in the insurance schemes since 1990, the analysis of both cases also shows that not only the social partners, but also the governments had a vivid interest in maintaining the – in administrative and budgetary decisionmaking restricted – independence of the schemes.

This is the case as the formal independence of the schemes offers governments the possibility to disguise responsibilities for deficits, as well as to shift the blame for unpopular political decisions to the social partners. This also explains why there is no systematic lock-in effect of budgetary commitment on the 'budgetary independence' and 'revenue structure' dimensions.

French and German policymakers have rarely attacked the formal administrative authority of the social partners (see also Clasen and Clegg 2003). In France, this has been the case despite heavy conflicts not only with the unions, who regularly paralysed economic and public life through strike actions, but also with the employer representatives. The latter even resigned from the self-administration bodies in the first-pillar pension and health insurance schemes (ASSEDIC) in 2001 after financial disputes with the government could not be resolved. This withdrawal could have been an opportunity for the government to reorganise the administrative structures particularly of the health insurance funds, as those were anyway less and less financed by contributions. The shift towards tax financing meant an erosion of the legitimacy of the social partners to run those schemes. But the government had an interest in keeping the unions involved, as their presence served as an instrument of giving unpopular decisions and compromises greater legitimacy. As a Juppé aide stated, referring to the 1993 reform of the unemployment insurance scheme: 'The unions did more to raise contributions and lower unemployment payments than the state would have dared to do itself'" (Financial Times, 5 September 1995). As outlined below, the interest in maintaining the independence of the system from state interference has repeatedly forced the unions to agree to spending cuts and compromises with the employers, which they would probably not have agreed to if their administrative influence would not have been at stake. But it seems that the government also had an interest in having the employers on board in the social security administration: it accepted a number of conditions by MEDEF for their return into the self-administration of the health insurance funds. Overall, their position in the self-administration has (due to the reintroduction of parity in 1995, as well as their stronger representation in new health insurance bodies from 2004 onwards) been repeatedly strengthened.

In Germany, the formal status of self-administration has also remained intact. One reason was that it helped to disguise financial difficulties of the schemes and to blame social insurance institutions for apparent fiscal mismanagement. One example of how formally independent social insurance funds offered the possibility for political decisionmakers to hide behind their pretence of a lack of intervention power was the reaction of the German government to the scandal about falsified statistics in the Federal Employment Office at the beginning of 2002. Although having the authority to intervene in the BA's decisions and, due to the supervisory role, also responsibility for its actions, the government effectively shifted the public blame for the malfunction to the self-administration committees of the BA. The public perception of an apparent failure of the self-administration offered the government the possibility to restrain the autonomy of the BA even further in both administrative as well as budgetary terms. In addition, it used the massive institutional overhaul as an opportunity for a wide-reaching reform of the benefit system (see 7.2.1).

The formally independent social insurance administrations in Germany did not only offer opportunities to shift blame, but also to shift decisionmaking processes regarding unpopular spending cuts into these institutions. "In the context of heavy distributional conflicts, governments are the more stable and less threatened by legitimatory deficits the more distributional conflicts are sòlved autonomous and below the federal level. [...] Therefore they have hardly an interest to fulfill the legal intervention obligations efficiently" (Alber 1992: 169). This could be observed in the German health insurance sectors with the establishment of new institutions of corporatist decisionmaking which shifted allocatory bargains away from the direct responsibility of the government. This was not possible in France to the same extent due to the absence of a developed, centralised system of corporatist decisionmaking in its health sector.

8.1.2.4 Formal vs. Effective Commitment

These findings show that an analytical differentiation between 'formal' commitment and 'effective' commitment is necessary: while the former can be high (for example, due to a high degree of formal administrative autonomy), effective commitment – which means the possibility to avoid interference which reduces the insurance character and the degree of spending commitment in the schemes – can be low (for example, due to a very low degree of budgetary autonomy combined with strong budgetary constraints).[120] The division and sharing of financial responsibilities can therefore be a deliberate strategy to decrease effective commitment in the insurance schemes, while the degree of formal commitment is maintained.

[120] I am grateful to Waltraud Schelkle for highlighting this point.

The existence of formally autonomous social insurance budgets does not only seem to make the finance minister a victim of the Common Pool Resource Problem, but it also creates a principal-agent problematic: the particular budgetary situation of most social insurance schemes not only created incentives for the government to misuse the social insurance funds for its own financial purposes, but this was also the case with the social partners. There have been repeated accusations in Germany that unions and employers used the BA funds to finance training and employment measures which they offered themselves, and that they avoided real competition between providers. The former budgetary spokesman of the Green party described the self-administration by the social partners as 'collective self-service' *[kollektive Selbstbedienung]* (see Metzger 2003). In France, cases have also come to light which have shown the wasteful behaviour of some social insurance administrators in dealing with administrative resources (see e.g. Sunday Times, 19 Nov 1995). This illustrates the effects of the fateful combination of budgetary self-administration with automatic deficit coverage and administrative independence: in terms of cost containment, it creates wrong incentives for both the governments as well as for the social partners.

8.1.3 Influence of the Social Partners and its Effect on Social Insurance Reform

On the basis of theoretical arguments from the 'old' politics school, Hypothesis 2 predicted that due to the different traditions of corporatist interactions between the social partners and the state, we should see more commitment-breaking in France on the administrative and budgetary commitment dimensions than in Germany. But the detailed analysis of the reform processes in the three insurance sectors has shown that it is not the national traditions of corporatist relationship, but instead the responsibilities of the social partners with regard to administration and regulation in the different schemes which are the decisive factors. In other words, the dynamics observed are not the result of exogenous factors, but rather the result of the social partners' relative position in the individual insurance schemes.

8.1.3.1 Blame Avoidance and the Effects of Selective Occupational Solidarity

According to the assumption that policymakers want to avoid public blame for unpopular retrenchment decisions, fewer reductions in sectors with a high degree of spending reciprocity and a high degree of administrative control by the state should be expected. While a strong connection of benefit provisions with contribution-based entitlements should increase both the legal transaction costs as well as political costs of retrenchment, the direct responsibility of the government for the schemes and accordingly also for the unpopular changes should increase the incentive for policymakers to avoid such measures. While we can indeed observe fewer commitment-reductions in schemes with a high degree of commitment on the spending dimension, those schemes also have a high degree of administrative independence which does not confirm the above assumptions. Instead, the most effective protection of spending commitments results instead from a high degree of occupational solidarity in the insurance schemes, which derives from a high degree of administrative independence by the social partners and a strong contribution-benefit link. In such schemes, financial pressures result in a tightening of existing spending commitments rather than their breaking.

As early as the beginning of the 1990s, scholars have been speaking of a transformation of the German welfare state into a 'protection state' [*Sicherungsstaat*], in which "social policy serves the protection of the governmental institutional set-up instead of the promotion of social security" (Nullmeier and Rüb 1994: 2; see also Clasen 1994). Also Offe (1990: 196) argued that the effectiveness of the social insurance system was increasingly measured not according to how it ensured social protection and participation for the whole population, but instead according to how it pooled the big majority of the working population to an interest group relatively immune against internal rivalry and exit. The developments in the following 15 years support these observations and show the effect of the strong degree of occupation-based solidarity in the German welfare state: between 1990 and 2005, benefit reforms in the insurance sector with the highest degree of spending reciprocity – pensions – have focused on tightening the existing fiscal commitments instead on cutting back commitment across the bank. This implied a strengthening of the contribution-benefit link particularly for those who had contributed to the schemes for a long time, while redistributive elements as well as the benefits for only short-term insured were tackled. But while the degree of internal reciprocity was strengthened, the overall pension level was strongly reduced mainly through hidden cuts, such as changes to pension adaptation which will only take effect over time.

In the unemployment insurance scheme, eligibility criteria for benefits were also tightened and the underlying contribution period for their calculation was extended.

While as part of the Hartz legislation the duration of the benefits was reduced, reciprocity elements and the overall level of benefits remained the same. The main cuts were instead focused on unemployment assistance beneficiaries. The fact that this benefit was exclusively financed via taxes out of the federal state budget and was therefore not part of the contribution-financed solidarity system, strongly contributed to the targeting of those 'insurance alien' elements (Clasen 1997b: 78). Those observations confirm Döhler's (1994: 160) interpretation of the 'financial contraction movement' of social insurance institutions as part of their survival strategy and intention to avoid further dismantlement. While the achieved level of provisions and distribution for the broad tier of standard insurance cases is protected, retrenchment measures are focused foremost on redistributive elements. Only if those options of cutting back on insurance-external provisions are exhausted, the benefit levels of those who gained eligibility solely based on contribution payments are also reduced.

The same observations can be made in the French case: in the unemployment scheme, in which eligibility was strongly related to former contribution benefits and benefits were highly earnings-dependent, the social partners focused strongly on defending these 'earned rights', while they showed little reluctance of cutting back benefits for unemployed with only minor contribution records. Also the unions, usually portraying themselves as guardians of social justice, practiced very selective 'occupational solidarity' (Clasen and Clegg 2003: 363): they heavily defended special rights of their clientele, while they were willing to agree harsh benefit cuts for outsiders of the system. In the pension sector, benefit reforms also followed this logic of selective occupational solidarity in defending entitlements: cutbacks were most severe in the general first-pillar pension scheme of the Régime Général. In contrast, the often very fragmented specialist schemes in the public sector resisted cutbacks considerably longer and experienced less retrenchment due to changes of adaptation regulations.

The only exception from the observed strengthening of the insurance principle is the public health insurance in France, whose eligibility criteria have been relaxed in order to cover the whole population. Parallel, its financing structure has been transformed in detaching revenues to a large degree from contributions. These factors have strongly weakened the insurance principle, which in turn reduced the interest of the social partners to defend the scheme and its benefit structure. This, besides the conflict with the government over the financing of the 35-hour week, contributed to the employer representatives withdrawing from the social insurance boards in 2001. Ernest-Antoine Seilliere, President of MEDEF, clearly stated the position of the employers in terms of responsibility for the insurance schemes: “Pas question de s’occuper de la gestion de l’assurance-maladie. Nous, les entrepreneurs, ne sommes pas légitimes” (Les Echos, 19 May 2004).[121] The return of the employers into the administration in 2004 remained partial, and they continued to pursue their plans to shift larger parts of the health insurance into the private sector. This again confirms that the governance structure of the schemes has an important impact on the future design of its policies and vice versa: with the loss of the ‘insurance logic’ in the French health insurance, the employers also lost the interest in participating in the administration of the scheme.

8.1.3.2 Trading Retrenchment against Administrative and Budgetary Authority

As Bonoli (2000: 125) observes in the case of French pension reform in 1993, “the government can trade retrenchment in the level of provision with concessions on the management side of social insurance”. The analysis of reform developments between 1990 and 2005 provides strong evidence that such deals have indeed taken place in a number of cases in both France and Germany. One example are developments in the French unemployment insurance scheme: in the mid-1990s, Juppé repeatedly aimed at increasing financial control over the UNEDIC scheme by including decisions regarding revenues and spending in the general government budget process. In order to retain their budgetary autonomy, the social partners were forced to push through drastic spending reductions by themselves. In June 2000, MEDEF and the trade unions achieved a last-minute deal agreeing on a reform of the unemployment benefit system. Employment minister Martine Aubry had already asked UNEDIC to sign an agreement giving greater powers to the government, but the new agreement which solved the financial crisis of the scheme once more saved their institutional and budgetary independence – however, at the cost of further benefit cuts (see 7.1.4.1).

In other cases, union leaders have struck deals with the government about benefit cuts in schemes in which the administrative independence was more limited, but nevertheless there was much influence to lose for the unions. Some private sector unions were willing to compromise and signed in the last decade a series of agreements with the government regarding spending cuts, which in turn secured them a future role in their

[121] “It is no question whether we will participate in the administration of the health insurance funds. We, the employers, are not legitimate” (author’s own translation).

administration and a limitation of further restrictions of their competencies. This however resulted in repeated conflicts between union leadership and their members. The plans for a radical healthcare reform presented by Juppé in 1995 faced strong opposition by the radical Force Ouvrière, but not from all unions: Nicole Notat, the secretary general of the CFDT, argued in favour of a more compromising line by the unions in order not to risk the whole balance of the schemes. This earned her (also physical) attacks by her own unions members. In December 2002, grassroot members of the three main trade union federations stood up against their leadership in rejecting a deal those had agreed with the government on reforming the pension systems of Electricité de France and Gaz de France (see Financial Times, 12 June 2003). In May 2003, the moderate CFDT unions and the French labour minister agreed a deal over public pension reform (which raised the contribution period from 27.5 to 40 years by 2008). The CFDT leadership came under fire for causing a split in the union movement, as radical wings of the union opposed the decision of their own leadership and independently organised strikes against the agreement. These examples show that the interests of the union elites in preserving their own position and influence were often more decisive for their actions than the actual policy positions of their members.

In Germany there is similar evidence of deals between the social partners and the government regarding the maintenance of administrative authority: examples have been cutbacks in the pension sector with the 2001 pension reform, which were connected with an expansion of union powers in the occupational pension sector (see Busemeyer 2005), or the expansion of administrative powers for the social partners on the lower levels of the BA in return for a restriction of authority on the top level as well as major benefit reforms.

8.1.3.3 No Blame without Responsibility: Opposing Goals and Common Interests

As outlined above, the strategy of both the French and German governments has in many cases been to maintain the outer shell of self-governance in insurance schemes while hollowing out the actual authority of the social partners in making self-determined decisions. But a consequence of this strategy of sharing responsibilities – often to the financial disadvantage of the insurance schemes – has also been that the social partners in both countries became increasingly fed-up with this development which left responsibility and blame with them, while in parallel, they lost more and more competencies to actually determine policy developments. The social partners therefore increasingly pressed towards a clarification of administrative and budgetary authorities.

What we can observe is that since the mid-1990s there has been a move away from interlinked decisionmaking structures between the social partners and the government – both towards more direct administrative and budgetary control by the government (such as in the health sector in France and the unemployment sector in Germany), as well as towards more administrative and budgetary freedom for the social partners (such as in the unemployment scheme in France and the health insurance in Germany). On the one hand, it has been the government which has granted the self-administration more institutional competencies if this allowed it to delegate difficult and conflictuous allocation processes to independent decisionmaking bodies. But in many cases it has been the social partners which have pressed for a clarification of authorities.

Despite the fact that employer and worker representatives were often strongly opposed to each other with regard to their policy positions, they found common ground in rejecting further state intervention. Paradoxically this has been even more strongly the case in France than in Germany – arguably because of the even stronger threat of state intervention. As described by Ebbinghaus (2002b: 28), the 'potential and credible threat' of such intervention is often an important factor for successful social concertation. But against the assumptions made in the literature focusing on national social pacts, it seems that the collaborative behaviour between the social partners depends on the specific situation in certain insurance schemes: while they might find common ground in opposing state intervention in insurance schemes, this might not be the case in another. Despite the fragility of this united front, the government seems often unable to break the common resistance against further state intrusion.

The French and German analyses confirm that conflicts about social policy changes increasingly are not fought between the different camps of political orientation, but instead between the government and the administrators of the social insurance schemes. But what they do not confirm is that the social partners in general are acting increasingly as 'office-seekers' in contrast to 'policy-seekers' (see Natali and Rhodes 2004a: 24). Instead it seems that there are differences to the degree to which the two sides of the social partners have an interest in defending their influence regarding the insurance schemes: the unions have indeed a great interest as it ensures them political influence and employment for many of their representatives. This is particularly strong in France, as they – in contrast to their counterparts in Germany – lack not only sufficient independent resources, but also generally influence regarding the determination of broad economic policies. Employers, in contrast, seem to have had less interest in maintaining the corporatist governance system per se, but they also had a strong interest in avoiding government interference which affected the finances of the insurance funds negatively.

France:

Despite the absence of corporatist arrangements in the industrial relations in France and a highly confrontational approach by the unions regarding welfare reforms (which resulted in strikes which paralysed the country for weeks in 1995 and 2003), there was increasing co-operation between the unions and employers regarding social insurance policies. Historically, the employers started consultations with unions about future economic and social reforms from March 1995, initiated by their new head, Jean Gandois, who changed the strategy of the '*patronat*'[122] from viewing unions merely as enemies, but instead pointed to the importance of seeking the contact to the unions in order to enable change. One of his officials commented: "We have everything to lose if the unions become weaker still...and so we have to find ways of keeping their heads above water" (Financial Times, 5 September 1995).

Both employers and unions criticised the repeated attempts by the government to gain more control over the unemployment insurance, and were also opposed towards the restriction of their independence in the pension and health sector. MEDEF repeatedly threatened to withdraw from the self-administration, which increased the pressure on unions to reach agreements with the employers if they did not want to endanger the system of self-administration as such, and with it their position in it. For the employers, this instrument of exerting pressures put them in a win-win situation: even if the agreement had not been approved by government, this would have meant that the government would have had to take (temporary) control over the scheme. "If so, it would be a partial victory for MEDEF, since, at the very least, the government will have to reassess the main union privileges (and abuses) in helping run the social security

[122] The change in the employers' strategy in dealing with the unions is also illustrated by the name change of their representative association from CNPF (Conseil National du Patronat Français) to MEDEF (Mouvement des Entreprises de France) in 1998. The move away from the 'patronage' term signalled an understanding of the relationship with other political actors on a more equal level.

system" (Financial Times, 29 July 2000). These increased pressures finally led to the agreement between MEDEF and the majority of unions about the unemployment insurance reform in 2000, which was the first time employers defined their relations with the unions without government intervention (see Financial Times, 15 June 2000). But despite the common resistance towards further state intervention, there were also changes on the union side that made this unlikely co-operation between the social partners possible: since the reintroduction of parity, the more moderate CFDT became the dominating union which proved more willing to reach compromises with both government and employers.

Another victory for the employers was achieved in the conflict about the financing of early retirement regulations via the supplementary pension schemes: they again successfully joined forces with the unions and regained more budgetary independence. This was different in both the health and first-pillar pension schemes, where similar attempts by the employers to join forces with the unions failed due to the inability to agree common policy positions and financing concepts. This led successively to the (temporary) exit of the employers from the administration boards (see 6.1.1).

Germany:

In Germany, scholars have pointed towards a decreasing regulatory ability of the social partners due to the increasingly difficult financial situation of the insurance schemes since the early 1990s, which made it more difficult to reach agreements (Schmidt 2000; Trampusch 2004). Employers were concerned with the negative effects of the high non-wage labour costs, while the unions wanted to avoid a cutting back of benefits. But also in the German case, the social partners – despite their increasing difficulties in agreeing about future reform paths – supported common positions. As in France, this common position of the social partners did not derive from a particular 'social pact': the 'Bündnis für Arbeit' (*Alliance for Jobs*), an attempt by both Chancellor Kohl and later on by Chancellor Schröder to come to a mutual agreement between unions and employers regarding economic and social reforms, failed twice (see Lehmbruch 2003). Instead, agreements between the social partners often resulted – as in France – from common opposition to further government involvement in administrative and budgetary procedures of the schemes.

However, the building of an effective alliance against further government involvement was not always achieved: in the deliberative process leading up to the 1999 Pension Reform Act, the different positions of the social partners hindered them in exerting influence on the reform process (see Richter 2001: 105). But in other cases the social partners managed to agree on common policy positions and successfully defended their administrative and budgetary autonomy: in 2004, the planned authorisation requirement [*Genehmigungsvorbehalt*] for the pension insurance budgets was withdrawn again after protests from both sides. As in France, employers and unions had very different motives for resisting this government initiative: while the unions rejected a further involvement of the federal state as they fear a reduction of self-administration authorities and higher pressures for cost reductions, the employers wanted to avoid more federal authority explicitly because they feared that this would be an obstacle towards further savings (see BDA 2004). Also in the unemployment insurance scheme, both employers and unions were striving towards a clear assignment of authorities – even if this meant to wave the automatic deficit coverage by the state (see 7.3).

Common Patterns in France and Germany?

In both France and Germany, the social partners found common ground in rejecting further government involvement in administrative and budgetary decisionmaking in the social insurance institutions. Their common interest in maintaining their independent decisionmaking powers has enabled partially far-reaching reforms which have involved severe cutbacks of provisions. In this respect, the sectoral perspective highlighted common patterns in both countries: while the social partners demanded the retreat of the state from insurance schemes with a high degree of fiscal commitment, they seemed to be willing to give up involvement in the schemes characterised by only a low degree of commitment.

Overall, the French employers were more willing to risk the governance structure of the insurance system as a whole when compared with their German counterparts. Their 'office-seeking' attitude was very limited if schemes lost their restricted insurance character due to an expansion of eligibility beyond employees, and if they did not see possibilities for effective cost containment – such as in the health sector. But also in Germany, employer representatives have raised demands to reduce all three social insurance schemes to a sole basic protection (see BDA 1998). So far, however, they have remained in the administration of all schemes.

8.1.4 The Procrastinatory Effect of Party Ideology

The analysis of the French and German reform processes between 1990 and 2005 confirms strongly the hypothesis that a partisan-focused theory of welfare reform processes is not able to explain social policy developments in times of austerity. In both countries, commitment-reducing measures were pursued by both conservative and socialist/social-democratic governments, and there is no evidence for a diversion from once initiated reform paths after the ruling party or parties changed. What is visible however is a procrastinatory effect of party politics – that is, party politics seem to have an effect on the timing of reform measures. In both Germany and France, left-wing governments gained power in the second half of the 1990s – also a consequence of their campaign strategies which promised to reverse or stop social policy reforms implemented by the conservative governments in power at this time. But in both cases, the reforms which had been pursued by those conservative governments and which were partly reversed or not implemented by the new left-wing governments were after a short period reintroduced due to mounting cost pressures – in most cases under a different heading, but often with even more cost-saving consequences.

In Germany, reform packages were passed from 1993 onwards on a regular basis in an ongoing attempt to deal with the mounting cost pressures and rising deficits in the social budget. By the mid-1990s, in all areas of social policy substantial changes had been introduced, but the majority of those turned out to be insufficient to avoid rising deficits in the following years. With the struggle of reform, the formerly mainly consensus-oriented pattern of policymaking changed to a highly polarised and conflictual struggle between the different parties and their associated stakeholders. The Social Democrats under their chairman Oskar Lafontaine opposed reforms undertaken by the Kohl government, and used their majority in the Bundesrat to block as many reforms as possible. After the election victory of the SPD and a coalition formation with the Green party, the direction of social policy was reversed – but due to severe fiscal problems, this turn was only short-lived. Lafontaine resigned as finance minister at the beginning of 1999, and the following reforms were mainly dominated by the aim of fiscal consolidation and attempts to reduce the fiscal burden on companies in order to stimulate the struggling economy. The Red-Green government was forced to reintroduce many measures already decided under the Kohl government and continuously saw itself in a struggle with its own followers, but also their traditional allies, the unions.

In 1999, the demographic factor – introduced in 1997 by the conservative-liberal government –was abolished by the Schröder government. But due to mounting fiscal pressures, a very similar reform was introduced in 2001 when a factor for the development of the pension contribution rate was integrated in the benefit calculation formula. In 2004, this was accompanied by a 'sustainability factor' – which was basically the formerly abolished 'demographic factor'. Overall, the combined effect of these reforms on future pension levels was much more drastic than the initial reforms of the conservative government (43 instead of 64 percent of average wages for the standard pensioner in 2030). Also the reform of disability pensions had been reversed by the Red-Green government, but was again reintroduced with only minor changes after a short period of time. Similar short-term redemptions of reforms also took place in the health insurance. Another example of how governmental responsibility often led to a radical change in policy positions can also be found in the unemployment insurance sector. The Kohl government in 1996 failed with its attempt to further restrain the independence of the BA self-administration, which as at this point was heavily opposed by the Social Democrats; once in power, the Red-Green coalition used the opportunity provided by the BA scandal in 2002 to implement exactly these restrictions.

In France we can observe a similar pattern: measures previously attacked by the parties in opposition were repeated or expanded once those opposition parties found themselves in government. One example is the social insurance tax CSG. Although once opposed by the conservatives, the CSG has since its introduction in 1991 been used extensively by both camps and its rate was increased multiple times. An example of a delaying effect of party politics can be found in the pension sector: in 1997, the Juppé government tried to introduce non-obligatory private savings schemes for private sector employees, financially supported by the government. But the left-wing Jospin government blocked the implementation of the law after taking over power in 1997. In February 2001, the same government introduced so-called *'Plans Partenariaux d'Épargne Salariale' (PPESV)*. Although not labeled as such, those pension plans were employee pension saving schemes financially supported by employers and the state – schemes which had been blocked before.

8.2 *The Effects of Low Fiscal Commitment: Social Insurance Reforms in the United Kingdom 1990-2005*

In order to show that the fiscal commitment framework is also useful to explain developments in welfare states with very different institutional characteristics, the second part of this chapter contrasts the results of the analysis of French and German social insurance reforms with the developments in the United Kingdom between 1990 and 2005. The main question evaluated is whether the conclusions derived from the study of the two high-commitment countries France and German can equally be applied to the case of the UK, whose social insurance programmes are situated on the other extreme of the commitment-scale with very low scores on all four dimensions. The following sections present a brief outline of the characteristics of the UK social insurance schemes in the three observed sectors, and then contrast the reform developments in those schemes between 1990 and 2005 with the results of the French and German case studies.

8.2.1 Fiscal Commitment in the UK Social Insurance Sectors in 1990

The UK welfare state is a popular case for comparative studies, as it is often considered as the only case of a 'liberal welfare regime' in Western Europe besides Ireland (Esping-Andersen 1990; 1999). Characteristic for liberal regimes is the predominant tax financing of welfare provisions, which are usually directly administered by the state without involvement of the social partners and whose spending structure is mainly based on means-testing and marginal benefit levels. But while these general attributes are useful for a very broad classification of the British welfare state within the range of regime types, a more diverse picture appears when taking a closer look at individual policy areas. While it is true that the British welfare state provides more income-related, needs-based provisions than social-democratic or continental welfare states, here contribution-based social insurance schemes also play an important role. "More than £6 in every £100 of national income goes through the National Insurance system, making it as important within the public finances as financing the National Health Service" (Hill 2003: 1). Social insurance plays an important role firstly in the pension sector, where contribution-based benefits include the basic state pension and compulsory second-tier pension provisions. Contribution-based provision also plays a role in the unemployment protection sector, with eligibility for unemployment benefits (since 1997 'Jobseekers Allowance') based on a contribution record. In the health sector, social insurance elements are also prevalent: although health provision in the UK is not insurance-based, but delivered on a citizenship-basis by the National Health Service (NHS), there exist contribution-based statutory sick pay and disability allowances.

In administrative terms, the British welfare state has only a very low degree of fiscal commitment as all social programs are directly administered by the state or its agencies without any involvement of the social partners. The influence of both employer and employee representatives on social policymaking and implementation has traditionally never been strong in the UK (see Edwards 1998; Crouch 1999). Some commentators have even argued that 'corporatism is incompatible with British society' (Birnbaum 1988). One explanatory factor is the fairly late and weak union movement in Britain, which – contrary to both the German and French unions - did not always actively seek involvements in welfare state matters but instead separated labour relation issues from social policy issues (see Ashford 1986; Marier 2002). Furthermore, the union movement was strongly fragmented which further weakened its influence also in social policy matters. "True to its status as a social insurance system without social partner participation, the British system became one of weak universal (as opposed to occupational) citizenship. It was, however, a citizenship model rather than a residual one, because all except the wealthiest expected to make some use of it" (Crouch 1999: 448).

The only area where employers had an active role in administering welfare provisions were occupational pensions, which since 1975 could be chosen as a replacement for the public second-tier pension SERPS. This also gave the unions some limited influence, though this was mainly restricted to the occupational schemes in the public sector (Ebbinghaus 2000b: 12; see also Bonoli 2000). But who are the state actors involved in regulating and administering the social insurance schemes? Besides the Department of Health – which is responsible for the NHS – all old-age and unemployment related benefit provisions were task of the Department of Social Security (DSS), now Department of Work and Pensions (DWP). But another very important actor in shaping social policies was traditionally the Treasury, the powerful ministry combining monetary and economic policy areas (see Thain and Wright 1992; Deakin and Perry 2000).

In contrast to the German and French insurance schemes, the British schemes did not have budgetary autonomy and their accounts were directly integrated in the general government budget. The government exerted full budgetary control over both the revenues assigned to the schemes as well as the spending parameters. Spending constraints were also high due to the budgetary allocation process: the position of the Treasury in the budgetary process has been extremely strong, also according to von Hagen's index (1992: 69), which represented an important counterpoint towards expansionist tendencies regarding the social budgets (Ashford 1986; Marier 2002). The Treasury was generally involved in all policy-areas and often served as a veto point particularly in social policy reforms (see Hall 1986): no proposal involving additional spending was discussed in cabinet unless accompanied by a Treasury paper outlining the financial consequences (Glennerster 2003: 183), and the Treasury promoted the strict control of the funding of new schemes (Deakin and Perry 2000: 21). But despite those strong pressures to contain spending, the extent to which spending could be pre-determined was restricted: in the sectors in which contribution-based benefits were paid (that is, pensions, unemployment and sickness benefits), spending was demand-led and therefore no pre-defined spending limits could be set. The situation was different for the British National Health Service (NHS) which received a certain pre-defined amount from which it had to provide 'comprehensive' health care for the population.

Although in Britain a large share of social insurance provisions was financed by contributions paid by the employers and their employees, these contribution revenues were – in contrast to France and Germany – not earmarked for the specific programmes, but all contributed to a National Insurance Fund. Although formally separate, the fund was de facto part of the governmental budget (see Bonoli 2000). Differences between social spending and revenues in the fund were compensated with tax funds, which shows that the distinction between the revenue sources was not distinct. This means that while contribution-financing did indeed play a role, the resulting degree of fiscal commitment was only low. Moreover, the degree of fiscal commitment resulting from the spending structure of the schemes has been lower than in the other two studied cases: while eligibility was based on contribution records, the link between the amount of contributions paid and benefits received was often only very weak. While some schemes (second-pillar pensions and sickness pay) provided income-related benefits, others (unemployment and first-pillar pensions) only paid out flat-rate benefits despite the charging of earnings-related contributions.

8.2.2 Dealing with Fiscal Austerity: Reform Developments in the UK

Different Premises, Different Reform Predictions?

Similar to France and Germany, cost pressures grew strongly at the beginning of the 1990s in the UK: high unemployment coincided with increasing pressures on the NHS due to rising costs but increasing problems of service delivery, while pension spending was predicted to increase strongly as a consequence of population ageing. The containment of social security spending therefore became an area of major concern for the government, particularly as it accounted for a large share of overall government spending: Deakin and Parry (2000: 108) cite treasury and government officials confirming that spending allocations with the social security department had top priority, as even marginal errors in estimating expenditure could turn out larger than the entire funds of other departments.

Based on the hypotheses formulated for the French and German reform developments in Chapter 2, what should we expect to be the reform developments in the British welfare state? As outlined above, fiscal commitment has generally been only low in all three social insurance sectors which should make it generally easier to push through cost containment measures. Strong pressures to do so should furthermore derive from the strong position of the Treasury in the policymaking processes. Due to the direct administration of the schemes by the state, neither the unions nor the employer representatives had a vested interest in the maintenance of the insurance schemes which also excludes them as likely barriers to reforms. The only exception would be the occupational pension schemes, on which the employers (represented by the Confederation of British Industries, CBI) but also the unions (organised in the Trade Unions Congress, TUC) exerted direct influence. Furthermore, these schemes did play a role in wage bargains and employee-employer relations (Schmähl 1991), which should create resistance by the social partners against reforms which would reduce their role in those schemes (as had been the case in 1986; see Bonoli 2000). But in all other social programs we should see less resistance for change and it should be easier to push through necessary changes facing cost pressures. But on the other hand, the direct accountability of the government for the schemes and therefore also for unpopular reform measures should – according to blame avoidance arguments – limit incentives for reforms.

Increasing Budgetary Constraints: Changes to the Allocation Process

At the beginning of the 1990s, benefit expenditure grew particularly strong due to increased expenditure for unemployment, disability and pension benefits. The 1992 governmental discussion paper "The Growth of Social Security" predicted that benefit expenditure would rise by 26 percent between 1992/93 and 1999/2000 if the rate of unemployment remained unchanged. As parallel state revenues declined due to the recession during the mid-1990s, the Treasury exerted strong pressures to tackle these hard-to-control spending items.

One element of reforms aiming to increase spending constraints was a change in the budgetary allocation process with the introduction of the so-called 'EDX expenditure control system' in 1991. The new allocation system required new spending proposals to be admitted only on the basis of cuts elsewhere once the overall total spending ceiling had been set.[123] It therefore reduced the need for case-by-case Treasury approvals of departmental spending, which was supposed to increase spending constraints (Parry et al. 1997: 396). But expenditure for social benefits continued to grow, and increased from 10.2 percent of the GDP in 1990/91 to 13.1 percent in 1995/96. But due to the beneficial economic development which also led to the decline of unemployment, this trend had already started to reverse when the Labour government came into office in 1997.

Despite the signs of a relaxation of spending pressures, the new government stressed its intention to follow the course of strict cost containment and froze the spending limits set by the former government for the coming two years. Furthermore, it attempted to increase budgetary control over social spending by the central government even further (Brewer et al. 2002: 507). In 1997, the new Chancellor Gordon Brown replaced the annual bidding rounds in the budgetary allocation process with a 'Comprehensive Spending Review' (CSR) which established spending requirements and budgets over a three-year period. This was supposed to give departments more control over their spending, as they were able to carry over unspent funds to the next period (see Glennerster 2003: 186). But in turn, departments were now required to agree Public Service Agreements with the Treasury, which set out the policy objectives as well as performance measurement indicators for the next three years (Carmel and Papadopoulos

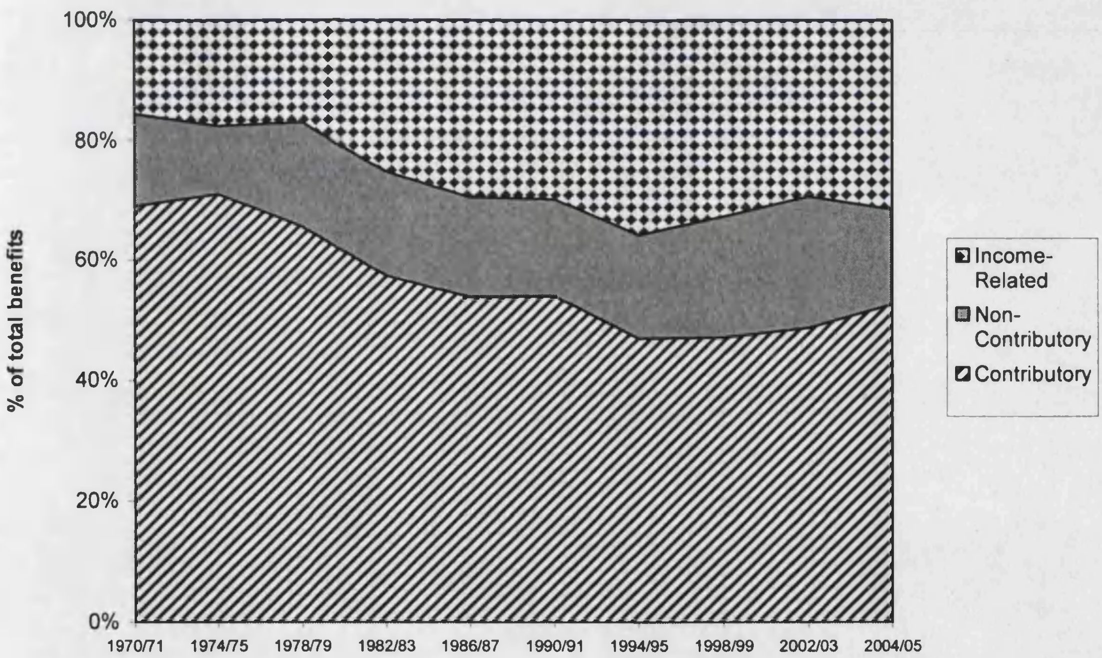
[123] In 1991 the total government expenditure had been oriented around a single aggregate – the 'control total'; only unemployment-related cyclical elements of social security expenditure were excluded (along with debt interests).

2003; James 2004). In line with these measures, so-called 'cash planning' was introduced, which assigned the task of strict cost containment directly to the departments: if spending rose faster than predicted, managers would have to reduce the scale of the services that they were able to provide. The Treasury's position in overall policymaking and in supervising its implementation had therefore been again strengthened, which also strengthened pressures for cost containment.

Development of Social Spending

Despite the increased spending constraints, social expenditure in the UK increased overall during the observed period – both if measured in real terms and as a percentage of GDP (from 17.9% in 1980 via 23.7% in 1993 to 21.8% in 2001). But parallel, the composition of the overall social security budget changed considerably during this period.

Graph 8-1: The Decline of Contributory Benefits, 1970-2005



Source: Department of Work and Pensions, Benefit Expenditure Tables
Note: Real Terms measures as 2006/07 prices.

As Graph 8-1 shows, the share of contributory benefits did decline considerably between the budget years 1970/71 and 1997/98, while both income-related and non-contributory, non-income related benefits increased. Although this trend was stopped thereafter, this does not mean that the new government put increased emphasis on contributory insurance-spending: Frank Field, appointed Minister for Welfare Reform after the Labour election victory in 1997, had initially argued for a move towards social insurance, but this was something "a cost-conscious Treasury saw as unattractive" (Brewer et al. 2002: 513). Field did therefore not find sufficient support for his ideas, and after his departure from government in 1998 his successors followed the same path of increasing income-based, means-tested provisions compared to contribution-based ones (see Hill 2003: 11). Some of these benefit increases came in the form of tax credits – which meant that they did make an impact on the revenue- instead of the spending-side of the social budget. Furthermore it is very important to stress that the increase of contributory benefits was exclusively due to an increase in contribution-based pension spending. Both spending for contribution-based unemployment benefits as well as sickness, invalidity and incapacity benefits declined strongly during this period.

In order to assess the full impact of those changes regarding the degree of fiscal commitment in the British welfare state it is necessary to take a closer look at the developments in the three social policy sectors.

Pensions

From the very beginning, financial considerations played a dominating role in the British pension system: before WWII, plans for an insurance-based pension scheme were rejected by the Treasury as too inexpensive and financially risky (see Heclo 1974). Only after WWII, Lord Beveridge managed to convince the Treasury that his plans for a contributory flat-rate pension were financially viable (Heclo 1974: 256; Nesbitt 1995: 4; cf. Marier 2002: 276). The result was the introduction of a Basic State Pension, financed from compulsory contributions by employers, employees and self-employed. This scheme was accompanied by private, occupational pension schemes. In 1975, a public second-tier scheme was introduced, the State Earning-Related Pension Scheme (SERPS).

The degree of fiscal commitment emanating from the administrative and budgetary structures of the two pension schemes in 1990 has been extremely low. The Pension Service, the agency administering both the Basic State Pensions as well as SERPS, was under direct control by the Department of Social Security (DSS) and its budget was included in the departmental budget. Although spending in the two schemes was based on entitlements, the government disposed of full budgetary control as it defined all relevant revenue and spending parameters. Also with regard to the revenue structure fiscal commitment was low, as pension contributions flowed unearmarked into the common National Insurance Fund, which was furthermore subsidised by tax funds.

Fiscal commitment on the spending structure varied between the two schemes: in the basic scheme, contributions had to be paid or credited for around nine-tenths of the claimant's working life in order to receive a full pension. If the contribution record was incomplete, the pension was reduced accordingly. While this constituted a degree of reciprocity between contribution payments and benefit entitlements, there was no direct connection between the amount of contributions (which were earnings-related) and the overall generosity of benefits (which were flat-rate). Furthermore, the degree of 'external reciprocity' was extremely low with pension levels (in 1993 around 22 percent of average male earnings) just above those of means-tested provisions (Bonoli 2000: 59). But the overall pension level was usually higher due to the additional second-pillar provision (which amounted to around 25 percent of average earnings). With regard to SERPS, also the degree of internal reciprocity was stronger with the earnings-related benefit based on an employee's best twenty years of earnings.

Pension spending accounted in 1990/91 for 44 percent of all social benefit expenditure in the UK, and was also the spending item which was rising fastest.[124] Despite the fact that the generally very low level of the basic scheme was one reason for high level of pensioner' poverty, the Conservative government therefore started to scale back the public schemes, particularly SERPS, from 1985 onwards (see Bonoli 2000: 63).[125] Parallel, it promoted a shift to occupational and private saving schemes. In order to achieve further savings in the public schemes, the Major government decided at the beginning of the 1990s to equalise the pension age for men and women in the public schemes to 65. But while it was predicted that the equalisation of pension ages would reduce public expenditure by £10 bn per year by 2030, this did not solve the acute spending problems at the time (Deakin and Parry 2000: 125). The plan of the Major government to therefore completely privatise the contributory schemes failed however and in 1997 Labour became the governing party.

---

[124] Data Source: DWP, Benefit Expenditure Great Britain, 1991/92-2006/07.

[125] The 1986 Pension Act halved the benefit levels under SERPS, by (i) basing entitlements on whole employment career earnings, rather than the best 20 years; (ii) gradually reducing SERPS payments from 25% of average earnings to 20 percent (by 2009); (iii) reducing the survivor's pension from 100 to 50 percent (see Taylor-Gooby and Daguerre 2002).

Labour revealed its own pension proposals in 1998, shifting the focus on the voluntary take-up of stakeholder pensions and on securing the flat-rate pension (see Evans and Cerny 2003). But due to its aim to avoid an increase of public pension spending, it in the end continued the strategy of its predecessors of shifting the old-age risk into the private sector. Furthermore, the existing public pension schemes increasingly became safety nets for low-income earners, while the earnings-related elements were further reduced: in April 2002, SERPS was replaced by a State Second Pension (S2P) which was funded by employees and employers (see Glennerster 2003: 141). While contributions were still earnings-related, the benefits of the new S2P would eventually be flat-rate, which strongly reduced the degree of contribution-benefit reciprocity. The following year a 'Pension Credit' was introduced which subsumed the old Minimum Income Guarantee for pensioners and guaranteed a minimum pension for those on low incomes, which was a further element of redistribution in the insurance scheme and further weakened the degree of internal reciprocity. While means-tested provision for people on low income was extended, the central union demand of expanding the basic pension scheme so that it would provide a sufficient base for all its insured were not fulfilled (see Ebbinghaus 2002b: 22). The aim of tackling old age poverty was instead pursued by increasingly targeting the public funds on the needy, while undermining the insurance principle of reciprocity between contribution payments and benefits.

The reforms in the British pension sector seem to confirm the hypotheses that a low degree of fiscal commitment – particularly on the dimensions 'administrative independence' and 'spending structure' – facilitates the implementation of cost-containment measures. Despite the direct administrative control of the schemes, the government did not seem to avoid reforms of the schemes due to fears of electoral backlashes. Contrary to partisan theories, there have also been no major differences in the reform strategies of the Conservative and Labour governments, as for both the goal to contain public pension spending was prioritised.

As pension levels were already low, the most viable solution was to shift the remaining commitments in the private sector: all reforms which reduced replacement levels and contribution-based elements in the schemes were accompanied by a shift of future pension provisions in the private sector. While this enabled the government to stress that overall replacement levels would also not fall in the future which reduced resistance to the reforms, the continuing shift of fiscal commitments in the private sector meant that the government drastically reduced its responsibility for these commitments in the future. "At present some 60 percent of retirement income comes from the public purse and 40 percent from occupational and private pensions and private savings. The objective is, by 2050, to have reversed this ratio" (Taylor-Gooby and Daguerre 2002: 6; see also DSS 1998; Hill 2003). The very limited public reaction to the major changes in the pension sector confirms the expectations that due to the lack of a vested interest in the maintenance of the public schemes, the social partners were not overly concerned as long as the occupational schemes remained unaffected.

Health

The provision of health services in the UK is organisationally very different from those in France in Germany: The National Health Service (NHS), which provides and finances health services in Britain, was founded in 1948 on the principle that the entire population of the UK should have free access to comprehensive healthcare, which resulted in a model of tax-financed, national state provision instead of the introduction of statutory public health insurances. As the NHS is not an insurance scheme, it is therefore not subject of the following section (for an overview over fiscal reforms in the NHS see e.g. Klein 1995; Giaimo and Manow 1999; LeGrand 1999; Glennerster 2003). Instead, the focus is on the only insurance elements in the health sector, which are the provision of sickness pay and invalidity benefits.

After WWII, no scheme providing earnings replacement benefits in the case of inability to work due to illness was initially introduced and workers only received means-tested assistance in the case of illness. An 'Invalidity Benefit' (IVB) was introduced in 1971, providing an age-related income to those who fell ill or became disabled while being employed. Eligibility was connected to a sufficient record of national insurance contributions, while those without sufficient contributions had to rely on the 'Non-Contributory Invalidity Pension' introduced four years later. Facing increasing expenditure for the Invalidity Benefits, the Conservative government reduced spending during the 1980s by linking the adaptation of benefits to prices rather than earnings. Successively, benefits became flat-rate and finally the financing of Statutory Sickness Pay (SSP) during the first 28 weeks of illness was shifted entirely to the employers (see Burchardt 1999). In 1990, the degree of fiscal commitment inherent in the insurance scheme was therefore very low: directly administered by the state and financed via a combination of non-earmarked contributions and taxes, the flat-rate provision of benefits did also not create much commitment on the spending dimension.

During the 1990s, the contribution-based sickness benefits were further reduced. In 1995, the IVB was replaced with the Incapacity Benefit (IB) whose eligibility criteria were even tighter than before. Insurance benefits were now only provided for sick low-income earners not eligible for SSP, and for long-term disabled. Furthermore, the benefits were now taxable which channelled benefit spending back into the state budget. This further reduced the spending commitments of the government considerably. Due to these changes, contribution-based earning replacement benefits as a proportion of total disabled benefits shrank considerably during the 1990s, while means-tested benefits grew (see Burchardt 1999: 8). But despite the reductions of benefits, incapacity benefits were still very much the target of cost containment reforms as they still accounted for a considerable share of social benefit expenditure (nearly 10 percent in 1994/95).[126]

In 1999, further reforms were implemented but without affecting the insurance status of the benefits. The government introduced new contribution conditions which made it again harder to claim the benefits. Furthermore, the ability to work was to be more strictly controlled, and beneficiaries who received an additional private pension or insurance income were subject to a means-test for receiving benefits. Although these reforms led to a further reduction of spending for disability benefits in real terms, savings have remained modest as take-up rates of the disability benefits remained fairly high. As a consequence, the Labour government announced a further reform in January 2006 to be implemented in 2008. Incapacity Benefit and Income Support will be replaced with the new 'Employment and Support Allowance' (ESA). If claimants are judged to be able to work this will further reduce their benefits, while those cuts will be accompanied by increased measures helping disabled back into work. With these future reforms, the insurance-component of the benefit will again further reduced, and the receipt increasingly linked to conditions for taking up employment and measures restoring the employment capacity.

Similar to the pension sector, the wide-reaching cost containment reforms in the area of disability and sickness benefit provision have been facilitated by a low degree of fiscal commitment on all four dimensions. Direct budgetary control by the government over

[126] Data Source: DWP, Benefit Expenditure Tables Great Britain, 1991/92-2006/07.

the contribution-financed benefits has not only provided the means, but also incentives for the Treasury to tackle the increasing spending in this social policy sector. The non-involvement of the social partners or any other representatives of contribution payers in the administration of the schemes has limited barriers and public resistance against the reforms. With regard to the structure of benefit provision, the low degree of reciprocity between contribution payments and benefit entitlements has led to a further development towards a flat-rate benefit provision as well an increasing tightening of eligibility criteria. But in contrast to France or Germany, this restriction of eligibility has not been based on the duration of previous contribution payments, but instead on income-based criteria (that is, means-tested provision). While in the two corporatist countries the insurance character of benefit provision has been strengthened via these measures, it has been further weakened in the British case.

Unemployment

As the other social insurance schemes, the British unemployment insurance was administered by the state without any involvement of the social partners. Wage replacement benefits were provided by the Benefits Agency, which was institutionally completely separate from the Employment Service responsible for active labour market policy.[127] Both agencies were subject to direct control by the Department of Social Security (DSS). Unemployment benefit was financed from the pool of national insurance contributions, which meant that funds were not earmarked despite the fact that the contributions created entitlements. Accordingly, there was no budgetary separation of the general budget and the funds for the unemployment insurance, which made spending subject to the annual budget bargains of the government. Fiscal commitment on the administrative, budgetary and revenue dimension was therefore very low at the beginning of the 1990s.

Fiscal commitment deriving from the contribution-benefit link was also limited: although general eligibility was based on the previous contribution record, unemployment benefits were flat-rate and their duration was restricted to one year, regardless of the duration of previous contribution payments. Replacement rates were

[127] In contrast to the provision of passive benefits, the social partners have been involved in active labour market policies although this decreased prior to 1990. For an overview over social partner participation in the employment administration see Trampusch 2000.

also low – if compared to an average blue collar salary, they amounted to 25 percent by the mid-1990s (Clasen 2000: 90).

In the first half of the 1990s, the Conservative government increased pressures to take up work, and eligibility criteria for unemployment benefits were further restricted. The new benefit regime involved performance targets for the Employment Service regarding the number of people removed from the benefit system (see Finn 2003: 113). Essential element of the new 'activating' policies introduced thereafter was the replacement of benefit entitlements with a 'contract' between the unemployed and the state – the latter providing financial assistance and training, while the former agreed to actively participate in active measures (see Clasen 2000: 91; Evans and Cerny 2003). These forms of contracts were implemented in 1996, when unemployed were re-defined as 'jobseekers' and eligibility for the new 'Jobseekers' Allowance' (replacing Unemployment Benefit and Income Support) required entering into an agreement specifying job search efforts and minimum wage requirements. But the Jobseekers' Allowance also involved a further cut in passive benefits: while unemployed had previously been eligible to up to one year unemployment benefits, the 'Contribution-Based Jobseeker's Allowance' had a maximum duration of six months. After this expired, unemployed received the 'Income-based Jobseekers' Allowance' with unrestricted durability as long as the claimants fulfilled the qualifying conditions. The reductions of contribution-based spending for unemployment benefits were considerable – within two years (between 1995/96 and 1997/98), contribution-based spending had been reduced by two thirds from £1.44 bn to just £0.58 bn. Although unemployment did indeed decline during this period, this strong reduction was mainly due to the new benefit regulations.

Labour pursued these new activating policies further and did so also institutionally: with the creation of the Department of Work and Pensions (DWP) in 1997, the Employment Service and Benefits Agency were replaced by 'Jobcentre Plus' Executive Agencies, integrating job search support and benefit payments (see Finn 2003). But the Labour policies differed from the previous policies in one major point (see Clasen 2000: 203): instead of trying to activate unemployed via threats of benefit cuts, the policies increasingly focused on improving the employability of the jobseekers.[128] For this

[128] One important element of this strategy was the introduction of the 'New Deal' program, initially mainly aimed at young unemployed and long-term unemployed but later expanded to broader groups of

purpose, expenditure for active employment measures was increased which could – despite the pledge to follow a path of containing public expenditure – be justified due to overall declining spending for unemployment due to improvements on the labour market. In the following years there were no major changes to the regulations of unemployment benefits. Reform efforts have focused on other areas such as disability benefits instead, which – particularly in the eyes of the cost-conscious Treasury – represented a more pressing issue (see Deakin and Parry 2000: 124).

The reform developments in the unemployment sector show again that contribution-financing of social provisions alone does not constitute an effective barrier against retrenchment in times of fiscal austerity. Instead, the direct administrative and budgetary control by the government has enabled it implement wide-reaching benefit reforms which – together with the positive development on the labour market – have resulted in considerable reductions in spending. The strong connection of benefit entitlements with active efforts of recipients to seek reemployment represents a strong weakening of the insurance character of the provision as the receipt of benefits is connected with conditions completely unrelated to the contribution record of the claimant.

8.2.3 Contradiction or Confirmation?

The developments in the three British social insurance sectors between 1990 and 2005 confirm the findings of this study, that the degree of fiscal commitment inherent in insurance schemes in 1990 had a systematic effect on successive reforms. The considerable degree of cost containment measures implemented in all three social policy sectors shows that the low degree of fiscal commitment in any of the contribution-financed policy programmes has given the British government considerable control over its social budget. The Treasury tightened its grip over the social budget even further in the successive years, and this played an important role in the development of social spending. While the overall amount of social spending did not decrease, but increase in real terms between 1990 and 2005, the degree to which this spending was pre-committed for specific social purposes has declined drastically.

---

unemployed, which involved an individual plan for every jobseeker how to improve its chances of employment.

Contribution-related expenditure has been cut back strongly, while in parallel the development of new contribution-based entitlements has (particularly in the pension sector) been avoided due to new legislation. The connection of benefit receipt with behavioural conditions has been another trend away from the insurance principle, and has been prominently introduced in the unemployment benefit sector as well as with regard to sickness and disability benefits. These developments together have lead to a steady dilution of the contributory principle, as the insurance of social risks is increasingly shifted into the private sector, while the public insurance schemes have become increasingly based on participation records instead of contribution records (Hill 2003: 28). This means that the government has further increased its possibilities to shift spending more easily according to its policy preferences, and its control over the social budget has become even greater than already the case at the beginning of the 1990s.

In contrast to Germany and France, existing spending commitments have often been directly broken instead of merely being avoided or attempted to be hidden. This confirms Hacker's observation that such 'hidden politics of social policy retrenchment' are mainly necessary if authoritative change is not possible (see Hacker 2004). In the UK however, the government disposed of sufficient authority to considerably transform the social insurance programmes. It therefore seems that, contrary to blame avoidance arguments, the direct accountability of the government for the schemes and therefore also for unpopular reform measures did not limit incentives for reforms. Instead, the much stronger financial control over the social budget and concerns about rising social expenditure were dominant.

This means that the UK case strengthens the arguments of the fiscal institutionalism literature (e.g. de Haan and Sturm 1994; von Hagen and Harden 1996; Perotti et al. 1998; Strauch and von Hagen 1999; 2001) that a stronger positions of the finance minister should be conducive to effective cost containment and hinder expansionary fiscal policies. The central role of the Treasury in the policymaking process has resulted in a targeting of policy areas involving the greatest financial risk for the government due to the increase of contribution-based entitlements. The British finance minister, compared to his French and German counterparts, had much more interest in cutting back social expenditure, as it had a direct impact on his budget. This confirms the finding that the higher the financial stake of the government in the individual schemes, the higher its motivation for such self-interested intervention. The absence of autonomous insurance budgets did not provide opportunities to shift expenditure and responsibilities for future spending commitments into the social budgets, which led to more direct attacks on social insurance spending. The direct budgetary control by the government of the insurance schemes did therefore not only create the incentives to contain costs, but also the means to do so.

A major factor enabling such a radical transformation of the insurance schemes seems to also have been the non-representation of the social partners in the schemes' administration. Due to the lack of an institutionalised role for the unions in the administration and regulation of social policy they lacked organisational capacities to organise protest against the reforms (see Bonoli 2001; Crouch 2001; Hassel 2003). But both sides of the social partners also had only a limited interest to defend the schemes, as their provisions were irrelevant for wage bargains and therefore for their economic interests. The only area in which they had a vested interest was the occupational pension schemes, which they were keen to defend against a further personalisation of funded pension schemes. This confirms the findings for France and Germany that the employer's interest in defending their competencies and generally the maintenance of the schemes is limited if schemes loose their corporatist character in both administrative and budgetary terms. The limited incentives for the organised stakeholders to protest against the government's reform plans also explained the low degree of general public resistance and attention to many of the reforms announcements (see Crouch 1999: 448).

Britain is furthermore another case which confirms the hypothesis that party ideologies do not (any longer) play a dominating role in shaping policies in times of cost containment: both the Conservative and Labour governments followed an equal path of cost-containment, shifting the insurance of social risks increasingly into the private sector while focusing funds on the needy, though combined with a strengthening of behavioural conditions for benefit receipt. This process of risk privatisation has been much stronger than in Germany or France, and means a considerable reduction of public commitment to insure social risks. While this is conducive to effective cost containment, it has negative effects on degree of social protection as only a minimum safety need is provided and the securing of status-maintaining income is left to individual households.

Overall, the contrasting of the results from the analysis of reform processes in France, Germany and the UK confirms that a change in the analytical focus from a macro to a micro level enables a much more differentiated comparison of social policy developments across different types of welfare states. The fiscal commitment framework is therefore not only applicable for corporatist-continental welfare states, but can equally be applied to analyse degrees of fiscal commitment and reform developments in countries associated with very different welfare state families.

9 Summary and Implications

This thesis has addressed a major debate in welfare state research, which is centred around one basic question: what are the factors that determine whether some countries retrench their welfare states in times of financial difficulties, whereas others maintain or even expand the level of social provision and spending even in times of severe fiscal pressure on their social budgets?

To evaluate this question, the thesis has contrasted a number of prominent theories which all stress very different variables as explanatory factors for the variation in social spending developments and the extent and form of structural reforms in modern welfare states. While the 'new politics' approach focuses on institutional structures as decisive elements which determine the lock-in and stickiness of welfare provision, the recently revived 'old' theories highlight the importance of corporatist political interaction patterns or the political orientation of the ruling party as important factors for the development of welfare states in times of fiscal austerity. Alternatively, the fiscal institutionalism literature stresses elements of the budgetary allocation process as explanatory variables for the degree to which spending is maintained despite financial difficulties or instead restrained. The thesis has assessed the validity of these different theories for the explanation of cost containment reforms in two countries whose welfare states are both generally characterised by institutional factors which should lock-in spending to a large degree. On the contrary, the two countries differ with regard to the political variables on the national level (corporatist relationships and the strength of retrenchment advocates in fiscal policymaking) which should alternatively lead to different reform developments.

The results of this thesis challenge the view that any of these theories alone can explain reform developments in contemporary welfare states in times of fiscal pressure. It presents theoretical and empirical evidence that policymakers are in fact strongly pre-committed in determining their social budgets, but that there is also considerable within-country variance with regard to the degree of fiscal commitment in individual social policy programmes which challenges the relevance of theories which rely on explanatory factors on the political macro-level. The study furthermore shows that while the political context in which reforms take place does play an important role for the scope and shape of cost containment reforms, the policy positions and reform strategies of actors are considerably influenced by the institutional regulations in individual insurance schemes. These results strengthens arguments for a closer combination of both 'new' and 'old' arguments in welfare state research, as well as for a more differentiated, scheme-specific perspective in analysing path-dependent reform processes and institutional lock-in.

9.1.1 Summary of Findings

The general focus of this thesis has been to investigate various explanations for the divergent development of mature welfare states which experience both increasing financial pressures for and strong barriers against reform. While it is widely accepted in the literature that existing institutions and policies generally limit the scope for successive reforms, this study has provided a detailed specification of the institutional elements that create fiscal commitment in the social budget. On basis of this specification, it has been shown that social insurance programmes administered by the social partners in formally independent organisations – the main characteristic of the so-called corporatist-continental welfare states – do not necessarily imply a high degree of effective fiscal commitment. Instead, the analysis of fiscal commitment prevalent in the main social insurance schemes in France and Germany has shown that the degrees to which institutional and programmatic features of these schemes created barriers for change in 1990 varied widely between the different programmes and insurance sectors.

These differences had a systematic effect on the degree to which the governments in both countries regained influence over the determination of spending in these schemes and therefore over their social budgets: the higher the degree of fiscal commitment in an insurance scheme prior to the intensification of fiscal pressures from 1990 onwards has been, the lower the degree of commitment-reduction in the following years has been. While these results confirm institutional lock-in arguments of the 'new politics' literature, it has also been shown that it is necessary to take the policy positions and strategies of the actors involved in the administration and regulations of the schemes into account for the explanation of divergent reform developments in the insurance schemes.

The intention of all involved actors to avoid blame for unpopular retrenchment measures explains why existing spending commitments have seldom been broken. Instead, the tightening of commitments as well as more indirect, less visible forms of commitment-reductions have been the dominant forms of policy change. The blame-avoidance logic of the government also explains why commitment on the revenue and budgetary authority dimensions has been more extensively reduced than on the other two dimensions, as changes to the financing structure and budgetary competencies are less visible and create less resistance than changes in administrative competencies or the benefit structure.

The study furthermore shows that while the policy positions of both the social partners as administrators of the schemes as well as of the retrenchment advocates in government matter for policy developments, those are *not* nationally uniform but strongly shaped by the respective institutional regulations in the individual insurance schemes. Instead of the general position of the finance minister in the budgetary allocation process, it is the specific financing and budgeting regulations in the individual insurance schemes which matter for the extent to which these schemes are subject to cost containment pressures. The results also challenge assumptions of the fiscal institutionalism literature that a stronger position of the finance minister in budgetary decisionmaking leads to stricter cost containment. Instead, the study has shown that the formal separation of insurance budgets, combined with intervention powers by the finance minister, leads to the central or federal state making use of the social insurance budgets for its own fiscal purposes. The higher the financial stake of the government in the individual schemes, the higher its motivation for such self-interested intervention. The division and sharing of financial responsibilities has therefore been a deliberate strategy to decrease effective commitment in the insurance schemes, while the degree of formal independence has been widely maintained.

The observation that the position of the involved actors varies with regard to the regulations in the individual insurance sectors also holds true for the role and policy positions of the corporatist actors in social policy: it is not the national traditions of corporatist relationships which matter for the explanation of welfare reforms and the likelihood of the social partners agreeing or opposing governmental plans, but instead the social partners' relative position in the individual insurance schemes is the decisive factor. Despite the fact that employer and worker representatives were often strongly opposed with regard to their policy positions, they found common ground in opposing further state intervention. This common interest in maintaining their independent decisionmaking powers has enabled partially far-reaching reforms which have involved severe cutbacks of provisions. But the employer's interest in defending their competencies and generally the maintenance of the schemes is limited if schemes loose their corporatist character in both administrative and budgetary terms, as well as in the character of their benefit provision – this has been more strongly the case in France. The analysis of the reform developments has indeed shown that the most effective protection of spending commitments results instead from a high degree of occupational solidarity in the insurance schemes, which derives from a high degree of administrative independence by the social partners and a strong contribution-benefit link

While the study has shown that the policy positions and reform strategies of the involved actors with regard to specific insurance schemes play an important role for the development of those schemes, there has been no evidence that party politics matters for the overall direction of reforms. Instead, they matter merely for their timing as left-wing government rule had a procrastinatory effect on the implementation of cost-containment measures. This confirms that the room to manoeuvre that parties have has, regardless of their political orientation, become small.

9.1.2 Implications for Welfare State Research

The findings have some broader implications for welfare state and fiscal policy research. First, by specifying the factors which create effective political commitment, the study has demonstrated that institutions are not merely general, unspecific constraints on actors' behaviour, but that the various elements of institutional and programmatic regulations have very specific effects on the motivations and political strategies of decisionmakers. The ordinal measurement of degrees of fiscal commitment inherent in the administrative, budgetary, financial and spending structure of social programmes enables a general comparison of the degrees to which social spending is pre-committed and should therefore be hard to cut back, both between countries as well as between different insurance sectors.

The focus on insurance sectors and individual schemes is also a way of overcoming the classification problems associated with the distinction of broad welfare state families, and the observation that reform developments in the last two decades have often not followed a certain 'regime logic' (Crouch 2001; Hemerijck and Manow 2001). As the analysis of the characteristics of the insurance schemes in France and Germany has shown, the insurance sectors vary considerably in the extent to which they fulfill all characteristics of a corporatist-continental self-administration structure, and those differences have even intensified during the analysed period: while some schemes have maintained a high degree of institutional independence, others have become much more directly subject to state control. The fact that certain reform developments in countries associated to a particular welfare state regime do not follow what could have been expected from such a regime type is therefore not a problem of path-dependency theory as such, but of a lack of specific analysis of individual programmes. Changing the focus from a macro to a micro level analysis which takes into account the institutional regulations and political context of individual insurance schemes and social policy sectors, enables a much more differentiated comparison of social policy developments across different types of welfare states. This is also confirmed by the application of this analytical approach to the reform developments in the United Kingdom between 1990 and 2005, a country whose social insurance programmes have very low scores on all four dimensions and in which the government has considerable control over its social budget. The results show that the scheme-specific application of the fiscal commitment framework is also useful to explain developments in welfare states with very different institutional characteristics.

Second, the finding that reforms have hardly broken existing spending commitments, but have instead avoided the creation of new commitments or have shifted commitments in other social programmes or the private sector, supports the notion that the analysis of institutional change should go beyond the focus on retrenchment, that is on reforms which have an immediate expenditure-reducing impact, and should also incorporate structural reforms (see Bonoli and Palier 1998; Visser and Hemerijck 1997; Palier 2000; Streeck and Thelen 2005). As Hacker (2005: 42) has pointed out, "shifts in the context of an institution and in the goals that agents pursue through an institution can alter an institution's character and effect fundamentally, even without shifts in formal structure". In particular, the study has highlighted the importance of changes to the governance structure of insurance schemes which did not have an immediate financial impact, but have increased fiscal constraints and made future change more likely as well as easier to implement (see also Ebbinghaus 2002b). Furthermore, it has shown that the non-reform of institutions with great financial difficulties (a process of 'policy drift', that is the prevention of updating institutions to changing circumstances, see Hacker 2005) also needs to be taken into account when analysing retrenchment processes as this deliberate failure to act reduces the survival changes of the institution in the future and reduces commitment. Analysing the development of welfare states in the context of political and fiscal commitment enables to incorporate all such forms of policy developments, and broadens the focus of analysis to not only assess the immediate impacts of reforms but also their medium and long term political, financial and social consequences.

In this context, the analysis has also demonstrated the benefits of applying a 'social budget' perspective when analysing retrenchment in welfare states. The two dimensions 'budgetary independence and constraints' and 'revenue structure' have previously been widely ignored in the welfare state reform literature. But as the analysis has shown, they play an important role in determining not only the motives of the involved actors in reforming or defending a social policy programme or institution, but also the extent to which this is possible, and should therefore be more strongly taken into account.

Third, the findings have implications for 'old politics' and fiscal institutionalist theories which stress the importance of political macro-level factors for reform, such as corporatist interaction patterns or the federal budget allocation process. This study demonstrates that these factors do not have a uniform national effect, but a micro-perspective of welfare reforms and their individual context relativises the influence of those factors. Distinguishing the policy positions of the involved actors more specifically with regard to individual policy programmes can explain why factors such as the behaviour of the social partners or the finance minister sometimes have an effect and reform outcomes and sometimes not. The analysis has shown that neither the social partners nor the governmental actors in either of the two countries had a fixed set of policy preferences per se, but that they instead followed distinct strategies with regard to their individual position in the insurance schemes. This confirms observations by Pierson (2005) and Hacker (2005) that neither institutional factors, nor the political context of reforms, play an isolated role but have a systematic influence on each other as well as on policy outcomes. This should be considered by future research analysing the barriers against and drivers for policy change.

Fourth, the study's results have further implications for the fiscal institutionalism literature which stresses the relative strength of cost containment advocates in the governmental budget allocation process as explanatory factor for fiscal policy outcomes. In this strand of literature, the fact that in countries with self-administered social insurance schemes a very large part of the state budget is beyond the direct control of the finance minister has so far rarely attracted more attention than a single footnote (von Hagen 1992; de Haan and Sturm 1994; Strauch and von Hagen 1999; Hallerberg 2004). The degree to which the federal or central government has in fact control over its social budget should however be more strongly considered in this literature, as it has been demonstrated that the extent of budgetary control is an important factor for the development of spending.

While it is assumed in the fiscal institutionalism literature that a stronger position of the finance minister in the allocation process leads to stricter cost containment, this effect works in the opposite direction if the social insurance budgets are formally separate from the government budget. Although deficits in the social schemes also count towards overall state debt, the formal separation of the budget creates incentives to shift expenditures into the insurance schemes in order to disburden the government budget, which as a consequence worsens the overall fiscal situation. This expansionary effect of mixed budgetary responsibilities has also been observed in the fiscal federalism literature, which analyses the results of and treatments against the perverse incentives that exist under certain forms of intergovernmental fiscal institutions (e.g., Ter-Minassian 1997; Rodden et al. 2003). This literature stresses that fiscally irresponsible behaviour is endogenous to a system with several budgets and only soft budget constraints, and that the solution to this problem therefore involves a fundamental reform of political and fiscal institutions that alters the incentive structure of the budgetary process (Oates 2005: 360). These observations should also be taken into account when analysing fragmented budgetary processes and outcomes in corporatist-continental welfare states, as the perverse incentives resulting from the budgetary framework are very similar.

9.1.3 Policy Implications

The findings of this study also have several policy implications. First, the results point towards a general transformation of governance structures in corporatist-continental welfare states, and connectedly an important shift in the role the social partners have traditionally played in the administration of the social insurance institutions. The delegation of regulatory and administrative tasks to the social partners has, amongst others, served the purpose of shifting distributional conflicts into the self-administration sphere (Offe 1981; Fiorina 1982). But with the intensification of financial pressures and the necessity to contain costs since the 1990s, agreements about the amount and form of social provisions have become increasingly difficult to achieve. Parallel to this, the willingness of both sides of the social partners to provide the bargaining arena for such conflicts has deteriorated, as their role in some schemes has become increasingly formal and their de-facto decisionmaking authorities limited. Therefore there has been a move away from interlinked decisionmaking structures between the social partners and the government – both towards more direct administrative and budgetary control by the government in some schemes, as well as towards more administrative and budgetary freedom for the social partners in others.

In this context, the findings also demonstrate that the form of benefit provision, and particularly the degree of contribution-based reciprocity, plays an important role for the degree to which the social partners advocate the independence of insurance schemes and the sustainment of spending commitments. Schemes whose benefit provision has become increasingly redistributive and whose membership structure has been detached from an occupational status have also seen a stronger reduction of social partner competencies in their administration and regulation. This confirms the notion of a strong connection between governance structure and the design of benefit provision: social insurance reforms which strongly reduce the reciprocal, contribution-related character of benefit provision often make connected reforms of the administrative structures and the involved actors necessary (see Clasen and Clegg 2004; Hemerijck and Vail 2006). This argument is also valid for the case of the UK, where the non-representation of the social partners in social insurance administration and the lack of an occupational character of benefit provision have resulted in a continuous reduction of reciprocity between contribution payments and benefit generosity and a strong growth of means-tested and behavioural elements in the eligibility rules. In the cases of France and Germany, the analysis of reform developments has shown that in both countries a development is underway towards a combination of schemes which provide universal provisions under direct state control, and occupational, self-administered schemes with a high degree of contribution-based reciprocity. This means that in the medium term, both welfare states will further loose their dominant corporatist characteristics and will more develop towards a mix-system of corporatist and universal provision. This again shows that the association of a country's system of social provision to a particular welfare family becomes increasingly difficult and is often not very useful for its analysis.

Second, the findings of this analysis suggest that a further clarification of administrative and budgetary responsibilities would be desirable from the perspective of effective cost containment. The study has demonstrated the wrong incentives that derive for both governments as well as for the social partners from a situation of mixed financing and interlinked budgetary authority. If pledges by politicians to reduce future debt levels – also driven by the Maastricht criteria – and to limit the extent to which fiscal burdens are shifted to future generations of tax and contribution payers are credible, further reforms of budgetary frameworks will be necessary in order to replace the 'soft' with 'hard' budget constraints (see recent contributions to the fiscal federalism literature, e.g. Kornai, Maskin and Roland 2003; Oates 2005).

However, effective cost containment does not only involve changes in the budgetary framework, but often also makes reforms of the system of benefit provision necessary. This can have serious effects on the overall degree of social protection in a country. The reform processes currently under way in France and Germany have and will have serious implications for the logic of benefit provision in these countries. In some schemes (such as the French and German first-pillar pension schemes) the future level of benefit provisions will deteriorate considerably in the next decades. But particularly in Germany, the retreat of the state from its commitments to guarantee a sufficient old-age income via the public insurance schemes has so far not been connected with a parallel shift of this commitment into the private sector via compulsory membership in pension funds as observed in the United Kingdom. Instead, commitment is rather merely avoided, which will leave the responsibility for securing old-age income increasingly with the individual households – a process of 'risk privatisation' as observed in the United States (see Hacker 2004).

But the observed maintaining of existing commitments via the tightening of eligibility rules and reciprocity (such as in the French unemployment insurance scheme and the German pension insurance scheme) also has negative implications: the reduction of redistributive elements and the exclusion of those with no or insufficient contribution records makes social protection coverage more selective and increases the insider-outsider problematic already existent in many welfare states relying on insurance schemes connected to the employment status of its citizens (see Offe 1990; Clasen 1994; Nullmeier and Rüb 1994). This shows that the maintenance of commitment does not necessarily always serve the purpose of providing sufficient social coverage to the whole of the population: "Even when pre-commitments are the product of deliberate planning, and serve the goals of their designers, they do not necessarily promote social welfare. Any normative appraisal of prior commitment, then, should rest on a realistic understanding of democratic politics" (Patashnik 2000: 12-13). As also Esping-Andersen (1999) has argued, the maintenance of existing social welfare frameworks often fails to effectively deal with new social risks.

The conflict between the need to adapt policies to changing circumstances and the promise to fulfil existing spending promises is therefore a constant struggle and not easy to solve if the financial circumstances require cost containing measures. The study has shown that both the French and German governments have gained control over their social budgets in the sense of decisionmaking authority in the short as well as long term. But the increase of formal authority does not necessarily mean that policymakers gained real control in the sense that it would be politically, economically or socially feasible to make use of it. In times of fiscal austerity, the dilemma remains that in order to enter new commitments, old commitments have to be broken.

Appendices

Appendix I: Social Insurance Reforms France 1990-2005

I-1 Changes in the Main French Social Insurance Schemes 1990-2005: Administrative Independence

	Pension Insurance				**Health Insurance**		**Unemployment Insurance:**	
	1990	*2005*	*1990*	*2005*	*1990*	*2005*	*1990*	*2005*
Administrative Independence								
Institutional Fragmentation of Insurance Sector	More than 600 different schemes; only 36% of public pension spending by basic scheme for salaried employees → *Very high*	No change → *Very high*	More than 600 different schemes → *Very high*	No change → *Very high*	3 main insurance schemes + 16 special schemes → *Medium*	No change → Medium	Single scheme → *Very low*	No change → *Very low*
Scheme	*CNAV*		*ARRCO/AGIRC*		*CNAM*		*UNEDIC*	
Composition of Administrative Body	Bipartite governing board; employee representatives in majority, with chairman elected from their ranks → *Very high*	Bipartite governing board with equal representation of social partners → *Very high*	Bipartite governing board with equal representation of social partners → *Very high*	No change → *Very high*	Bipartite governing board; employee representatives in majority, with chairman elected from their ranks → *Very high*	Bipartite governing board with equal representation of social partners → *Very high*	Bipartite governing board with equal representation of social partners → *Very high*	No change → *Very high*
Selection of Administrators	Election of board members; director appointed by governing board in liaison with Ministry of Social Affairs → *Medium*	Appointment of board members and directors by government → *Very low*	Election of board members; no government intervention in selection of top officials → *Very high*	No change → *Very high*	Election of board members; director is appointed by governing board in liaison with Ministry of Social Affairs → *Medium*	Appointment of board members and directors by government → *Very low*	Independently → *Very high*	No change → *Very high*
Governmental Supervision	Wide-reaching a-posteriori approval of major organisational and financial decisions → *Low*	Additional a-priori target agreements → *Low*	Only legality of actions → *Very high*	No change → *Very high*	Wide-reaching a-posteriori approval of major organisational and financial decisions → *Medium*	Additional a-priori target agreements; strong govt. influence on regional level → *Low*	Very limited supervision; ex-post approval of framework agreements → *High*	No change → *High*
SCORE	***3 (medium)***	***2 (low)***	***5 (very high)***	***5 (very high)***	***3 (Medium)***	***2 (Low)***	***4 (High)***	***4 (High)***

I-2 Changes in the Main French Social Insurance Schemes 1990-2005: Budgetary Autonomy and Constraints

	Pension Insurance				**Health Insurance: CNAM**		**Unemployment Insurance: UNEDIC**	
	CNAV		**ARRCO/AGIRC**					
	1990	*2005*	*1990*	*2005*	*1990*	*2005*	*1990*	*2005*
Budgetary Autonomy								
Degree of Formal Budget Autonomy	Budgetary autonomy, but approval by independent supervisory institution → *High*	No change → *High*	Full budgetary autonomy → *Very high*	No change → *Very high*	Budgetary autonomy, but approval by independent supervisory institution → *High*	No change → *High*	Full budgetary autonomy → *Very high*	Budget now subject to ex-post parliamentary approval → *High*
Degree of Revenue Autonomy	No contribution autonomy; rates set by ministerial decree → *Low*	No contribution autonomy; rates determined by parliament; increasing fund financing → *Very low*	Full contribution autonomy → *Very high*	No change → *Very high*	No contribution autonomy; rates set by ministerial decree → *Low*	No contribution autonomy; rates determined by parliament; increasing fund financing; indirect gain of influence via CSG → *Very low*	Contribution autonomy, but approval by relevant ministry necessary; contribution ceiling set by ministerial decree → *Medium*	No change → *Medium*
Degree of Spending Autonomy	All parameters decided by parliament; insurance carrier only determines administrative spending → *Low*	Government can change indexation via decree; admin. spending part of COG agreements → *Very low*	Autonomous decisions within framework set by government → *High*	No change → *High*	Main decisions by parliament; limited discretion for insurance carrier regarding benefits → *Medium*	Main parameters determined by parliament; admin. spending part of COG agreements; new institutions co-ordinate spending decisions → *Very low*	Autonomous decisions by insurance carriers, but ex-post approval of government → *High*	No change → *High*
SCORE	***2 (Low)***	***2 (Low)***	***5 (Very high)***	***5 (Very high)***	***3 (Medium)***	***2 (Low)***	***4 (High)***	***4 (High)***

	Pension Insurance				Health Insurance: CNAM		Unemployment Insurance: UNEDIC	
	CNAV		ARRCO/AGIRC					
	1990	*2005*	*1990*	*2005*	*1990*	*2005*	*1990*	*2005*
Budgetary Constraints								
Budgetary Allocation Process	Bilateral bargains between spending and finance minister → *Medium*	Annual Social Security Financing Law → *Very low*	Bilateral bargains between social partners → *Very high*	No change → *Very high*	Bilateral bargains between spending minister and finance minister → *Medium*	Annual Social Security Financing Law → *Very low*	Bilateral bargains between the social partners, but State participation as financier of solidarity provisions → *High*	No change → *High*
Enforced Fiscal Targets	No fiscal targets or guidelines; open-ended benefit entitlement → *Very high*	Target-based monitoring in framework of COGs → *High*	No fiscal targets or guidelines; open-ended benefit entitlement → *Very high*	No change → *Very high*	Fiscal targets only for public hospitals (under direct state control); enforcement weak →*High*	Expenditure ceilings for all four sectors, but enforcement weak → *Medium*	No fiscal targets → *Very high*	No change → *Very high*
Spending Monitoring	Weak ex-post monitoring → *Medium*	Limited monitoring within COG framework → *Low*	Only internal spending monitoring → *High*	No change → *High*	Weak ex-post monitoring → *Medium*	Various new institutions strongly increase monitoring, but lack of enforcement powers → *Low*	No external spending monitoring → *Very high*	Tripartite Supervisory Council, but limited powers → *High*
Deficit Coverage	Not automatic, but final government responsibility → *High*	No change → *High*	No governmental deficit coverage; credit financing possible → *Low*	No change → *Low*	Not automatic, but final government responsibility → *High*	No change → *High*	No state deficit coverage; credit financing allowed with liability guarantee by the State → *Low*	Temporary coverage of deficits by central State, but generally no change → *Medium*
SCORE	***4 (High)***	***3 (Medium)***	***4 (High)***	***4 (High)***	***3 (Medium)***	***2 (Low)***	***4 (High)***	***4 (High)***
Overall Score	***3 (Medium)***	***2 (Low)***	***5 (Very high)***	***5 (Very high)***	***3 (Medium)***	***2 (Low)***	***4 (High)***	***4 (High)***

I-3 Changes in the Main French Social Insurance Schemes 1990-2005: Revenue Structure

	Pension Insurance				**Health Insurance: CNAM**		**Unemployment Insurance: UNEDIC**	
	CNAV		ARRCO/AGIRC					
	1990	*2005*	*1990*	*2005*	*1990*	*2005*	*1990*	*2005*
Revenue-Structure								
Share of earmarked contribution-revenues	89.48%	77.94%	81.7%	AGIRC: 77% ARRCO: 87%	95.2%	Contributions: 57.3%; CSG: 33%	93.1%	92.86%
Extent of Transfers/Fiscal Interdependencies	Demographic+ Financial Compensation Mechanisms for Régime Général: 6.60%	Strong increase of fund-financing as well as transfers: 20.81%	Transfers from UNEDIC via AGF: 18.3%	Additional internal transfer mechanisms since 1996; external transfers extended as ASF replaced by AGFF: Total 23% (AGIRC), 13% (ARRCO)	Demographic+ Financial Compensation Mechanisms for Régime Général:1.1%	Transfers between health insurance schemes : 0.5%	Very limited compensations by employment service agency: 2.6%	Limited compensation of early retirement benefits: 3.65%
SCORE	***High***	***Medium***	***High***	***High***	***Very high***	***Low***	***Very high***	***Very high***

I-4.1 Changes in the French Pension Insurance Schemes 1990-2005: Eligibility and Reciprocity

	Régime General		Public Sector Schemes		Supplementary Schemes	
	Situation 1990	*Situation 2005*	*Situation 1990*	*Situation 2005*	*Situation 1990*	*Situation 2005*
Eligibility						
Mandatory Retirement Age	60 (since 1983); Minimum Age: 60	2003 reform: 65 except derogation	65 (55 or 60 in 'strenuous' work)	No change	65; Minimum Retirement Age: 55	65
Conditions for Full Rate Pension	60 and 37.5 years of contributions or 65 without conditions on contribution period	1993 reform: contribut. period raised progr. to 40 years in 2003 2003 reform: period increased by 2 quarters by year from 2008 to reach 41 years in 2012 and 42 years in 2020	55 or 60 years and 37.5 years of contributions	2003 reform: contribution period increase to reach 40 years in 2008, 41 years in 2012 and 42 years in 2020	Full rate if basic pension obtained at full rate	Full rate from 60 years accorded if basic pension is obtained at full rate; otherwise like basic scheme from 65 years
Accounting of Non-Contribution Times	Full rate regardless of contribution times for: employees with 50% incapacity; manual workers having raised at least 3 children, are veterans of war or war victims	Periods of sickness, maternity, invalidity, employment injury benefits and rehabilitation. Unemployment with allowances or limited to one year without allowances; military service. Mothers (credit of 2 years insurance per child, or for caring for severely disabled child. Parental leave 3 years.	National Service One year parental leave (women only)	2004: parental leave extended to men	"Credit points" for sickness periods – when the customer was working and subject to the scheme - of at least 3 months in a row (concerning executives' scheme) or 60 days in a row (concerning non executives' scheme); also credits for times of unemployment or disability	Periods during which benefits for sickness, maternity, employment injury, invalidity, unemployment and early retirement are drawn; certain periods of war
Minimum Contribution Time	None	Contributions paid must enable the validation of at least one quarter's insurance.	15 years	No change	None	None

Score Eligibility	*4 (High)*	*4 (High)*	*5 (Very high)*	*5 (Very high)*	*4 (High)*	*4 (High)*
Reciprocity						
Pension Level (at full rate)	50% of average wage over 10 best years; pension increase for children raised → *medium*	1993 reform: progressive increase to 25 best years in 2008	75% of last monthly wage during last 6 months	No change	Lifetime average: total number of points multiplied by value of points; Pension increase for children raised	No change
Benefit Inequality	1992: Minimum pension: FF 35.514 p.y. for 37.5 contribution years; reductions for incomplete careers Means-tested minimum: FF 15.800 for single person Max.: 50% of social security ceiling	Minimum pension: € 6.706.39 p. y., regardless of validated eligibility. Prorated if duration of insurance below requested duration depending on year of birth. Means tested minimum: € 4.085 per year for single person. Max: 50% of social security ceiling = € 14,856 per year.	Minimum pension: 60%; Maximum Pension: up to 80% (for certain categories of workers)	Minimum pension: 57.5% (progressively reduced until 2013) Maximum Pension: up to 80%	No minimum pension Maximum pension: points granted up to 8 times the social security ceiling	No minimum pension Maximum: 3 (ARRCO) or 8 (AGIRC) times the social security ceiling
Reduction for early retirement	Prorating effect plus 10% reduction per missing year (max. 5 years)	2003 reform: prorating effect plus progressive reduction (after 2004) to reach 5% in 2014 per missing year (max. 5 years)	Prorating	Prorating and from 2006 reduction that will reach 5% per missing year in 2020 (max. 5 years)	A reduction is made by 7% per year from 55 to 59 years of age, then a 5% reduction per year from 60 to 62 years of age and a 4% reduction per year thereafter.	If 55 pension with advance; from 56 no advance if basic pension at full rate; reductions for early pension according to age (7% per year from 55 to 59; 5% from 60 to 62 and 4% for following).
Indexation	Price (applied since 1986, law in 1993)	No change	Wages	Price	Wages	Price
Charges on Benefits	1.4% (health contributions)	6.7%	2.7%	6.7%	2.4% (health contributions)	6.7% + 1%
Score Reciprocity	***4 (High)***	***4 (High)***	***5 (Very high)***	***5 (High)***	***5 (Very high)***	***5 (Very high)***
TOTAL SCORE	**4 (High)**	**4 (High)**	**5 (Very high)**	**4 (High)**	**4 (High)**	**4 (High)**

I-4.2 Changes in the French Health Insurance Schemes 1990-2005: Eligibility and Reciprocity

	CNAM	
	Situation 1990	**Situation 2005**
Eligibility		
Beneficiaries	All employees, pensioners, unemployed. Beneficiaries of certain allowances (API, AAH, RMI). Students, priests, prisoners	All persons with gainfully employment in France or with a permanent regular residence in France.
Sickness Pay Beneficiaries	All employees or persons assimilated thereto	Employees, craftsmen, tradesmen and manufacturers.
Eligible Dependants	Spouse, dependent children; relatives in the ascending, descending or collateral lines; partner living with insured person	Spouse, dependent children ; relatives in the ascending, descending and collateral lines; partner living together with or bound by a civil solidarity pact and being economically dependent on the insured person. Any other person living with the insured for at least 12 consecutive months and dependent on him or her.
Minimum Contribution Payments:	Qualifying period: 1200 hrs worked during the year or 600 per half year or 200 per quarter or 120 hrs per month	Minimum contributions payment calculated on the basis of n times the minimum wage SMIC: 2.030 times in a year or 120 times in 3 months or 60 times in a month. It is also possible to apply on the basis of the number of hours worked.
Sickness Pay Minimum Contribution Payments:	First 6 months: 200 hrs of employed work in 3 months preceding sickness Subsequently: registered for 12 months, worked 800 hrs during 12 months Waiting period: 3 days	Contributions on the basis of n times the minimum wage *SMIC* or minimum duration of activity: • For the first 6 months: 1.015 *SMIC* in the 6 preceding months or 200 hours worked in the previous 3 months. • After 6 months and having been registered for a minimum of 12 months since having stopped working: 2.030 *SMIC* in the 12 previous months, including the 1.015 *SMIC* of the first 6 months or 800 hours worked in the 12 previous months, 200 of which in the first 3 months.
Exemptions from Compulsory Insurance	None	None
Score Eligibility	***2 (Low)***	***1 (Very low)***

Reciprocity		
Patient's Co-Payments	Medical expenses: 25% Hospitalisation: 20% Hospitalisation fee: FF50 Drugs: 30% or 60%; 100% on ease drugs	Share borne by insured person (statutory): • 30% for doctors' fees, • 25% for consultations in hospitals, • 20% for hospital treatment. 35% or 65% for drugs mainly meant for troubles or affections without gravity. 100% for ease drugs. Hospitalisation fee *(forfait hospitalier)*: € 13 (€ 9 in a psychiatric unit) per day
Exemptions or Reductions to Co-Payments	Holders of an invalidity pension or a work injury pension at a rate > 66.66% are covered 100% together with their family members. Persons suffering from certain diseases, for those diseases only.	As before, plus: Persons with resources below a certain threshold.
Sickness Pay Benefit Rates	50% of daily earnings 66.66% for 3 children Minimum after 7 months: 1/365th of minimum invalidity pension	50% of daily earnings, in a limit of 1/720th of the annual ceiling. 66.66% of daily earnings with a limit of 1/540th of the annual ceiling from 31st day for beneficiaries with 3 children. 51.49% from 7th month of drawing benefits without interruption. Maximum 1/700th of annual ceiling. For persons with 3 dependant children: 68.66%. Maximum 1/525th of annual ceiling.
Score Reciprocity	***2 (Low)***	***1 (Very low)***
TOTAL SCORE	**2 (Low)**	**1 (Very low)**

I-4.3 Changes in the French Unemployment Insurance Schemes 1990-2005: Eligibility and Reciprocity

	UNEDIC	
	Situation 1990	**Situation 2005**
Eligibility		
Minimum Contribution Time	At least 3 months insurance in last 12 months	1993 reform: at least 4 months insurance in last 8 months. 2000 reform: 4 months in last 18 months 2002 reform: increase of minimum contribution time: At least 6 months (182 days) insurance during the last 22 months preceding the unemployment.
Work Availability Conditions	'to be looking for work'	2001 reform: necessity of signing personalised job search contract
Other Eligibility Criteria	to be under the age of 60. However, if at this age the person concerned has not paid insurance contributions for long enough to justify receipt of the old-age pension at the full rate of 50%, the indemnity is maintained until the period is achieved, and at the latest up to the age of 65.	1997: ARPE (58 years + 160 quarters of pension contributions, or 170 quarters; 65% of reference salary) ACA: 160 quarters pensions (like general unemployment benefit, no degression)
Score Eligibility	***5 (Very high)***	***5 (Very high)***
Reciprocity		
Replacement Rate	40.4% (Allocation Base) and 30.3% (Allocation de base exceptionelle; since 1984 for unemployed who do not have three months of contribution records)	1993: 40.4% of reckonable daily wages + €9.26 per day or 57.4% of the reference daily wage (most favourable option applied). For minimum insurance period between 4 and 6 months: the amount of benefit is calculated at the full rate less 25% (general rate).
Reference Salary	Reference period: earning on which contributions have been paid for in the last 12 months; 75% reference ceiling	No change
Duration	Minimum 3 months, up to 60 months for older employees	1993 reform: general entitlement expires after 30 months (minimum: 4 months; certain exceptional groups still 60 months max.) For those with 6 months of employment in the previous

		12, the duration of benefit entitlement was reduced from 15 months (aged –50) or 21 months (aged 50+) to 7 months (unemployed of all ages). 2003 reform: reduced for all groups from 30 to 23 months (minimum: 7 months; max. for older unemployed 42 months)
Benefit Development over Time	Stable	1993 reform: benefits decrease with time (between 8 and 17%) 1997: reduction rate of benefits slowed down (from 4 to six months intervals) and minimum benefit increased; 2001: degressivity abandoned
Qualifying Waiting Period	None	1993 reform: 7 days; 20 days in case of compensation payment 1994: 8 days; up to 75 days in case of compensation payments (payment divided by amount of salary reference) 2001: reduced to 7 days
Charges on Benefits	Benefits are subject to taxation after deduction of 10% and then of 20%.	Since 1997: GSG of 6.2% and *CRDS* of 0.5%.
Universally available placement activities/active employment policies	Provision and financing separate.	No change.
Score Reciprocity	***5 (Very high)***	***5 (Very high)***
TOTAL SCORE	***5 (Very high)***	***5 (Very high)***

Sources: OECD 2005a; MISSOC various years; various others

I-5 Welfare Reforms France 1985-2005

Pension Insurance

Year	Reform	Effect
1987	***Change of Indexation:*** - Change of the indexation of pensions from wage increase to price increase	Overall replacement rate will decrease over time → *"Commitment-Breaking": Minor adjustment*
1993	***Reform of Pensions for Employees in the Private Sector (Balladur Government)*** - Tightening of eligibility criteria; changes of calculation formula and indexation - Level of pension is calculated in reference to the wages of the best 25 years (formerly: best 10 years) - To receive a full pension, employees need to have contributed during 40 years, instead of 37.5 years before the reform. The measure is progressively carried out and the process will be achieved in 2004. - The indexation of pensions is no longer based on primary wages but on prices' evolution. This proposition was adopted in 1993 for 5 years, but has been extended indefinitely by the Jospin Government. - It is now possible for the government to fix the amount of indexation by decree; under previous legislation this decision had to go through parliament.	Extension of reference salary period reduces benefits, particularly for high salaries. Retirement will be delays in order to qualify for full pension. → *"Commitment-Breaking": Major changes as well as minor adjustments* Government control over indexation regulation → *"Control over Spending":*
1993	***Introduction of Reserve Fund (Fonds de solidarité vieillesse: FSV)*** - Creation of a "*Fonds de solidarité vieillesse*" (FSV) in July 1993. - Goals are to eliminate the debts of the 'Sécurité sociale' (110 bn) and to finance the contributions for the 'régimes vieillesse', the means-tested pensions for people who did not contribute enough. - FSV is financed by 1.3% of increase in the rate of CSG (*Contribution sociale généralisée*), as well as by duties on alcoholic and non-alcoholic drinks. - The state contributes FF104 bn through the CSG which corresponds to the debts accumulated by the Régime Général; the FSV reimburses these debts over a period of 15 years.	Increase of revenues for the elimination of debts of the 'Sécurité sociale' → *"Commitment-Sustaining"* Separates the expenses linked to social insurance and the ones linked to social assistance: → *"Commitment-Tightening"* Insured with insufficient contributions and/or redistributive pensions are transferred to a tax-financed system → *Commitment-Shifting*

1994	***Loi Madelin:*** - Creation of a voluntary complementary pension based on savings for the self-employed.	Strengthening of third-pillar pensions
1995	***Failure of Public Pension Reform I:*** - Reform plans to adapt the pension calculation in the public sector to the one in the private sector; withdrawn after heavy protests from unions and strikes.	→ *Attempt of "Commitment Breaking: Major change"*
1996	***Financial Equalisation Process between AGIRC and ARRCO:*** - Financial transfer mechanism introduced between supplementary pension schemes in order to partially compensate the consequences which derive from the social security contribution ceiling.	Revenues for loss-making AGIRC increased through creation of fiscal interdependency → *'Commitment-Sustaining'*
1997	***Failure of Retirement Savings Funds:*** - As decided on 20 February 1997, the retirement savings funds (plans d'épargne retraite) are optional membership plans that all private sector employees can join. In practice, they take the form of contracts to which employers subscribe on behalf of their staff. Insurance agencies known as retirement savings funds (fonds d'épargne-retraite) will be set up especially to provide this service. - The funds can be established following a collective agreement (at company, industry or workplace level). However, if no agreement has been made within a six-month period from the beginning of negotiations, subscription to the plan may also result from a unilateral decision by the employer. Besides, one year after the law has come into force, employees who have no access to a savings plan through their employer will be able to ask for membership of an existing scheme. - Implementation blocked by Jospin Government in 1998; this decision was taken in light of trade union opposition on the grounds that the law challenged the pay-as-you-go funding of the basic scheme and gave no role to the social partners.	Attempt to partly transfer the insurance of social risks to the private sector → *Attempt of "Commitment-Shifting"*
1998	***Creation of Pension Reserve Fund (Fonds de Réserve pour les Retraites, FRR):*** - Creation of a pension buffer fund within the first-pillar general scheme from 2001 with the goal to accumulate reserves for financing future PAYG pensions until 2020.	Increase of revenues to preserve the system financed by repartition → *"Commitment-Sustaining"* Increase of tax-financing of pension system

	- Receives a number of different allocations, which can be divided into four broad categories: a portion of the 2% social tax on income from estates and investments; surpluses from the French National Old Age Fund (CNAV); proceeds from the sale of certain state-owned assets; miscellaneous endowments and allocations.	→ *"Commitment-Controlling"*
2000	***Failure of Public Pension Reform II:*** - In March 2000, Prime Minister Lionel Jospin announced that savings in the FRR should be raised to €152.5 bn. He also announced a further pension reform which would guarantee public sector employees' pensions and take in account subsidies in the calculation of pensions, but would extend the length of contribution to 40 years. - After heavy strike action by trade unions, the reform plans were withdrawn.	Attempt to restore fiscal balance of public pension scheme and to delay pension entry → *Attempt of "Commitment-Breaking: Major Change"*
2001	***New Employees' Savings Scheme: 'Fabius Law'*** - The main provisions of the new law introduced in February 2001 aim to increase the scope and duration of the existing employee savings schemes. - First, employees of small and medium-sized businesses will now be covered by a new "inter-company savings scheme" (Plan d'épargne interentreprises, PEI). - Second, the creation of a "voluntary partnership employee savings scheme "(Plan partenarial d'épargne salarial volontaire, PPESV) extends the lock-in period for employee savings from five to 10 years and turns a short-term savings mechanism into a medium- or long-term scheme.	First step to transfer insurance of social risks to private sector: → *"Commitment-Avoiding"*
2001	***Reform of Supplementary Pension Scheme:*** - On 10 February 2001, the social partners reach an agreement on reforming France's supplementary pensions schemes - It sets out four principles to be followed by parliament in overhauling the basic pension system. First, "stabilisation of contribution levels for the next 10 years without pre-empting the use of additional connected deductions". Second, "prioritisation of variable contribution periods". Third, fostering "freedom of choice" in terms of retirement age "from 60 onwards." Fourth, allowing retirement before 60, with the people concerned receiving their basic pension (under circumstances and conditions yet to be defined) - This extends the current provisions regarding supplementary pension schemes until the end of 2002, while the general supplementary scheme, ARRCO, and the management and professional staff supplementary scheme, AGIRC, are to be merged before the end of 2002. - An Association for the Management of Funds Financing AGIRC and ARRCO (Association pour la Gestion du	Goals for pension reforms: → *"Commitment-Sustaining"* → *"Commitment-Tightening"* Change in Financing and Management of ASF gives control now to supplementary pension administrators → *"Control over Implementation"*

	Fonds de Financement de l'AGIRC et l'ARRCO, AGFF) is to be set up to replace the ASF.	
2003	***Major Reform of Public Pension System: Fillon Law*** - Reform passed on the 24 July 2003 aligns the more generous public system with that of private-sector workers, increases the standard retirement age from 60 to 65 years, extends the contribution period, modestly raises contribution rates, introduces financial disincentives to early retirement, and allows partial benefits for part-time workers without adequate contribution histories. - In the public scheme, the length of contributions will move progressively from 150 quarters to 160 quarters (40 years) from 2004 to 2008. From 2008 to 2020, it will be extended in both public and private schemes parallel: 164 quarters in 2012 and 167 quarters in 2020, which would keep the ratio of working time to retirement time unchanged compared to the level of 2003. - The value of pensions in the public scheme will also be indexed on prices (instead of wages); a complementary scheme will be created in 2005 for public servants who receive wage premiums, which will be limited to 20% of wages. - No defined level of security (i.e., certain wage replacement rate through pensions).	Decreasing pension level: → *"Commitment-Breaking: major changes as well as minor adjustments"* Reduction of future entitlements through raising of retirement age: → *"Commitment-Avoiding"*
2003	***New Agreement on Supplementary Pension Scheme:*** - In November 2003, five-year agreement on the ARRCO and AGIRC supplementary pensions schemes: maintains provisions enabling retirement with a supplementary pension from the age of 60, transcribes a number of provisions contained in a recent pension reform law, and takes action to balance the budget. - From 2004, the AGFF surpluses recorded at the end of each financial year will be redistributed between the AGIRC and the ARRCO on a pro rata basis according to the benefits paid out. The new agreement transcribes provisions of the Fillon reform law into the supplementary schemes: - Employees who started working very young will also be able to retire before 60 without a reduction of pension entitlement. This provision will be funded by the AGFF. - The deal sets out the options for buying supplementary pension contribution 'points' to cover periods when the person insured was in education. - The wage used as the basis for calculation (i.e. for the purchase of one retirement 'point') will henceforth be tied to the average wage, rather than to prices. This decision aims to raise the cost of buying a point. - The value of the point used in calculating supplementary benefits from 1 April 2004 to 1 April 2008 will be linked to the consumer prices index. - To cover the funding of AGIRC, which has been in deficit for a year, and bring the distribution of contributions progressively into line with that of ARRCO general scheme (i.e. 60% from the employer and 40% from the	Increase of contribution and change of indexation raises revenues and reduces spending → *"Commitment-Sustaining"* Change of point calculation aiming at raising the costs of buying a point → *"Commitment-Avoiding"*

	employee), the employee's contribution to AGIRC will be raised by 0.16 percentage points on 1 January 2006 and the employer's will be increased by 0.08 points.	
2003	***Reform of Employees' Savings Scheme:*** - The Fillon law also lays the foundations of a genuine 'third pillar' of pension funding, based on employees' own savings. Until now, there have been only a few such pension funds targeted at special categories of employees and self-employed people, and some company supplementary schemes. The new law set up two retirement savings schemes, building on those established by the February 2001 'Fabius law' on employee's savings schemes. - Contrary to initial plans to introduce a 'pension savings plan' (plan d'épargne pour la retraite, PER), which would have been collective and thus would have opened the way for pension funds, there will now be an individual *'personal pension savings plan' (plan d'épargne individuel pour la retraite, PEIR)* which is an insurance contract enabling people to accumulate entitlement to a life-long annuity. The PEIR must be based on an agreement with an insurance company through a not-for-profit personal savings fund-holding association. - A new 'voluntary partnership employee pension savings scheme' (plan partenarial d'épargne salariale volontaire pour la retraite, PPESVR) is to replace the 'voluntary partnership employee savings scheme' (Plan partenarial d'épargne salarial volontaire, PPESV) set up under the Fabius law. The period during which funds are locked in to the scheme - formerly 10 years under the PPESV - has been extended up to the retirement age of the person concerned.	Further step to transfer insurance of social risks to private sector: → *"Commitment-Avoiding"*

Health Insurance

Year	**Reform**	**Effect**
1990	***Plan Durieux:*** - Increase of tax on adverts of pharmaceutical products of 5% with retroactive effect starting from 1990. - Series of economics is announced which have to be negotiated with the professions. They aim at global budgets for hospitals from 1991 and the pharmaceutical laboratories which have to reduce their costs by 2.5% in 1991.	→ *"Commitment-Sustaining: Increasing Revenues"* → *"Control over Spending"*
1991	***Introduction of Medical Care Agreements (Convention Medicale):*** - From 1991, the social partners elaborate a *Medical Care Agreement* which is intended to control the evolution of	Increase of budgetary control → *"Commitment-Restraining"*

	expenditure. It sets a provisional target for the evolution of health care spending, practitioners' remuneration and additional expenses.	
1991	***Plan Bianco:*** Increase of Revenues: - Increase of 0.9% of contributions for health insurance of employees from 1 July 1991: Increase of contribution rate for health insurance of employees from 5.9% to 6.8% of the salary. - The payment of social contributions for companies with 50 to 399 employees is advanced from 15 to 5 of every month; extra revenue of FF300 m. - Increase of hospital charge of FF33 to FF50 per day from 1 July 1991. Reductions of Spending: - It is demanded from pharmaceutical laboratories achieve a further 100 million franc of their business volume with the medicaments reimbursed through the Sécurité sociale, in proposing an autoreduction of their business volume on the special reimbursements by 2.5%. - Abolition of the surcharge for pharmacies. - Drugs based on garlic ingredients or magnesium are not longer reimbursed. - Revision of the list of x-ray activities.	In total, the economies are estimated at 9 bn for the years 1991 and 1992 → *"Commitment-Breaking: minor adjustments"* Increase in contribution payments and patients co-payments: → *"Commitment-Sustaining"*
1993	***Hospital Reform Act (Plan Veil):*** - Health spending and volume in ambulatory care are controlled under the National Quantified Objectives. - Start of a 'policy of rationalisation' in hospital management: introduction of 'medical references' which specify the use of medical procedures and examinations (Reference Medicale Opposables, RMO): non-compliance can result in financial penalties (but penalties opposed by Conseil d'Etat; not applied). - Increase of the hospital charge from FF50 to FF55. - Increase of 'ticket moderateurs' [i.e., the percentage of the bill not covered by the public insurance] : from 20% to 30% for the cost of hospitalisation and medical salaries, from 25% to 30% for medical services and dentist services, from 35% to 40% for other medical services, from 60% to 65% for medication for the treatment of non-severe illnesses.	Introduction of spending targets: → *"Commitment-Restraining"* Failed introduction of Medical References → *Attempt of "Commitment-Controlling"* Insurance of social risks in private sector: → *"Commitment-Shifting"* Increase of patients co-payments → "Commitment-Breaking: Minor Adjustments"

1996	***Implementation of Juppé Plan: Law on Social Security Funding 1996***
	
	- Regions as new level of health policy implementation and control: creation of regional agencies that agree objectives with the public and private hospitals and that monitor the efficiency and performance of the hospitals
	- New *Unions Régionales des Caisses d'Assurance Maladie (URCAM)*, in charge of co-ordinating and harmonising the different social insurance funds' various health care policies.
	- Central Level:
	    o Councils supervising the finances of the Sécurité Sociale
	    o National Health Congress, setting health priorities
	    o National Agency for Accreditation and Evaluation in Health (ANAES)
	- Medical Care Agreements: the state can replace the social partners when the latter are not able to reach an agreement.
	- Annual growth of health expenditure is limited: projected target (ceiling) for health insurance spending for the following year, known as the national ceiling for health insurance expenditure (ONDAM).
	- Hospital budget options on a region-by-region basis: for the first time, the budget was not to be uniformly increased.
	- Management and Objectives Agreement is concluded between national funds and government for three-year period.
		Introduction of spending limits, annual voting of social budget and possibility to replace social partners in medical agreements increases state control:
		→ *"Commitment-Restraining"*
		
		Creation of Regional Agencies increases direct implementation control; increase of state control in administration also through changes in managing boards and elections
		→ *"Commitment-Control"*

1996	***Failure of Health Reform Attempt:*** - Plans to create a compulsory unified health insurance scheme (Assurance maladie universelle, AMU), which would have had harmonised the range of benefits in kind delivered by the 19 regimes, did not realise.	Attempt to introduce stronger *control over spending and revenues* as well as over implementation through centralisation → *Attempt of "Commitment-Control"*
1997	***Medical Agreements between Health Insurance Funds and Doctors' Unions:*** - On 28 February, after months of negotiation, the social security health insurance funds and the two doctors' unions (MG-France and the Union collégiale des chirugiens et des spécialistes français) conclude two separate medical agreements. - They provide for an increase in expenditure (prescriptions and fees) in 1997 of 1.5% for general practitioners and of 1.1% for specialists. As for expenditure covered by social security, general practitioners must abide by an increase of 2.4% for fees and 1.3% for prescriptions, whereas the ceilings placed on specialists are 1.3% and 0.5% respectively. - In the event of their exceeding these percentages, doctors will be forced to reimburse part of their fees and certain	

	sums linked to prescriptions to the social security fund.	
1998	***Measures Aubry:*** - Freezing of tariffs for dentists, masseurs, biologists and orthopaedists. - Reduction of x-ray tariffs and of prices for the fabrication of health apparatuses. - Reduction of prices for certain drugs and penalties for production of products that are more expensive.	Cost-cutting measures through price caps with expected savings of FF2.7 bn → *"Commitment-Restraining"*
1998	***Law on Social Security Funding for 1998:*** - Fixation of the expenditure in crease in the health sector at +2.6% for 1999, with a tolerance barrier of +10% in which no sanctions will be applied, and of –10%, in which case the tariffs for certain services can be upgraded through a 'fonds de qualité'. - Pharmacists get the possibility to replace a prescribed drug with a generic equivalent.	Introduction of fiscal incentives for cost-saving behaviour → *"Commitment-Control"*
1999	***Universal Sickness Cover (Couverture Maladie Universelle, CMU):*** - Inaugurated in January 2000, the CMU makes health care available to low-income groups free of charge. - Costs estimated: €1.37 bn a year; direct funding from the general government budget and introduction of a new tax (1.75% paid by private insurance companies and mutual insurance funds on supplementary health insurance contracts)	Introduction of new tax for financing of health-care for low-income groups; tax-increase WITHIN insurance system increases State influence → *"Commitment-Controlling"*
2000	***Law on Social Security Funding for 2000:*** - Method of setting the ONDAM changed: the rate of growth no longer applies to estimated expenditure, but to (provisional) actual expenditure. - Health management reform: the whole hospital sector was to be the responsibility of the state (including private for-profit hospitals), but in return the government delegated to CNAMTS the dual responsibility of regulating the fees charged by all self-employed health care professionals and negotiating with them expenditure ceilings. Only applied in 2000 and subsequently abandoned.	Further attempt to gain control over spending in ambulatory sector → *Attempt of "Commitment-Restriction"*
2001	***Law on Social Security Funding for 2001:*** - Alignment of benefits for self-employed people with those of the general health insurance scheme.	Reduction of spending for self-employed schemes → *"Commitment-Breaking: Minor*

	- Extension for five years of experiments with provider networks (allowing specific payments for coordination of care and delegation of the management of these experiments to regional level). - Private Hospitals: bill sets mechanisms for initiating the transition towards a differential pricing of services - Sickness cash benefits: doctors will have to provide the health insurance medical staff with the reasons of each sickness leave they authorise. - Drugs: to keep medical goods' expenditure under control, the health insurance medical staff may call in patients whose medical consumption is particularly high and suggest a more suitable health care plan to the patient and his/her practitioner.	*Adjustment"* Attempts to break up common fee arrangements and to contain spending Stronger implementation control → *"Commitment-Control"*
2002	***Act reforming the agreement system between the health insurance funds and the health care professions:*** - The new agreement system will comprise three levels: the first will set up common rules for all professionals; the second will contain specific items for each profession; the third will allow the health insurance funds to conclude contracts with individual professionals willing to engage in projects (networks, health promotion, etc.).	Further attempt to control expenditure via spending caps
2003	***Law on Social Security Funding for 2003:*** - The 'coded letter' system, which has enabled the sickness insurance fund to vary consultation fees according to spending increases, and to which doctors' trade unions have been very hostile, has been scrapped. - Hospitals will now have a five-year investment budget of €6 bn. Of this, €300 m has been earmarked for 2003. - Key initiatives in the law deal with the prescription of drugs. Fixed reimbursement levels are to be introduced for drugs where a generic alternative exists. Sickness insurance coverage for over 800 'poor-performance drugs' is to be phased out over the next three years.	Further attempts of cost-control via spending regulations and expenditure caps → *"Commitment-Restrictions"*
2003	***Plan Hopital 2007:*** Implementation of payment per case for hospitals: - The public hospital sector will move from a capped budget system towards pricing based on activity *(Tarification à l'activité* or T2A). The rates of payment are built upon the existing costbased information system (PMSI) used to assess the activity levels in individual hospitals. - For the public system, over 60% of the budget will be paid for on this basis, the rest will take the form of grants related to a number of identified "public services" such as training (university hospitals) or emergency wards. In contrast to current arrangements (fee-for-service arrangements accompanied by a total cost ceiling, the private sector will only be paid on the basis of this prospective payment system on the basis of activity.	New financing method for hospitals increases abilities for cost control within the system: →*"Commitment-Controlling"*

2004	***Loi Relative à l'Assurance Maladie:*** A series of 13 initiatives is introduced with the law (passed on the 13th August 2004) which should lead to budgetary balance in 2007: - Starting in 2005, taxpayers will be required to pay a fixed sum of EUR 1 per consultation or medical treatment. - All sickness insurance beneficiaries will be eligible for standard user fees only if they have a regular general practitioner (GP). - Stiffer financial penalties for fraud and abuse. - Insured parties on sick leave will be more strictly monitored. Daily benefits will be suspended where insured parties fail to submit to the monitoring process. On governance of the system, three national umbrella organisations to cover basic sickness insurance funds, supplementary insurance and healthcare professionals respectively are set up: - The National Union of Sickness Insurance Funds (*Union nationale des caisses d'assurance maladie, UNCAM*) is to have authority in negotiating 'consultation and treatment refund rate' agreements with health professionals. - The National Union of Supplementary Sickness Insurance Bodies (*Union nationale des organismes d'assurance maladie complémentaires*) acts as an umbrella group for mutual insurance entities, provident institutions and private insurers, and will provide opinions on decisions made by UNCAM. - The National Association of Healthcare Professionals (*Union nationale des professionnels de santé*) will make recommendations on decisions proposed by UNCAM. - National sickness insurance funds will be required to submit an 'estimated budget proposal' in the first half of every year. A *Sickness Insurance Spending Increase Watchdog (Comité d'alerte sur l'évolution des dépenses d'assurance maladie)* will be responsible for developing remedial measures when spending overruns estimates by 1% or more. - National sickness insurance funds will be required to submit an 'estimated budget proposal' in the first half of every year. A Sickness Insurance Spending Increase Watchdog (Comité d'alerte sur l'évolution des dépenses d'assurance maladie) will be responsible for developing remedial measures when spending overruns estimates by 1% or more. - The organisation of sickness insurance has also been overhauled: the *powers of the National Sickness Insurance Fund (Caisse Nationale d'Assurance Maladie, CNAM)*, which administers the system, have been widened.	Measures are designed to restore budgetary balance by 2007. This is to be achieved by making €10 bn in savings and generating €5 bn in new revenue. Revenue-Increases → *"Commitment-Sustaining"* Increase of patients co-payments → *„Commitment-Breaking: Minor Adjustment"* Centralization of fee agreements and stronger control over spending → *"Commitment-Controlling"*

Unemployment Insurance

Year	Reform	Effect
1990	***Intersectoral Agreement:*** - December 1991: increase of contribution rate - introduction of deferred payments	Revenue-Increase: → *"Commitment-Sustaining"* Reduction of expenditure through delay of benefit provision → *"Commitment-Breaking: Minor Adjustment"*
1992	***Creation of Allocation Unique Degressive (AUD):*** Major reform of unemployment benefit system through intersectoral agreement: - All unemployment insurance benefits are replaced by the Allocation Unique Degressive (AUD). - The new unemployment insurance benefit is payable only for a limited period of time, depending on contribution record. The amount of the benefit decreased with time and entitlements expires after 30 months. Afterwards, unemployed people must rely on tax-financed means-tested benefits.	New way of benefit calculations reinforces contributory dimension of benefit system → *"Commitment-Tightening"* Insured with short contribution record are shifted into tax-financed solidarity system → *"Commitment-Shifting"*
1993	***Intersectoral Settlement:*** - Sharp increase of contribution rate. - Expansion of deferment of payments and non-increase of allocations. - Creation of a specific qualifying period. - Reduction of age limit for access to benefits from the pension insurance. - UNEDIC is forced to take out a credit facing a deficit of €5 bn. - Additionally: financial agreement between the state and the social partners, which agreed the provision of FF30 bn annually, of which 85% stem from additional revenue sources: the increase of contribution rate as well as the subsidy of the state (for the next 10 years) amounting to a third of the deficit of the unemployment insurance system UNEDIC, this also including the amortisation rates for the debts. - Establishment of a tripartite supervisory council, the *"Conseil d'Orientation et de Surveillance" (COS)*, which is responsible for the auditing of UNEDIC's accounts as well as for co-ordination and control measures.	Reduction of age limit for access to pension benefits enables unemployment insurance to get rid of older unemployed → *"Commitment-Shifting"* Increase of state participation in financing of insurance benefits through subsidy; revenue increases through higher contribution rate → *"Commitment-Sustaining"* Stricter spending monitoring → *"Commitment-Controlling"*

1994	***Convention: Participation in Active Measures*** - On the 8 June 1994, the social partners agree a convention, pressured by the state, that the usage of a share of the UNEDIC fund could be used for reintegration measures for unemployed, if these were receiving benefits from the unemployment insurance for at least 8 months and were further eligible for benefits.	*Government channels away resources from the insurance schemes* → *"Commitment-Breaking"*
1997	***Intersectoral Agreement:*** - Rise in unemployment benefits and reform of the management of contingency funds for those claimants most in need (contracting to outside organisations). - Reduction of contribution rate due to a reduction of unemployment rates.	→ *"Commitment-Sustaining"*
2000	***Intersectoral Agreement:*** - New agreement reorganises the unemployment insurance system around a "back-to-work assistance plan" (PARE), under which unemployed people's eligibility for unemployment benefits is linked to them committing themselves to an individualised PARE contract. The National Employment Agency (ANPE) will be responsible for developing and implementing this scheme.	State gains spending control through implementation of PARE through ANPE → *"Commitment-Controlling"*
2001	***New Means-Tested Allowance (Allocation Équivalent Retraite):*** - Created in November 2001 for unemployed workers who are 60 years old and have contributed for 40 years to retirement scheme - Guarantees a pension income of €877 per month if workers have contributed for 40 years to the retirement scheme. It merges with the existing 'allocation spécifique d'attente' and the 'Allocation spécifique de solidarité' in order to simplify the administration and to save money. The new allowance will affect about 50 000 pensioners.	People with insufficient contributions and redistributive pensions are transferred into tax-financed system → *"Commitment-Shifting"*
2002	***Increase of Unemployment Contributions I:*** - Contribution to UNEDIC increases to 5.8% from 1 January 2002 (for 2003 it is planed to lower it to 5.4% again)	Revenue-Increase → *"Commitment-Sustaining"*

2003	***Increase of Unemployment Contributions II:*** - Due to the increasing financial needs of UNEDIC, it is decided to increase the contribution rate to 6.4% from 1 January 2003.	Revenue-Increase → *"Commitment-Sustaining"*

Financing and Budgeting

Year	Reform	Effect
1990	***Creation of the CSG (Contribution Sociale Généralisée):*** - New tax at 1.1% levied on all types of personal incomes (wages, capital revenues and welfare benefits) adopted in November 1990 for balancing of deficits.	The explicit goal behind this tax has been to use it for the financing of non-contributory benefits → *"Commitment-Tightening"*
1994	***Increase of CSG:*** - Rate raised from 1.1 percent to 2.4 percent in 1994 under the new center-right government - 1.3 percent increase earmarked for a solidarity fund for old-age provision (*fonds de solidarité vieillesse*). - Increment is tax-deductible, transforming the CSG into a highly regressive tax.	Tax-financing of non-contributory benefits in pension insurance schemes: → *'Commitment-Tightening'*
1996	***Juppé Plan: Revenue Changes*** - End of 1996: widening of CSG income basis and increase of rate to 3.4%; in turn, reduction of 6% of the employer-share of the contributions for the complementary health insurance and provision. - Another social security tax, the social security deficit refund tax (*la contribution au remboursement de la dette sociale, CRDS*) is introduced. In the same way as the CSG, this new tax is levied (by 0.5%) on almost all types of earned income and is earmarked for the refund of social security debt; it is an ad hoc measure. At the time of its introduction, the CRDS was to be imposed on wages, substitute income such as social security benefits, and investment income until 2009, and on inheritances until 2008. The government also decided that the imposition could be prolonged by five years until 2014. - Increase of 1.2 point of health contributions for pensioners and unemployment beneficiaries in 1996 and 1997 (in 1997, the increase is limited to 0.2%).	In October 1995, The Commission des comptes de la Sécurité sociale evaluated the deficit of the Sécurité sociale for 1996 with FF52.3 bn. The Juppé plan is expected to reduce this to FF17 bn (in fact it was 51.6 bn) and ensure a positive balance of 11.8 bn in 1997 (contrary to the predicted deficit of 47.7 bn by the Commission; in fact it was 33.3 bn) → *"Commitment-Sustaining"* Replacement of contribution revenue with tax revenues → *"Commitment-Avoiding"*

1996	***Constitutional Amendment:*** - Gives the Parliament the opportunity to vote a social security budget every year *(Loi de Financement de la Sécurité Sociale)* which allocates a limited amount of resources for social expenditure. - Parliament has to decide on national financial aims for hospitals, practices, pharmacy and medico-social sector.	Parliament becomes authority to approve the social security budget and major areas of the health agenda → *"Commitment-Restraining"*
1996	***Reforms of Governance Structures:*** - Reintroduction of principle of parity in social insurance administrations. - Three year Management and Objective Agreements between national funds and government.	Reform also buttressed government participation in the management of social security funds → *"Commitment-Controlling"*
1996	***Loi Robien:*** - More generous financial incentives to employers, offering a 50% reduction in social-security contributions the first year after an accord and a 40% exemption each year thereafter in exchange for a 10-15% reduction in the employees' annual work-time and a proportional creation of jobs.	State channels away funds from social insurance system → *"Commitment-Breaking"*
1997	***Social Security Financing Law for 1997:*** Increase of revenues: - Integration of the 'régime militaire' in the 'régime générale'; budgetary relieve for central government budget FF1.2 bn. - Increase of 17.1% of the tobacco tax and alcohol tax. - Increase of the CSG by one point (on the contrary a reduction of 1.3 points of the contributions for the employees' health insurance). - Expansion of the assessment basis for the CSG to the majority of transfer incomes and nearly all investments. Reduction of spending: - Fixation of development of rates of expenditure of health insurance at 1.7% for 1997. - Limitation of the savings plan proposed to the CNAMTS on the 10th September. From the originally intended savings of 4.8 bn, only 1.7 bn are saved through reductions of tariffs for certain services.	The measures of the law are intended to reduce the deficit by 17 bn. The deficit of the Régime Général has reached 51.6 bn in 1996. The projected deficit for 1997 is estimated at 30 bn (compared to the 47 bn projected by the Commission des comptes de la Sécurité sociale); in fact, it turned out to be 33.3 bn; for 1998, the deficit is estimated to be 12.8 bn. Increase of revenues through integration of various schemes into Régime Général → *"Commitment-Sustaining"* Further replacement of contribution revenue for health insurance with tax revenues → *"Commitment-Avoiding"*

1998/ 2000	***Aubry Law I and Aubry Law II (1998 and 2000): 35-Hour-Week*** - First law required the social partners to negotiate the application of the 35-hour week in reorganising work within firms; the 35-hour-rule began to take effect in the year 2000 for companies employing more than 20 workers and will not apply to small firms until 2002. - Second law raises the threshold for reduced social contributions from 1 to 1.8 times the minimum wage and established annual limits on work-time and overtime for firms or sectors that reduced work-time.	State channels away funds from social insurance system → *"Commitment-Breaking"*
1998	***Social Security Financing Law for 1998:*** - Increase of the CSG by 4.1 points to 7.5% as a substitution of health insurance contributions, which have been lowered by 4.75 points from 5.5% to 0.75% of pay (and from 4.75% for civil servants to 0%). - Increase of CSG rate on replacement income increases from 3.4 to 6.2 percent beginning in January 1998. For the retired and unemployed, the 2.8 percent additional CSG levy reduced the health insurance contribution from 3.8 to 1 percent. The government made this new levy deductible from the income tax base again. Increasing revenue: - Charge of 1% on inherited property revenues for pension insurance. - Tax of 2.5% of total drug sales levied on pharmaceutical companies, and with the creation of a new tax on tobacco products. - Extension of RDS (Reimbursement contribution for social security debts) until 2014.	Predicted deficit for 1997: 37 bn in 1997 (de facto 33.3 bn), 12 bn in 1998 Aim to reduce the deficit of the general scheme from an expected FF37 bn in 1997 to FF12 bn in 1998, with the objective of balancing the social security budget by 1999. The shift should provide social security additional revenue of FF4.5 bn. → *"Commitment-Sustaining"* Nearly complete substitution of health contributions with tax revenues → *"Commitment-Avoiding"* indirectly: → *"Commitment-Controlling"*
1999	***Changes in 35-Hour-Week Funding:*** - Plans to finance the working time reduction (in the form of cuts in employers' social security contributions) partly through the UNEDIC fund and the social security budget are abandoned. - UNEDIC's contribution to funding the 35-hour week will be replaced by a new transitional 10% tax on overtime work to be levied on companies that have not reduced working time. - FF5.6 bn are to come from social security funds will now be taken from the surplus in the Old Age Solidarity Fund (FSV).	Replacement of contribution-revenues through tax revenues → *"Commitment-Avoiding"* indirectly: → *"Commitment-Controlling"* Reallocation of funds adversely affecting the insurance fund → *"Commitment-Breaking"*

1999	***Social Security Financing Law for 1999:*** - Creation of the 'Fonds de Réserve sur les Retraites', FRR.	Securing of Revenues → *"Commitment-Sustaining"*
2000	***Social Security Financing Law for 2000 :*** - Creation of the *Fund to Finance the Reform of Employers' Contributions* (FOREC), which is expected to refund around 110 bn to social security funds lost through reductions in social charges. - Funded by a fraction of the tax on tobacco, a fraction of the duty on the consumption of alcohol, by a new contribution based on the profits of businesses with a turnover of more than FRF 50 million, by the tax on polluting activities and by a contribution from the state.	Replacement of contribution-revenue by tax revenue : → *"Commitment-Avoiding"* *indirect:* → *"Control over Spending and Revenues"*
2001	***Social Security Financing Law for 2001:*** Revenues: - Cut in social security contributions for low-wage earners, by means of a progressive reduction, over two years, in the CSG - currently standing at 7.5% of gross pay - and in the "social security debt reimbursement contribution" (CRDS) - currently equivalent to 0.5% of gross pay. The reduction will apply to whose income falls below 1.4 times the statutory national minimum wage. Furthermore, retired, unemployed and disabled people who do not pay income tax will be exempt from the CRDS. Expenditure Reductions: - 2.2% increase in pensions.	Increase of provisions → *"Commitment-Sustaining"*
2002	***Social Security Financing Law for 2002:*** - Enhancement of the Universal Health Insurance (Couverture Maladie Universelle, CMU) scheme through elimination of the spending ceiling for dentistry and the extension of the 'direct settlement' system for former benefit recipients whose income now exceeds the statutory ceiling. - 2.2% increase in pensions from 1 January 2002.	Direct settlement for CMU recipients increases State control over spending and reduces independence of insurance funds in bargaining fees → *"Commitment-Controlling"*
2003	***Social Security Financing Law for 2003:*** Increase of revenues:	The funding-related provisions in the 2003 law are designed to reduce the sickness insurance fund deficit from over €8 bn to

	- Considerable increase of tobacco tax (11% increase on price of cigarettes) Reduction of expenses: - Fixation of health-expenditure increase at +5.3%. - Law focuses primarily on sickness insurance, with particular emphasis on encouraging doctors to prescribe 'generic' drugs. Budgetary Allocation: - Possibility for parliament to amend the Social Security Financing Law each autumn, should the economic and fiscal realities differ significantly from the original forecasts.	under €7 bn as well as to clarify the funding arrangements between the state and the social security funds. Increase of Revenues → *"Commitment-Sustaining"* Mid-Term Amendment: → *" Commitment-Controlling"*
2004	***Abolition of FOREC:*** - Abolition of FOREC increases revenue for ACOSS by €16 bn. - It is estimated that the partial compensation for spending covered by ACOSS and normally met by the Social Security Debt Redemption Fund or the Old-age Solidarity Fund generates another €20 bn or more in new direct revenue. This does not take into account the approximately €2 bn in contribution exemptions not offset by the state.	ACOSS surplus for 2004 is approximately €3.5 bn Increase of revenues → *"Commitment-Sustaining"*
2004	***Social Security Financing Law for 2004:*** The law mainly focuses on clarifying financing modalities of the 'sécurité sociale' and aims at stabilising the deficit of the health insurance under €11 bn: - Modernisation of hospitals (additional investment of €10 bn euros in the plan "hôpital 2007") and making the resources of hospitals dependent on an evaluation of their activities. - Modernisation of the health insurance system with the particular aim to stabilize the deficit, in clarifying the financial relationship between the 'sécurité sociale' and the state. - Increase of tobacco taxes.	An increase of 9.7% of revenues for the social security institutions ; half of the money (€2.6 bn) goes to CADES, which is equivalent to the contribution allowances that were not covered in the budget in 2000 → *"Commitment-Sustaining"*

Sources: MISSOC various years; European Industrial Relations Observatory On-line; Palier 2002; various other sources

Appendix II: Social Insurance Reforms Germany 1990-2005

II-1 Changes in the Main German Social Insurance Schemes 1990-2005: Administrative Independence

	Pension Insurance		**Health Insurance**		**Unemployment Insurance**	
	1990	***2005***	***1990***	***2005***	***1990***	***2005***
Administrative Independence						
Institutional Fragmentation of Insurance Sector	Medium high (2+3 in GRV), small number of ind. schemes; civil service provision → *Medium*	Internal fragmentation strongly reduced with organisational reform in 2005 → *Low*	Very high (over 1.200 insurance funds) → *Very high*	Strong reduction of fragmentation to 262 funds (including 206 work sickness funds) → *Medium*	Very low (single scheme) → *Very low*	No change → *Very low*
Insurance Scheme	***GRV***		***GKV***		***BA***	
Composition of Administrative Body	Bipartite governing board with equal representation of social partners → *Very high*	No change → *Very high*	Bipartite governing board with equal representation of social partners (with few exceptions) → *Very high*	Additional full-time, professional board of directors → *Very High*	Tripartite admin. committee with equal representation of employees, employers and public bodies → *Medium*	Transformed into tripartite supervisory board with fewer executive functions → *Low*
Selection of top officials	'Social elections' by members; assembly of representatives elects the supervisory board as executive body as well as the board of directors (based on suggestions by the supervisory board) → *Very high*	No change → *Very high*	'Social elections' by members; assembly of representatives elects the supervisory board as executive body as well as the board of directors (based on suggestions by the supervisory board) → *Very high*	No change → *Very high*	Representatives directly appointed (nominations by social partners); admin. committee elects executive board; president and vice-president appointed by labour minister → *Medium*	Executive board now also directly appointed by labour ministry → *Very low*
Policies require govt. approval/subject to ministerial direction?	Public oversight limited to the supervision of the legality of actions, but approval applies to autonomous legal and various organisational and financial decisions → *High*	No change → *High*	Public oversight limited to the supervision of the legality of actions, but approval applies to autonomous legal and various organisational and financial decisions → *High*	No change → *High*	Public oversight limited to the supervision of the legality of actions, but approval applies to autonomous legal and various organisational and financial decisions → *High*	Regulations regarding legal and professional oversight can now be replaced by contractual agreements between the insurance carrier and the government → *Low*
Score	***5 (Very high)***	***5 (Very high)***	***5 (Very high)***	***4 (Very High)***	***3 (Medium)***	***1 (Very low)***

II-2 Changes in the Main German Social Insurance Schemes 1990-2005: Budgetary Autonomy and Constraints

	Pension Insurance: GRV		Health Insurance: GKV		Unemployment Insurance: BA	
	1990	*2005*	*1990*	*2005*	*1990*	*2005*
Budgetary Autonomy						
Degree of Formal Budget Autonomy	Formal budget autonomy → *Very high*	No change → *Very high*	Formal budget autonomy → *Very high*	No change → *Very high*	Formal budget autonomy, but subject to approval by federal government → *Medium*	Possibility of imposed budget in case of deficit → *Very low*
Degree of Revenue Autonomy	Contribution rates and subsidies defined by law → *Very low*	Contribution rates and subsidies by govt, automatised, via decree → *Low*	Contribution autonomy → *Very high*	Formal contribution autonomy maintained, but repeated interventions → *Low*	Contribution rates defined by law → *Very low*	No change → *Very low*
Degree of Spending Autonomy	Carrier only determines administrative spending → *Low*	No change → *Low*	Considerable self-administration powers regarding definition of provision catalogue in ambulatory sector, but govt approval → *Medium high*	Self-administration powers regarding definition of provision catalogue strengthened → *High*	2/3 of spending based on benefit legislation; flexibility regarding 1/3 for active policies/placement → *Medium*	Loss of internal spending allocation competencies → *Low*
Score Independence	***2 (Low)***	***3 (Medium)***	***4 (High)***	***4 (High)***	***2 (Low)***	***1 (Very low)***

	Pension Insurance: GRV		Health Insurance: GKV		Unemployment Insurance: BA	
	1990	*2005*	*1990*	*2005*	*1990*	*2005*
Budgetary Constraints						
Budgetary Allocation Process	Delegation approach; weak role of finance minister → *Very high*	No change → *Very high*	Delegation approach; weak role of finance minister → *Very high*	Increasingly shift of allocation decisions into self-administration committees; parallel strengthening of competition between insurance funds → *Medium*	Delegation approach; weak role of finance minister → *Very high*	Due to deficit-financing stronger role of finance minister; employment agencies excluded from budget process → *Low*
Enforced Fiscal Targets	No → *Very high*	No → *Very high*	No → *Very high*	Introduction of budgets for all sectors, but enforcement weak → *Medium*	No → *Very high*	Global budget for active measures → *Low*
Spending Monitoring	Approval of Ministry of Social Affairs; no approval of extra spending necessary → *High*	No change → *High*	Approval of Ministry of Health; no approval of extra spending necessary → *High*	No change → *High*	Extra spending needs approval of Ministry of Labour and Finance; internal spending monitoring weak → *Medium*	Stronger internal spending monitoring → *Low*
Deficit Coverage	'Federal guarantee' if threat of illiquidity; no legal specification whether in form of subsidies or credits; automatic coverage of miners insurance → *High*	Merely provision of interest-free credits in case of illiquidity → *Medium*	No state coverage; no credit financing allowed → *Very low*	Temporary exceptions to credit financing; introduction of limited, tax-financed deficit coverage → *Low*	Automatic deficit coverage by federal state → *Very high*	No change → Very high
Score Constraints	***5 (Very high)***	***4 (High)***	***4 (High)***	***3 (Medium)***	***4 (High)***	***2 (Low)***
TOTAL SCORE	***3 (Medium)***	***3 (Medium)***	***4 (High)***	***3 (Medium)***	***3 (Medium)***	***1 (Very low)***

II-3 Changes in the Main German Social Insurance Schemes 1990-2005: Revenue Structure

	Pension Insurance: GRV		**Health Insurance: GKV**		**Unemployment Insurance: BA**	
	1990	*2005*	*1990*	*2005*	*1990*	*2005*
Revenue-Structure						
Share of earmarked revenues	77.8%	72.9%	96.5%	97.1%	88.5%	86.6%
Extent of Transfers/Fiscal Interdependencies	Federal Subsidies: 18.8%	Federal Subsidies: 26.4%; strong increase of internal subsidies (mainly to KnRV)	Only internal equalisation process in pensioner health insurance	Internal risk equalisation process since 1994	No transfers, but tax-financed deficit coverage (10.5%)	Permanent dependence from federal subsidy payments (1993: 22%; 2004: 7.7%); displacement-fee re-channels revenues into federal budget; increase of payments to other insurance carriers
SCORE	***4 (High)***	***3 (Medium)***	***5 (Very high)***	***5 (Very high)***	***4 (High)***	***3 (Medium)***

II-4.1 Changes in the German Pension Insurance Schemes 1990-2005: Eligibility and Reciprocity

	GRV	
	Situation 1990	*Situation 2005*
Eligibility		
Mandatory Retirement Age	65 years (in principle)	65 years
Conditions for Full Rate Pension	Reaching of 65 year age limit and minimum contribution time; exceptions: Men and Women: - 63 yrs (or 60 yrs for war invalids and invalidity) after 35 yrs of insurance - 60 yrs, if 180 contr. months, in unemployment for a year in last 18 months, at least 8 yrs compulsory insurance in last 10 yrs Women only: - 60 yrs, if 180 contr. months, compulsory insured for at least 10 years since age 40	Reaching of 65 year age limit and minimum contribution time; Increase of pension ages for exceptional cases: - old age pension because of unemployment or after part-time for elder workers, and for long-term insured only possible for persons having completed the age of 65 - Increase of old age pension for women from 60 to 65 years (2000-2004); - Increase of old-age pension for severely disabled persons from 60 to 63 years (2001-2003) Reduction of 0.3% for each month pension is claimed early.
Accounting of Non-Contribution Times	*Substitute periods* (military service and war-related non-employment times) *Assessment periods* (periods of sickness, rehabilitation, or certain times of unemployment; periods of pregnancy and child-bed; school or higher education times up to limit of 4 years; finished university education up to 5 years; pension times before age limit of 55 years	Substitute periods *(Ersatzzeiten)* Assessment periods *(Anrechnungszeiten)* (periods of sickness, rehabilitation, unemployment, studies and higher education over 16 years of age) Childraising periods *(Berücksichtigungszeiten)* (child-raising up to the age of 10 years). Mothers or fathers born in 1921 (West) or 1927 (East) or later are credited with the first 12 months (36 months for children born from 1992 onwards) after the month of birth as an insured period, if they stayed at home to look after the child.
Minimum Contribution Time	60 months of insurance	60 months of insurance.
Score Eligibility	***4 (High)***	***4 (High)***

	GRV	
	1990	*2005*
Reciprocity		
Pension Level	*Individual components:* Personal Income Points (PIP) Access Factor depending on pension age (AF) *General component:* Pension Type Factor (PTF) Monthly Pension = PIP x AF x PTF	*Individual components:* Personal Income Points (PIP) Access Factor depending on pension age (AF) *General components:* Pension Type Factor (PTF) Current Pension Value (CPV) Monthly Pension = PIP x AF x PTF x CPV
Benefit Inequality	No statutory minimum or maximum pension.	No change
Reductions for early retirement	None (different pension access accounted for through Access Factor and Pension Type Factor)	In the case of early retirement (for conditions see above). Calculated according to the general pension formula.
Indexation	Every 1st of July adaptation according to development of gross wages	The pensions are annually adjusted on 1st July according to the income development by calculation of the pension on the basis of the valid (latest) pension value. The current pension value is adjusted in line with the wage development in the previous calendar year, whereby changes of the pension insurance contribution rate and the increasing share of old age- provision (not tax-related changes for employees, however) are taken into consideration. The pension adjustment intended for 2004 and 2005 will be suspended.
Charges on Benefits	Pensions subject to taxation. Contributions to pensioner health insurance.	Gradual transition to deferred taxation until 2040. Contribution to pensioner health insurance and long-term care insurance. Average health insurance contribution rate 7.1%, plus 1.7% (1.95% without children) long-term care insurance contribution.
Score Reciprocity	***4 (High)***	***3 (Medium)***
TOTAL SCORE	***4 (High)***	***4 (High)***

II-4.2 Changes in the German Health Insurance Schemes 1990-2005: Eligibility and Reciprocity

	GKV	
	Situation 1990	**Situation 2005**
Eligibility		
Beneficiaries	• Persons in paid employment and those receiving vocational training. • Pensioners with a sufficient period of insurance. • Unemployed, receiving benefits of unemployment insurance. • Handicapped persons in sheltered employment. • Trainees in vocational rehabilitation. • Students of recognised higher education. • Farmers and helping members of their family. • Artists and writers • Personally insured	No change
Sickness Pay Beneficiaries	Employees and assimilated. Incapacity for work certified by a doctor from the *3rd* day of illness.	Employees and assimilated. Incapacity for work certified by a doctor from the *4th* day of illness.
Eligible Dependants	Spouse and children, income not exceeding DM500 (west) or DM 300 (east)	Spouse and children, income not exceeding € 345 or € 400 per month if employed in insignificant employment, provided they are not insured in their own right, or active as self-employed. Age limit for children. Some other exclusions. Divorced partners to a marriage can insure themselves within 3 months after the divorce has become final (previous insurance periods necessary).
Minimum Contribution Payments	None	None
Sickness Pay Minimum Contribution Payments	Neither work period nor qualifying period required.	No change
Exemptions from Compulsory Insurance	N compulsory insurance for employees with monthly earnings exceeding €2432/1118 (West/ East) who were privately insured or for persons in insignificant employment or for persons in insignificant employment (up to €315 per month). Civil servants, magistrates and professional soldiers are also exempt.	No compulsory insurance for employees with annual earnings exceeding €46,350 or €41,850 for persons who were privately insured on 31 December 2002 or for persons in insignificant employment (up to €400 per month). Civil servants, magistrates, and professional soldiers do not pay contributions.
Score Eligibility	***2 (Low)***	***3 (Medium)***

	GKV 1990	GKV 2005
Reciprocity		
Patient's Co-Payments	- Medical Expenses: no co-payments - Hospitalisation co-payment: DM10 per calendar day during a maximum period of 14 days - 50% of dental prostheses and connected treatment - Drugs: Fixed amount on fixed price products; DM3 on all other prescribed drugs; no reimbursement of comfort drugs (since 1989)	- Practice fee of € 10 per quarter - Co-payments for aids which are part of the medical treatment 10% and € 10 per prescription. - Hospitalisation co-payment of € 10 per calendar day during a maximum period of 28 days. - 50% of the costs of dental treatment - Drugs: 10%-participation of the dispensing price, at least € 5 and a maximum of€ 10 and not more than the price of the product. Fixed amount on fixed price products, plus possible different between fixed amount and price.
Exemptions or Reductions to Co-Payments	No co-payments for children and 'special cases'	No co-payment for children. Exemption of participation for expenses above 2% (1% in case of chronic diseases) of the gross income. Reduction of co-payment for early-detection measures and bonus models.
Sickness Pay Benefit Rates	Sickness benefit *(Krankengeld)*: **80%** of the normal salary (wages and income from work during last 3 months, insofar as subject to contribution; annual adaptation as for pensions) but not exceeding **100%** of the net salary Normal salary *(Regelentgelt)*: Wages and income from work, normally received (during last 3 months), insofar as subject to contribution. After one year adjustment as for pensions.	Sickness benefit *(Krankengeld)*: **70%** of the normal salary but not exceeding **90%** of the net salary.
Score Reciprocity	***2 (Low)***	***2 (Low)***
TOTAL SCORE	**2 (Low)**	***2 (Low)***

II-4.3 Changes in the German Unemployment Insurance Schemes 1990-2005: Eligibility and Reciprocity

	BA	
	Situation 1990	**Situation 2005**
Eligibility		
Beneficiaries	Unemployed with sufficient previous contribution payments	Expansion of age-related benefits (passive as well as active)
Minimum Contribution Time	Compulsory Insurance for at least 12 months during the last 3 years.	Since 2005: Period during which compulsory insurance for at least 12 months necessary reduced to two years. Unemployment assistance *(Arbeitslosenhilfe)*: unemployed person must have received unemployment benefit during the last year, and must be in need.
Work Availability Conditions and other Criteria	Available for work; To have personally registered at the employment agency as unemployed	Actively looking for work
Score Eligibility	***4 (High)***	***2 (Low)***

Reciprocity		
Replacement Rate	Unemployment Benefit: 68% of net earnings; without children: 63% Unemployment Assistance: 58% of net earnings; without children: 56%	Beneficiaries with children: 67% of net earnings (net earnings are determined on a flat-rate basis by deducting the usual employee's stoppage from the gross salary). Beneficiaries without children: 60% of net earnings. Unemployment assistance *(Arbeitslosenhilfe)*: Beneficiaries with children: 57% of net earnings (net earnings are determined on a flat-rate basis by deducting the usual employee's stoppage from the gross salary). Beneficiaries without children: 53% of net earnings.
Reference Salary	Average weekly wage for last three months	Average weekly wage for the last 52 weeks with a ceiling of benefits of €5,150 per month in the old *Länder* and €4,350 in the new *Länder*.
Duration	Proportional to periods of employment and age: Minimum: 12 months empl. → 156 days benefits; Maximum: 64 months empl., 54 years → 832 days benefits; Unemployment Assistance: unlimited	The duration of benefits (DB) depends on the duration of compulsory insurance coverage and on the age of the beneficiary; generally max 12 months Unemployment Benefit II: Unlimited
Benefit Development over Time	Stable	Stable
Qualifying Waiting Period	None	None

	BA	
	1990	2005
Reciprocity		
Charges on Benefits	Benefits are not subject to taxation (but subject to progression). The Federal Employment Agency *pays* contributions for retirement and sickness insurance on the behalf of compensatory unemployment benefit providers.	Additionally contributions to long-term care insurance paid by BA on behalf of insured.
Universally available placement activities/active employment policies	Information and placement services are universally available. Active employment measures are not connected to contribution records. The share of active employment measures compared to passive ones 45.3% in 1992.	No change regarding universally available information and placement services, and non –contribution related granting of active measures. Share of active measures compared to passive ones reduced, but generally expansion of possibilities for taking up active measures.
Score Reciprocity	***2 (Low)***	***2 (Low)***
TOTAL SCORE	***3 (Medium)***	***2 (Low)***

Sources: MISSOC various years; various others

II-5 Welfare Reforms Germany 1989-2005

Pension Insurance

Year	Reform	Effect
1989/ 1990	***1992 Pension Reform:*** - Change of indexation formula to the change in average net earnings rather than to gross earnings. - Increase of retirement age to 65 for both men and women gradually between 2001 and 2010 - Early retirement remains possible, but with reductions of the pension level - Increase of the number of years of contributions credited for each child from one to three years. - Change of Federal Grant provision guidelines: size of the grant dependent upon the development of average gross earnings and the contribution rate. - Lowering of the reserve requirements from 12 to 3 months of pension spending. - For beneficiaries of sick pay as well as unemployment benefits the social benefit carriers (health insurances and sick half/half; Federal Employment Agency or Federal State) pay pension insurance contributions on the basis of 80% of the former gross wage (formerly: on the basis of the compensatory benefit) - The first 4 (formerly: 5) insurance years are credited with 90% of the average income of all insured.	*Change in indexation: major reduction in future pension claims* → *"Commitment-Breaking"* *Increase of retirement age:* → *"Commitment-Avoiding"* Change of Federal Grant Formula: one-time increase in the size of the grant followed by its stabilisation at the level of about 20 per cent of overall pension spending → *"Commitment-Sustaining": Increasing Revenues* Lowering of Reserve Requirement → *"Commitment-Restraining": ability of insurance carrier to react independently to short-term fiscal difficulties is reduced* Increase of pension contributions → *"Commitment-Sustaining": Shift of Revenues between Insurances* Reduction of years credited with 90% → *"Commitment-Tightening": retrenchment of non-contributory benefits*

1991	***Statutory Pension Insurance and Federal Employment Office Contribution Rate Reform Act [Gesetz zur Änderung der Beitragssätze in der gesetzlichen Rentenversicherung und bei der Bundesanstalt für Arbeit]:*** - Reduction of the pension insurance contribution rate from 18.7% to 17.7% from April 1991.	
1991	***Pension Transition Act [Rentenüberleitungsgesetz (RUEG)]:*** - Transfer of entire pension legislation (Social Security Code VI) to the new Länder from January 1992. - Men with long insurance records can now retire with 63 years instead of 65 years. - The uniform disability benefits are now replaced with the BU (Berufsunfähigkeit: occupational disability) and EU (Erwerbsunfähigkeit: general work incapacity) pensions, whose conditions of eligibility are more generous. - Generous improvements are also connected with the transition of the surviving dependants' pensions. - The alignment of the pensions is based on the net pension level in the old Länder. - The indexation of pensions in the East follows the expected development of net wages in the year of the pension adaptation, not the actual development of the last year as in the West. This regulation is intended to pass the strong dynamic in the wage development on to the pensioners as quickly as possible.	Shift of additional financial burden into insurance scheme → *"Commitment-Breaking"*
1993	***Budget Law:*** - Reduction of contribution rate from 17.7% to 17.5%.	
1994	***Contribution Rate Decree (Beitragssatzverordnung):*** - Increase of contribution rate to 19.2%	→ *"Commitment-Sustaining": Revenue-Increase*
1995	***Contribution Rate Decree:*** - Reduction of Contribution Rate to 18.6%.	
1996	***Contribution Rate Decree:*** - Increase of contribution rate to 19.2%.	→ *"Commitment-Sustaining": Revenue-Increase*

1996	***Act Reforming the Sixth Book of the Social Insurance Code and other Laws [Gesetz zur Änderung des Sechsten Buches Sozialgesetzbuch und anderer Gesetze]:*** - Restriction of the possibilities of exemptions from statutory insurance duty because of membership in the insurance scheme of a professional organisation: necessary is existence of obligatory membership in occupational insurance scheme before January 1995.	Making hitherto exempt employed liable to mandatory insurance → *"Commitment-Sustaining": Revenue-Increase*
1996	***Second Social Insurance Code VI Amendment Act [2. SGB VI-ÄndG]:*** - Restrictions of eligibility for disability pensions: persons with limited abilities which are still able to work full-time are not eligible for BU or EU pensions. - Change of the pension indexation in the new Länder: from 1 July 1996, the indexation follows as in the old Länder the development of the net wages of employees in the New Länder in the previous year. An adaptation of the pensions only takes place once a year on the 1st of July.	Restriction of eligibility criteria → *"Commitment-Breaking": Minor change* Changing of indexation → *"Commitment-Breaking"*
1996	***Smooth Transition into Retirement Promotion Act [Gesetz zur Förderung eines gleitenden Übergangs in den Ruhestand]:*** - Eligibility conditions for the former old-age pension because of unemployment are also fulfilled through the employment in partial retirement for at least 24 months after the age of 55. - The age limit of 60 years for the old age pension because of unemployment or after partial retirement is raised for insured born after 1936 in monthly steps to 63 years. For insured born after 1949, the age limit is raised to 65 years. Early retirement because of unemployment or after partial retirement is still possible (up to 3 years for reaching the regular age limit, but not before the age of 60), but it is connected with permanent pension reductions (0.3% per month, up to 10.8%).	Pension after partial employment shifts older unemployed into pension insurance → *"Commitment-Sustaining": Shifting* Increase of age limit and benefit reductions in case of early retirement → *"Commitment-Sustaining": Tightening of Reciprocity*
1997	***Growth and Employment Promotion Act [Wachstums- und Beschäftigungsförderungsgesetz (WFG)]:*** - The general insurance exemption for students with more than short-time employment is abolished (from October 1996). Assessment times because of education are now only credited up to three (formerly: seven) years. - The level of transition benefits is reduced (medical rehabilitation: from 90%/75% to 75%/68% [with or without children]; professional rehabilitation: from 80%/70% to 75%/68%; unemployment following professional rehabilitation: from 68%/63% to 67%/60%). - The age limit for the old-age pension because of unemployment or after partial retirement is increased from 63 to	Inclusion of employed students in mandatory insurance → *"Commitment-Sustaining": Revenue Increase* Reduction of education time crediting → *"Commitment-Sustaining": Tightening of Eligibility* Benefit-Reductions

	65 years in monthly steps from December 2001. Early retirement with 60 remains possible, but with permanent reductions of 0.3% for every month (up to maximum of 18%). - Also the age limit for the old-age pension for women is increased from 60 to 65 years in monthly steps from December 2004, with the same regulations for early retirement. Regulations for the protection of confidence: only to women born before the 7 May 1941 which were unemployed or give notice before the 7 May 1996. No protection of confidence for women still in employment. - The age limit for the old-age pension for insured with long contribution records is increased from 63 to 65 years in monthly steps from December 2001. Early retirement with 63 is possible, the same regulations of reductions apply (up to 7.2%). - In the calculation of the contribution rate for the pension insurance now also illiquid assets of the fluctuation reserve are taken into account for the reaching of the minimum reserve (one monthly expenditure at the end of the year).	→ *"Commitment-Breaking"* Increase of retirement ages and benefit reductions for early retirement → *"Commitment-Sustaining": Tightening of Reciprocity* Change of calculation of fluctuation reserve → *"Commitment-Restraining"*
1997	***Pension Reform Act 1999 [Rentenreformgesetz 1999]:*** - Introduction of the 'demographic factor' in the pension formula: in accounting for the increase in the life expectancy, it is intended to produce a gradual decline of the pension level from 70% of average net earnings in 1997 to 64% in 2030. - Increase of the federal subsidy, financed by an increase of the VAT by one percentage point in April 1998 - Extension of the value of credits for child rearing (from 75% to 100% of average wage) and introduction of the possibility to add credits to other entitlements from this period - Eligibility criteria for disability pensions were tightened: the age-limit is increased from 60 to 63 years in monthly steps. Furthermore, persons with limited employment capacity (under 50%) are not eligible anymore for this pension. - The old-age pension for insured with long contribution records can now be taken up with 62 (formerly: 63) years, but with increased reductions (up to 10.8% instead of 7.2%). Early retirement is still possible with 60 years, but with the usual reductions (up to 10.8%). - From 2012 onwards, the old-age pensions because of unemployment or after partial retirement, or for women, are abolished (for everyone born after 1952). Unemployed and women then can only receive a pension before the age 65 as insured with long contribution records or as heavily disabled. - The former pensions because of occupational disability or limited employment capacity (BU and EU pensions) are abolished for pensions from 2000; instead, insured might receive a pension (as temporary pension up to 3 years) because of partial or full reduced employment capacity.	Introduction of 'demographic factor': → *"Commitment-Breaking"* *[reversed in 1998]* Increase of federal subsidy → *"Commitment-Sustaining": Increase of Revenues* Increased pension-reductions for early retirement → *"Commitment-Sustaining": Tightening of Reciprocity* Abolition of early retirement options → *"Commitment-Sustaining": Tightening of Eligibility* Reform of disability pensions (tightened eligibility, shorter duration) → *"Commitment-Breaking"* *[Reversed in 1998]*
1997	***Contribution Rate Decree [Beitragssatzverordnung 1997 (BSV 1997)]:***	→ *"Commitment-Sustaining": Increase of Revenues*

	- Increase of pension contribution rate to 20.3%.	
1998	***Financing Act for the Additional Federal Subsidy to the Statutory Pension Insurance [Gesetz zur Finanzierung eines zusätzlichen Bundeszuschusses zur gesetzlichen Rentenversicherung]:*** - Additional federal subsidy as lump-sum compensation for non-contributory benefits (April- December 1998: DM9.6 bn; 1999: DM15.6 bn) to the pension insurance carriers; for the calendar year from 2000 the additional federal subsidy changes according to the development of the VAT rate.	→ *"Commitment-Sustaining": Increase of Revenues*
1998	***Act for the Amendment of Social Insurance and the Protection of Employee Rights [Gesetz zu Korrekturen in der Sozialversicherung und zur Sicherung der Arbeitnehmerrechte]:*** - Reduction of the pension contribution rate from 20.3% to 19.5% (from 1 April 1999) - Abolition of the ‚demographic factor' introduced with the RRG 99. - Reform of the disability pensions suspended. - The contributions for child rearing times are covered by the federal state from June 1999 onwards (lump-sum contribution). - The federal state continues to compensate the pension insurance for additional benefits connected with pensions in the new Länder as well as provisions related to the professional rehabilitation law – but from now on, without influence on the calculation of the additional federal subsidy.	→ *"Commitment-Sustaining": Increase of Revenues*
1998	***Contribution Rate Decree:*** - Contribution Rate for 1998 set at 20.3%.	→ *"Commitment-Sustaining": Increase of Revenues*
1999	***Budget Recapitalisation Act [Haushaltssanierungsgesetz]:*** - From January 2000, the pension contribution rate is set at 19.3% (formerly: 19.5%). - Increase of the additional federal subsidy is increased by the federal state revenues from the introduction of the Eco-Tax (minus an amount of €1.3 bn in 2000 as well as €0.9 bn from 2001). - The indexation of pensions in 2000 and 2001 does not follow the development of net wages, but only the changes of prices (inflation).	Replacement of contribution with tax revenues → *"Commitment-Restraining"* Change from wage to price indexation → *"Commitment-Breaking"*
2000	***Diminished Earning Capacity Pensions Reform Act [Gesetz zur Reform der Renten wegen***	Tightening of disability insurance eligibility criteria and generosity; increase of age limit

	verminderter Erwerbsfähigkeit]: - A two-tiered diminished earning capacity pension replaces the BU-/EU-pensions (half pension for insured with a remaining earning capacity between 3 and 6 hours, a full one if less than that; no eligibility if remaining capacity 6 hours or more). - Protection of confidence: if a person has been eligible to one of the abolished pensions before the 31.12.2000, this eligibility remains valid until the age of 65; risk of occupational disability (BU) remains for insured born before the 2 January 1960, but reduction of level to 0.5 times full pension (formerly: 0.6667). - Restriction of duration for widow pensions or diminished employment capacity pensions (3 years) - Early receipt of diminished earning capacity pensions leads to pension reductions (10.8%) - Age limit for old-age pension for severely disabled increases from 60 to 63 years in monthly steps - Due to the maintenance of labour-market related diminished earning capacity pensions a financial equalisation process between Federal Employment Office and Pension Insurance is introduced: the BA compensates the RV half of the expenses for these pensions for the average time period during which the person would have been eligible for unemployment benefits. - In contrast to the amount fixed in the HsanG, the increase of the additional federal subsidy is reduced for the years 2001 until 2003. - The indexation of the increased amount is changed to the development of gross wages from 2004, and is therefore detached from the eco-tax revenues.	→ *"Commitment-Breaking"* Restriction of pension durations for widow and diminished employment pensions → *"Commitment-Breaking"* Benefit reductions for early retirement → *"Commitment-Sustaining": Tightening of Reciprocity* Introduction of Financial Equalisation Process: BA pays compensation to pension insurance → *"Commitment-Sustaining": Increase and Shifting of Revenues* Changes in subsidy calculation: 'depoliticising' expenditure policies → *"Commitment-Restraining"*
2000	***Contribution Rate Decree:*** - Reduction of pension contribution rate from 19.3% to 19.1%. - Lump-sum compensation for child-rearing contribution times by the federal state amount to €11.2 bn in 2001.	Reduction of contribution-financed redistributive provisions → *"Commitment-Sustaining"*
2001	***Old Age Assets Supplementation Act [Altersvermögensergänzungsgesetz (AvmEG)]:*** - Pension Indexation from 2001: follows the development of the gross wage bill per average employee in the previous year to the then previous year, multiplied with a factor for the development of the pension contribution rate (RVB) and the retirement provision share (AVA). - New calculation of net pension level: proportion of an average pension and (this is new) the under consideration of the AVA calculated annual average net wage. - Reduction of pensions for surviving dependants: for marriages after the 31. December 2001, the provision rate sinks from 60% to 55%; furthermore, now all sources of income are taken into account for the calculation of eligibility: the reaching of an income limit results in reductions of the pension or even non-eligibility. - The duration of the 'small widowers pension' is limited to two years (protection of confidence for current	New pension indexation formula → *"Commitment-Breaking"* Reduction of dependants pensions and new eligibility criteria → *"Commitment-Breaking"*

	beneficiaries or older insured). - Appreciation of child-rearing or care times for insured with at least 25 contribution times. - Debiting of times of sickness, pregnancy/motherhood or unemployment for young insured between 17 and 25 years, even if this does not interrupt employment with mandatory insurance.	Reduction of duration of widowers pension (protection of confidence) → *"Commitment-Avoiding"*
2001	***Old Age Assets Act [Altersvermögensgesetz]:*** - Introduction of a private pension pillar, the so-called 'Riester-Rente'. - All persons insured in the statutory pension insurance can receive state-funded subsidies.	Introduction of third pillar → *"Commitment-Avoiding"*
2001	***Act Regulating the Fluctuation Reserve in the Statutory Pension Insurance [Gesetz zur Bestimmung der Schwankungsreserve in der Rentenversicherung; from 01.01.2002]:*** - Reduction of the minimum reserve requirement from 1.0 monthly expenditures to 0.8. Also reduction of the maximum from 1.5 to 1.2.	→ *"Commitment-Restraining"*
2002	***Contribution Rate Maintenance Act [Beitragssicherungsgesetz; zum 01.01.2003]:*** - Increase of the pension contribution rate from 19.1% to 19.5%. - Further reduction of the fluctuation reserve from 70 to 50% of a monthly expenditure, in order to avoid a further increase of contributions. - Lump-sum payment for the compensation of child-rearing contribution times from the federal state of €11.8 bn.	→ *"Commitment-Restraining"* → *" Commitment-Sustaining": Increase of revenues*
2003	***Second and Third Social Security Code VI Amendment Acts [Zweites und Drittes Gesetz zur Änderung des SGB VI]:*** - Suspension of pension adaptation in July 2004. - Pensioners have to pay the contributions for the long-term care insurance themselves; abolition of payment of half the contributions by the pension insurance carriers. - The contribution rate for the health insurance of the pensioners changes three months after the change of contribution rates by the health insurers (from April 2004). - For new pensions, the date of payment is delayed from the beginning to the end of the month. - Further reduction of the fluctuation reserve from 50 to 20% of a monthly expenditure.	Suspension of adaptation → *"Commitment-Breaking"* Change in care contribution payments → *"Commitment-Breaking"* Delay of pension payments → *"Commitment-Breaking"* Reduction of reserve requirements → *"Commitment-Restraining"*

2004	***Budget Supplement Act [Haushaltsbegleitgesetz]:*** - Reduction of the general federal subsidy to the workers and employees pension insurance by €2 bn.	Reduction of earmarked revenues → *"Commitment-Breaking"*
2004	***Pension Insurance Sustainability Act [Rentenversicherungs-Nachhaltigkeitsgesetz]:*** - Supplementation of the pension indexation formula by a ‚sustainability factor', which reduces pension adaptation in case the pensioner-contributor ratio deteriorates. - In the future, the dynamic of pension adjustments furthermore follows the gross wage bill liable to social security contributions – i.e., in contrast to before the average wage bill of employees without civil servants and inclusive of unemployment benefit recipients. - The crediting of school education times is limited to vocational schools or professional educational measures, and is overall limited to three years (this is also the case for the appreciation for the first 36 months with mandatory contribution times). - The age limit for the earliest possible start of the old-age pension because of unemployment or after partial retirement is gradually increased from 60 to 63 years (with protection of confidence). - The former ‚pension level protection clause' for the standard net pension level (67%) is abolished; as minimum protection goal a net pension level of 46% (until 2020) and 43% (until 2030) is defined. - The former 'fluctuation reserve' is renamed 'sustainability reserve'; the upper limit is increased from 0.7 to 1.5 monthly expenditures, the lower limit of 0.2 is maintained.	Change of benefit formula → *"Commitment-Breaking"* New adjustment formula → *"Commitment-Breaking"* Limiting of educational credits → *"Commitment-Sustaining": Tightening of Eligibility* Increase of unemployment or partial retirement age limit → *"Commitment-Avoiding"* Abolition of pension level protection clause → *"Commitment-Breaking"*
2004	***Old Age Income Law [Alterseinkünftegesetz; from January 2005]:*** - Exemption of pension contributions from taxation. - In turn, pensions will be fully taxed from 2040.	
2005	***Statutory Pension Insurance Organisation Reform Act [Gesetz zur Organisationsreform der gesetzlichen Rentenversicherung (RVOrgG)]:*** - The BfA and the VDR merge to ‚German Pension Insurance Federation' (DRV Bund). - Reduction of federal carriers from four to two, as also Miners Insurance, Rail Insurance and Sea Insurance merge.	→ *"Commitment-Controlling"*

Health Insurance

Year	Reform	Effect
1989/ 1990	***Healthcare Reform Act [Gesundheitsreformgesetz (GRG)]:*** - Introduction of fixed amounts for pharmaceuticals: for those drugs, the co-payment is abolished; for those not included, the co-payment is increased from DM2 to 3; for drugs that compete with fixed amount drugs, the patient has to pay the difference; for remedies, the co-payment increases from DM4 to 10% of the costs; for glasses frames, the health insurance only pays an allowance of DM20. - Introduction of reimbursement of costs instead of principle of allowances in-kind for dental prostheses and orthodontics: the health insurance reimburses 50% of the costs of the treatment. - The co-payment for hospital stays is increased from DM5 to 10 per day (max. 14 days). - Introduction of ‚hardship clause': insured with a household income up to 40% of a monthly reference are exempt from co-payments. - Reduction of death benefit; for persons insured after January 1989, death benefit is abolished completely.	Increase of co-payments → *"Commitment-Breaking"* 50% reimbursement of costs for dental treatment → *"Commitment-Breaking"* Abolition/Reduction of death benefit → *"Commitment-Breaking"*
1989/ 1990	***1992 Pension Reform [Gesetz zur Reform der gesetzlichen Rentenversicherung, RRG 1992]:*** - The health insurance contribution for beneficiaries of replacement benefits of the Federal Employment Agency is calculated on the basis of 80% (formerly: 100%) of the last gross wage.	Reduction of revenues for health insurance carriers → *"Commitment-Breaking"*
1993	***Healthcare Structure Act [Gesundheitsstrukturgesetz (GSG)]:*** - Co-payments for all pharmaceuticals (also fixed amount drugs). - The co-payments for hospital stays (formerly DM10 per day) is changed: for the old Länder to DM11 (1993) and DM12 (from 1994), and for the new Länder to DM8 (1993) and DM9 (from 1994). - Exclusion of orthodontic treatment for adults from the catalogue of benefits covered. - Predefinition of a pharmaceuticals- and remedies-budget for an unlimited period and linking of its adjustment to the base rate of pay. - Foundation of an Institute for Pharmaceuticals, whose task is mainly the drafting of a ‚positive list' of prescribable drugs. - Budgeting of the health insurance expenditure for travel expenses and stationary cures (1993 until 1995). - Abolition of the principle of original cost coverage (Selbstkostendeckungsprinzip) in hospital financing and introduction of performance-oriented allowances (case-based lump sums, extra fees) from 1995. For 1993 until 1995 fixed hospital budgets are introduced; the development of expenditure is linked to the base rate of pay - Lowering of the payments for dental and orthodontic services by 10% in 1993 and introduction of a degressive point value for all dental services in case of exceeding a certain amount of points. Total pay for panel dentists	Increase of co-payments → *"Commitment-Breaking"* Exclusion of certain treatments → *"Commitment-Breaking"* Pre-defined budgets → *"Commitment-Restraining"* Competition between health insurance carriers → *"Commitment-Controlling"* Pensioners formerly voluntary insured are now excluded from mandatory insurance → *"Commitment-Sustaining": Increase of Revenues*

	linked to base rate of pay for the years 1993 until 1995. Restriction of admissions of panel dentists from 1999. - Introduction of a national (separated for old and new Länder) and for all types of insurance funds comprehensive revenue-oriented risk equalisation process (*Risikostrukturausgleich, RSA*) from 1994/95. Relevant factors for the equalisation are the base rate of pay, the quota of co-insured, the age- and the gender structure. - Equal right of choice of insurer for workers and employees from 1996/97 (exceptions only remain for special systems). - Voluntarily insured are not longer compulsory insured in the health insurance for pensioners when taking up their old-age pension from 1993 onwards. All income of these persons (with exception of the pension) is therefore subject to the full contribution rate of the GKV.	
1995	***3. Social Security Code V Reform Act [3. SGB V-ÄndG]:*** - Delay of the new regulation scheduled in the GSG that the health insurance contributions for pensioners will have to be paid from January 1995 according to the individual contribution rate of the health insurance of each pensioners (and not as formerly according to the GKV-average) until July 1997.	
1995	***4. Social Security Code V Reform Act [4. SGB V-ÄndG]:*** - The budgeting of the Healthcare Structure Act (GSG) for the contractual ambulatory sector is broken up: the overall salary for ambulatory case is increased beyond the legal limit.	Partial abolition of budget regulations → *"Commitment-Sustaining": Increase of Revenues*
1996	***5. Social Security Code V Reform Act [5. SGB V-ÄndG]:*** - The regulations of the GSG to compile a list of recommendations for a 'positive list' of prescribable drugs as well as to establish an Institution for Pharmaceuticals are abolished.	→ *"Commitment-Sustaining"*
1996	***Hospital Expenditure Stabilisation Act [Gesetz zur Stabilisierung der Krankenhausausgaben]:*** - Expenditure growth for hospitals in 1996 is limited to the linear increase of salaries according to the wage agreement for federal employees BAT, i.e. 0.855% in West, and 1.106% in East.	Changes to budget adaptation; 'depoliticizing' expenditure policies → *"Commitment-Restraining"*
1997	***Contribution Relief Act [Beitragsentlastungsgesetz (BeitrEntlG)]:*** - *Temporary abolition of contribution autonomy:* Contribution increases in 1996 are only permitted if authorised before the 10 May 1996 (exceptions: increases which are a sole consequence of the risk structure equalisation	Temporary abolition of contribution autonomy → *"Commitment-Restraining"*

	process). At 1 January 1997, the contribution rates of the GKV are mandatory reduced by 0.4%. - Insured born after 1978 are not eligible for dental prostheses allowances in the future (allowances before: 50% or 60%). - The co-payments for drugs increase from DM3, 5 and 7 to DM4, 6 and 8. The formerly granted allowance for glasses frames is abolished. Sickness pay is with immediate effect reduced from 80% to 70% of the former net wage and to a maximum of 90% (formerly: 100%) of the net wage.	Exclusion of benefits → *"Commitment-Breaking"* Increase of Co-Payments: → *"Commitment-Breaking"*
1997	***1. Healthcare Reorganisation Act [Erstes GKV-Neuordnungsgesetz (1. NOG)]:*** - If an insurance fund increases its contribution rate, insured have an early right of cancellation. - If an insurance fund increases/reduces its contribution rate, this increases/reduces also the co-payments as well as the private share for dental prostheses for the insured of this fund (per 0.1 contribution points change of DM1 or 1% point). This is not the case if contribution increases are necessary due to changes in the obligations or the risk structure equalisation process.	Incentives for cost-efficient behaviour → *"Commitment-Controlling"*
1997	***2. Healthcare Reorganisation Act [Zweites GKV-Neuordnungsgesetz (2. NOG)]:*** - Further increase of co-payments for drugs (from formerly DM4, 6 or 8 to DM9, 11 and 13). The co-payments for remedies increase from 10% to 15% of costs. The co-payment for hospital stays increases from DM12 to DM17 (new Länder: from DM9 to DM14). - All fixed co-payment amounts are for the first time adjusted every two years according to the development of the reference parameter. - The statues of the insurance funds can increase existing co-payments or introduce new ones for areas of additional provisions. - Allowances for dental prostheses (for insured born before 1979) are reduced from 50%/60% to 45%/55%. - The regional budgets for pharmaceuticals and remedies are abolished from 1998 and replaced by benchmarks for each group of doctors. The benchmarks as well as possible sanctions are to be defined by the contractual partners. For performed services the doctors should be ensured fixed payments instead of the former collective pay budgeting (*Gesamtvergütungs-Budgetierung*), in case that the total volume of claimed services by them does not exceed a certain limit (*Regelleistungsvolumen*); in case the limit is exceeded: reduced point value, but insurance funds have to prove that the health professional has acted inefficiently.	Increase of Co-Payments and Reduction of Benefits → *"Commitment-Breaking"* *[Reversed in 1998]* Abolition of budgets and replacement with benchmarks, bargained by the contractors → *"Commitment-Restraining": automatisation of expenditure limits*
1998	***GKV Finances Strenghtening Act [GKV-Finanzstärkungsgesetz (GKVFG)]:*** - The insurance funds become the legal possibility to avoid contribution rate increases until the end of 1998 in the	Possibilities of financing via credit → *"Commitment-Sustaining": Increase of Revenues*

	new Länder by taking up loans (authorised by the supervisory authority). - Regarding the formerly for the old and new Länder separate risk structure equalisation process is a temporary (until the end of 2001) legal adjustment introduced, which aims at the equalisation of financial power (base rate of pay). The resulting equalisation payments in favour of the contribution payers in the new Länder are in 1999 limited to DM1.2 bn. - The mid-1997 introduced automaticity between contribution increase and co-payment increase (1. NOG) does not affect contribution increases coming into effect before the 31.12.1998.	Equalisation of base rate of pay nationwide: transfer to East Germany → *"Commitment-Sustaining": Revenue-Shifting*
1999	***Strengthening of Solidarity in the Statutory Health Insurance Act [GKV Solidaritätsstärkungsgesetz (GKV-SolG)]:*** - The co-payment share of 20% (for the second and further children 10%) payable to the contracted dentist is refunded by the insurance funds. - All insured, also the ones born after 1978, are again eligible for the medically necessary provision with dental prostheses; the provision is again (against the regulations of the 2. NOG) carried out as allowance in kind - The fixed co-payment concept of the 2. NOG is abolished; insured have generally – as until mid-1997, to finance 50% of the costs of dental treatments themselves. - Reduction of co-payments for drugs from DM 9, 11 and 13 to DM8, 9 and 10. - Also eliminated: co-payments for psychotherapeutic treatments and for chronically ill after one year. - Abolition of the possibilities for the insurance funds (granted by the 2. NOG) to vary co-payments and to introduce additional provisions; also abolition of the dynamisation of the co-payment amounts every two years, as well as of the coupling of the amount of co-payments and the development of the contribution rate. - The possibility for compulsory insured (introduced by the 2. NOG) to choose cost compensation instead of allowances in-kind is abolished again and limited (as with the GSG 1993) to voluntarily insured. - The formerly only temporarily introduced abolition of the separation between old and new Länder in the risk structure equalisation process becomes open-ended. Expenditure limiting regulations for 1999: - The increase of the overall payments for doctors is not to exceed the increase of contribution-based revenues in 1998. - Two budgets are available for the provision of dental services: the budget for dental prostheses and orthodontic care is reduced by 5% compared to 1997; the budget for chirurgical dental treatments is fixed to the overall pay volume of 1997. - The hospital budgets are limited to the growth of contribution-based revenues. - The pharmaceutical and remedy budgets amount to the budgets of 1996, increased by 7.5%.	Reversal of many former commitment-breaking reforms → *"Commitment-Sustaining"* Limitation of budgets → *"Commitment-Restraining"* Fixation of annual adjustments of budgets → *"Commitment-Restraining"*

2000	***Budget Recapitalisation Act [Haushaltssanierungsgesetz (HSanG)]:*** - Between July 2000 and June 2002, the increase of the sickness pay after each year is not following the development of net wages, but the development of prices.	Change of sickness pay adjustment → *"Commitment-Breaking"*
2000	***GKV Healthcare Reform 2000 [GKVGesundheitsreform 2000]:*** - As in the past, the expenditure of the GKV may only increase by the annual rate of pay increases in the future. Nevertheless, departures can be made from this limit if medically necessary treatment is at risk. - Hospitals and Health Insurance Funds are to introduce a comprehensive, performance-based and flat-rate price system for hospitals by 1 January 2003; more intensive efficiency controls in hospitals in order to check compliance with budget regulations. - Flat-rate allowances for financing of hospital maintenance expenditures now for indefinite time period - The ministry of health is empowered to release a 'positive list' of medication allowed to be prescribed (through decree with consent of the Bundesrat). - Persons, who after the age of 55 become compulsory insured, are exempt from insurance, if they were not insured in the statutory health insurance during the last 5 years (this is also the case for spouses of civil servants, self-employed or insurance-except employees if they after the age of 55 become subject to compulsory insurance). Also spouses, who were formerly privately insured, do not become access to the family co-insurance during times of pregnancy or child rearing. - The insurance funds can decide in their statues under which conditions insured can receive bonuses in case they agree to join a GP-model. - The in 1996 abolished commitment of pharmacies to make use of cheaper, imported drugs again becomes legal duty. - Insurance funds become power to agree contracts with individual or groups of ambulatory service providers and hospitals which offer such integrated treatment.	Limitation of budget increases → *"Commitment-Restraining"* Flat-rate price system for hospitals → *"Commitment-Controlling"* Exemption of insured without sufficient contribution times strengthens contribution-principle → *"Commitment-Sustaining": Tightening of Eligibility* Introduction of GP-Model, Bonus-System and Integrated Treatment Models: Promotion of Cost-Efficiency → *"Commitment-Controlling"*
2000	***Legal Approximation in the Statutory Health Insurance Act [Gesetz zur Rechtsangleichung in der gesetzlichen Krankenversicherung]:*** - Introduction of the national, complete risk structure equalisation process in 2000. - Basis for the calculation of the transfers: standardised expenditure for provisions on the one, and contribution-based revenues of the health insurances on the other side; has the effect that the GKV East and GKV West have available the same base rate of pay for the financing of their individual, risk-weighted expenditure.	Increase of the volume of transfers from West to East; Raising of contribution ceiling → *"Commitment-Sustaining": Increase of Revenues*

	- From 2001 onwards, the social security ceiling as well as the contribution assessment ceiling in the new Länder is raised to the level of the old Länder; from this point also the co-payments are raised to the same level.	
2001	***Old Age Assets Supplementation Act [Altersvermögensergänzungsgesetz (AvmEG)]:*** - The annual adjustment of sickness pay is linked to the last pension adjustment rate (formerly: inflation adjustment).	→ *"Commitment-Breaking"*
2001	***Fixed Amounts Adjustment Act [Festbetrags-Anpassungsgesetz (FBAG)]:*** - The Ministry of Health is empowered (until the end of 2003) to enact via decree (with approval of the Ministry of Economics and Technology, and without approval of the Bundesrat) o a one-time general adjustment of the fixed amounts for pharmaceuticals o new definitions of groups of pharmaceuticals and regulations of their fixed amounts, in case this is factually justified.	Reduction of budgetary autonomy → *"Commitment-Restraining"*
2001	***Pharmaceutical Budget Reform Act [Arzneimittelbudget-Ablösungsgesetz (ABAG)]:*** - Abolition of the former regulations regarding the pharmaceutical budget and the legally regulated presetting for the lowering of the overall pay for the ambulatory sector in case of an excession of the budget limit. - Instead of the former budget, now the self-administration is supposed to reach annual pharmaceutical agreements on a regional level; the agreement should connect an annual expenditure volume with an agreement about targets of provision and efficiency, connected with appropriate implementation measures and controlling. The self-administration on the national level is providing a framework of targets. - The expenditure volume of the pharmaceutical agreement can also during the year be amended by the self-administration, or – in case of non-agreement – be increased by the Ministry of Health via decree (with approval of the Bundesrat). - There are no legal guidelines regarding sanctions for the exceedance of the expenditure volume; possibility of bonus regulations if compliance with budget targets.	Self-Administration regains budgetary independence; agreement of targets, state intervention in case of failure; 'depoliticizing' expenditure policies → *"Commitment-Restraining"*
2001	***Health Insurance Suffrage Reform Act [Gesetz zur Neuregelung der Krankenkassenwahlrechte]:*** - Period of commitment to one health insurance provider is extended.	Competition-element is reduced again → *"Commitment-Sustaining"*

2002	***Risk Structure Equalisation Process Reform Act (Gesetz zur Reform des Risikostrukturausgleichs in der GKV):*** - For a transition period from 2002 until maximum the end of 2006, the equalisation factors of the existing risk structure equalisation process (RSA) between the insurance funds are expanded: independent risk group for insured with chronicle illnesses. - Risk pool for expenditures for insured who receive treatment far beyond the average costs. - From 2007 onwards, the contribution-demands of insurance funds within the RSA are determined on the basis of direct morbidity characteristics of the insured.	Increase of financial interdependencies → *"Commitment-Sustaining"*
2002	***Pharmaceutical Expenditure Limitation Act (Arzneimittelausgaben-Begrenzungsgesetz , AABG):*** - In the future, pharmacies are obliged to choose a low-price drug (with the same effect and same ingredients) if available (but doctors can actively rule out this option). - The discount on prices for drugs which has to be passed on from the pharmacies to the insurance funds (in 2002 and 2003) is increased from 5% to 6%. - Instead of the initially planed 4% price reduction as well as the price moratorium for non-fixed-price drugs (planed savings of €480 m), the Associations of the Researching Pharmaceutical Companies (VfA) commit themselves to provide €200 m for the consolidation of the GKV finances.	→ *"Commitment-Sustaining": Increase of Revenues*
2002	***Contribution Rate Maintenance Act (Beitragssatzsicherungsgesetz):*** - Increase of social security ceiling. - Reduction of death benefit for persons insured in January 1989. - Increased pharmacy discount now beyond 2003; above certain price limit, higher discounts apply - Instead of an adaptation of the pay sums according to the development of the base rate of pay in the central provision sectors (doctors, dentists, hospitals), there is a zero-round in 2003; reduction of compensated maximum prices for dentistry services by 5%, and also here zero-round in wage bargains. - From the 7 November 2002 until 2003, contribution rate increases are only allowed in legally defined exceptional cases (in order to counter-balance the increase of pension contribution rates to 19.5%).	Increase of contribution ceiling; higher pharmaceutical discounts → *"Commitment-Sustaining": Increase of Revenues* Freezing of health professional wages; Temporary Abolition of Contribution Autonomy → *"Commitment-Restraining"*
2002	***10. Social Security Code V Reform Act (10. SGB V-Änderungsgesetz):*** - Pension recipients, which do not fulfil the necessary pre-insurance times for the health insurance for pensioners and which were voluntarily insured (Healthcare Structure Act 1993), become again mandatory insured (due to decisions of the constitutional court) – i.e., contribution payments on additional income are omitted .	Restriction of compulsory insurance → *"Commitment-Sustaining": Increase of Revenues and Tightening of Eligibility*

	- For recipients of a pension up to €335 monthly, who have formerly been co-insured without paying contributions, the introduction of the general mandatory insurance means that they also become mandatory insured from April 2002.	
2003	***Case-Based Lump Sum Act (Fallpauschalengesetz – FPG):*** - Specification of the performance-oriented price system for hospitals introduced with the GKV Healthcare Reform 2000. The new price system is based on the Diagnosis Related Groups (DRGs), and is introduced for all hospitals that are subject to the DRG price system in 2003. In January 2004, this price system is introduced mandatory for all hospitals.	→ *"Commitment-Controlling"*
2004	***Statutory Health Insurance Modernisation Act (GKV-Modernisierungsgesetz, GMG):*** - Increase of co-payments: generally 10% of costs for all provisions (min. €5, max. €10); €10 practice fee for ambulatory treatment. - Debt limit: 2% of annual gross income for living expenses. - Elimination of certain provisions from the benefit catalogue (death benefits, dental prostheses, travel costs, etc.). - From 2006 onwards, insured have to pay an additional exceptional contribution of 0.5% of their gross wage subject to contributions. For occupational pensions and income from self-employed labour, pensioners pay now the full (formerly: half) contribution rate. - as a lump-sum compensation for provisions by the insurance funds for insurance-external benefits the federal government pays €1 bn in 2004, €2.5 bn in 2005 and €4.2 bn in 2006; financed by increase of tobacco tax - All insured (formerly: only voluntary insured) can choose cost compensation instead of in-kind provision; insurance funds can now also offer cost-sharing in return for contribution reductions. - The regulations regarding a positive-list are abolished. - The number of Physician-Associations is reduced from 23 to approx. 18 through mergers. - Administrative costs of the insurance funds are linked to the development of the base rate of pay until 2007 or are frozen, in case they are 10% above the average of all insurance funds.	Act is intended to disencumber the health insurance by €10 bn. Increase of co-payments; elimination of certain provisions → *"Commitment-Breaking"* Introduction of additional contribution; increase of pensioner contribution rate → *"Commitment-Sustaining": Increase of Revenues* Tax-compensation for insurance-external benefits → *"Commitment-Sustaining": Increase of Revenues* Automatisation of administrative cost developments → *"Commitment-Restraining"*
2005	***Financing of Dental Prostheses Reform Act (Gesetz zur Anpassung der Finanzierung von Zahnersatz):*** - Cancellation of the regulations in the GMG regarding dental prostheses: the provision remains part of the benefit	Shift of financial burden to employees Reduction of budgetary independence by the social partners → *"Commitment-Restraining"*

	catalogue of the GKV; also the former regulations regarding hardship cases is maintained. - The exceptional contribution of 0.5% is brought forward to the 1 July 2005 and is increased to 0.9%. Parallel to the charging of this exceptional contribution, the other contribution rates are reduced by law, without a decision by the self-administration or the approval of a supervisory authority being necessary.	

Unemployment Insurance

Year	Reform	Effect
1991	***Statutory Pension Insurance and Federal Employment Office Contribution Rate Reform Act [Gesetz zur Änderung der Beitragssätze in der gesetzlichen Rentenversicherung und bei der Bundesanstalt für Arbeit]:*** - Increase of the unemployment contribution rate from 4.3% to 6.8% in April 1991. - Reduction of the contribution rate from 6.8% to 6.3% from January 1992.	Strong increase of contribution rate → *"Commitment-Sustaining": Revenue Increase*
1991	***Employment Promotion Law and Other Social Regulations Reform Act (Gesetz zur Änderung arbeitsförderungsrechtlicher und anderer sozialrechtlicher Vorschriften):*** - From July, the age limit for the receipt of the Old-Age Transition Pay (Alüg) is reduced from 57 to 55 years; the duration of eligibility is accordingly extended from 3 to 5 years.	→ *"Commitment-Sustaining": Tightening of Eligibility*
1993	***Conditions in the Employment Promotion Law Reform Act (Gesetz zur Änderung von Fördervoraussetzungen im Arbeitsförderungsgesetz und in anderen Gesetzen):*** - General tightening of the control of employment promotion measures and of eligibility criteria.	→ *"Commitment-Controlling"*
1993	***Compensation for Old-Age Transition Pay Provisions Act (Gesetz über den Ausgleich von Aufwendungen für das Altersübergangsgeld):*** - In order to compensate the Federal Employment Agency for Old-Age Transition Payments in 1993 to insured over 60 years, the BA receives a lump-sum compensation from the pension insurance carriers of DM1.6 bn.	Increase of inter-sectoral insurance transfers from pension to unemployment insurance → *"Commitment-Sustaining": Increase of Revenues*

1993	***Amendment of the Compensation for Old-Age Transition Pay Provisions Act (Änderung des Gesetzes über den Ausgleich von Aufwendungen für das Altersübergangsgeld):*** - In order to compensate for expenditures by the BA in 1994 for payments of the Old-Age Transition Pay (Alüg) it receives a lump sum compensation of DM2 bn from the pension insurance carriers.	→ *"Commitment-Sustaining": Increase of Revenues*
1993	***Budget Law 1993 (Haushaltsgesetz 1993):*** - Increase of the contribution rate for the BA from 6.3% to 6.5%.	→ *"Commitment-Sustaining": Increase of Revenues*
1993	***Implementation of the Federal Consolidation Program Act (Gesetz zur Umsetzung des Föderalen Konsolidierungsprogramms (FKPG) bzw. "Solidarpakt"):*** - Short-time work benefit (*Kurzarbeitergeld, Kug*) is only paid if the beneficiary is available for recruitment, and if the employer agrees to the placement of the employee with another employer. - If Kug is paid longer than 6 months, the BA allowance for the pension insurance contributions of the employer is omitted. - The formerly semi-annual adaptation of the wage replacement benefits of the BA in the new Länder is – as in the old Länder – changed to an annual rhythm. It is also linked now to the actual development of the gross wage sum for average employees, not anymore the predicted development.	→ *"Commitment-Sustaining": Tightening of Eligibility* Change of benefit adaptation → *"Commitment-Breaking"*
1994	***First Act Implementing the Savings-, Consolidation- and Growth-Program (Erstes Gesetz zur Umsetzung des Spar-, Konsolidierungs- und Wachstumsprogramms, 1. SKWPG):*** - The Minister can implement the budget on his own authority if the Council does not accept the budgetary stipulations imposed by the Minister. This situation can arise, only if the BA's budget is in deficit (§216 AFG), i.e. it is unable to finance proposed expenditures through its own resources (unemployment benefit contributions) and any reserves it may have accumulated). - The contribution rate remains at 6.5%; from 1995 onwards, the federal government can decide temporary reductions of the contribution rate via decree. *Cutting of benefits* (the first since 1982/83): - Unemployment insurance benefits for unemployed without children are reduced from 63 to 60% and unemployment assistance benefits from 56 to 53 per cent of previous net earnings; transition benefits in case of professional rehabilitation are cut from 80%/70% to 75%/68%.	Major reduction of budgetary autonomy → *"Commitment-Restraining"* Reduction of benefit levels; change of calculation formula → *"Commitment-Breaking"*

	- The maximum payment of primary unemployment assistance is limited to one year. - The calculation period for the amount of unemployment benefit is extended from 3 to 6 months. - Beneficiaries of Alüg (Old-Age Transition Pay), who are eligible for an old-age pension, have to take up this pension as soon as possible; otherwise their Alüg eligibility is interrupted. - Requirements for unemployment assistance recipients to improve their employability or to carry out community-related work are tightened. - The jobs created within the framework of the Job Creation Measures (ABM) are no longer paid in line with the public sector pay-scale (initially only for the new Länder, but extended nation-wide in 1994)	Mandatory take-up of available pensions → *"Commitment-Sustaining": Shifting of insured into other scheme*
1997	***Employment and Growth Act (Wachstums- und Beschäftigungsförderungsgesetz, WFG):*** - The annual adjustment of the assessment base for the wage replacement benefits of the BA (as Unemployment Benefit, Uhg, Alüg) is abolished in 1997.	→ *"Commitment-Breaking"*
1997	***Employment Promotion Reform Act, Article 11 [Arbeitsförderungs-Reformgesetz (AFRG, Artikel 11)]:*** - Acceptability criteria (introduced in 1982) were redefined. Recipients of unemployment assistance are no longer allowed to decline jobs that do not correspond with their formal qualification and their previous occupation. Recipients were also obliged to accept a much stronger decline in income than it had been the case before. Finally, the 'acceptable' time spent for commuting was raised. - Unemployed were obliged to prove their efforts to find new employment. - Various forms of wage subsidies for employers who hired a (long-term) unemployed introduced. - Dismissal compensations by the enterprise should reduce the level of unemployment benefits and assistance, - A new 'integration treaty' (as a substitute for a labour contract) between employer and employee was created which abolished dismissal rights for long-term unemployed for a period of some months. - The second labour market was to be restricted to long-term unemployed (95% of all measures for this group); reduced subsidies to employment agencies. - The duration of extended eligibility for unemployment benefit due to former contribution duration and age of the unemployed is shortened: eligibility duration over 12 months now only for unemployed aged 45 (formerly: 42), and reaching of maximum duration of 32 months only for unemployed aged 57 (formerly: 54).	Redefinition of acceptability criteria: elimination of equivalence-principle due to occupational protection → *"Commitment-breaking"* Extended benefit duration is shortened → *"Commitment-Sustaining": Tightening of Eligibility*
1998	***Employment Promotion Reform Act, Article 1 [Arbeitsförderungs-Reformgesetz (AFRG, Artikel 1)]:***	Redefinition of eligibility criteria → *"Commitment-Avoiding"* Restriction of eligibility to 'real' contribution

	- No new entitlements to unemployment benefit due to further education measures. - Continuing personal notification of unemployment in order to maintain eligibility. - Unemployment benefit eligibility can only be gained through contribution times (not longer: equated times); the assessment period for the calculation of the amount is extended to 12 months (before: 6 months). - The assessment base for benefits now includes the total salary subject to contributions (i.e., also extra hours). - Income from minor employment or from self-employment is now credited against the unemployment benefit. - Blocking times can now much more easily lead to a loss of eligibility for unemployment benefits.	times →" *Commitment-Sustaining": Tightening of Reciprocity* Expansion of assessment base → *"Commitment-Sustaining": Revenue Increase* Crediting of additional income: reduction of insurance factor → *"Commitment-Breaking"*
1999	***Second Social Security Code III Reform Act [2. SGB III-ÄndG]:*** - Personal notification not longer necessary; acceptable commuting time is reduced again. - 3-year protection of status quo in calculation of unemployment benefit and assistance: in case employees accept a lower-paid job, the former higher wage is used for the calculation of unemployment benefit if this job is lost. - Shorter unemployment period for eligibility for ABM. - In future entitlement to unemployment benefit remains dormant if a settlement is paid and the relevant period of notice is not kept to. The employer is obliged to reimburse the unemployment benefit for older workers under certain conditions.	→ *Commitment-Breaking: minor change [Reversed in 1999!]*
1999	***Redundancy Payment Reform Act [Entlassungsentschädigungs-Änderungsgesetz (EEÄndG)]:*** - The increased crediting of redundancy payments against unemployment benefits is abolished.	→ *Commitment-Sustaining*
1999	***Corrections in the Social Insurance and Maintenance of Employee Rights Act [Gesetz zu Korrekturen in der Sozialversicherung und zur Sicherung der Arbeitnehmerrechte]:*** - The costs of the emergency program against youth unemployment are not covered by the federal government, but from the Federal Unemployment Agency (justification: the financing of the program mainly via funds which were otherwise used for the financing of youth unemployment).	Shifting of financial burden from state to insurance → *"Commitment-Breaking"*
2000	***Budget Recapitalisation Act [Haushaltssanierungsgesetz]:***	→ *"Commitment-Breaking" [Reversed in 2001]*

	- The annual adjustment of the wage replacement benefits does not follow any longer the development of gross wages, but the consumer price index (from July 2000 until June 2002).	
2000	***Third Social Security Code III Reform Act [3. SGB III-ÄndG]:*** - The eligibility for unemployment assistance without former eligibility for unemployment benefit (e.g., due to employment for only 5 months) is abolished.	→ *"Commitment-Sustaining": Tightening of Eligibility*
2001	***Old Age Assets Supplementation Act [Altersvermögensergänzungsgesetz (AvmEG)]:*** - The adjustment of replacement benefits of the BA is linked again to the gross wage development in the former year.	→ *"Commitment-Sustaining"*
2002	***Simplification of the Election of Employee Representatives in the Supervisory Body Act [Gesetz zur Vereinfachung der Wahl der Arbeitnehmervertreter in den Aufsichtsrat]:*** - The Federal Employment Agency gets a board with three directors (recommendation right of the government), which is employed on a contractual basis for 5 years. The tripartite administrative board, which controls the board of directors, is reduced to 21 members and the competences of the self-administration are reduced.	Increase of government-influence in self-administration → *"Commitment-Controlling"*
2003	***First and Second Law for Modern Services in the Labour Market [Erstes und Zweites Gesetz für moderne Dienstleistungen am Arbeitsmarkt ('Hartz')]:*** - Social assistance and unemployment benefits will be for the first time administered together and a new job-seekers allowance is introduced. The communal carriers will be responsible for essential needs like housing, child-care or clothing. The Federal Employment Agency will be responsible for all other benefits, in particular all employment-related benefits, all benefits for living-maintenance (unemployment benefits I and II, additional needs), and the payment of all other social security contributions. - Employees are obliged to immediately report their unemployment, otherwise their benefits are reduced; blocking times are aggravated. - Unemployment benefit as well as other replacement benefits are not longer adjusted to the general wage development ('*Entdynamisierung*'). - Unemployed aged 50 or older, which take up employment but have a remaining eligibility for unemployment benefit, are eligible for further provisions (wage supplement or additional contribution to the pension insurance).	→ *"Commitment-Sustaining": Tightening of Eligibility* Benefit Reductions for Short-Term Insured and Long-Term Unemployed → *"Commitment-Breaking"*

2004	***Labour Market Reform Act [Gesetz zu Reformen am Arbeitsmarkt]:*** - The maximum duration of unemployment benefit is reduced to 12 months (for unemployed aged 55 and older to 18 months).	→ *"Commitment-Breaking"*
2004	***Third Law for Modern Services in the Labour Market [Drittes Gesetz für moderne Dienstleistungen am Arbeitsmarkt ('Hartz')]:*** - The Federal Employment Office is renamed Federal Employment Agency (structured in central office, regional offices and employment agencies). - Unemployment Benefit and Subsistence Allowance are merged: unemployment benefit is paid in case of unemployment as well as in case of professional further education (AlgA/AlgW). - In order to be eligible for unemployment benefit, a general former insurance duration of 12 months is necessary: the special regulations of 6 months (e.g., military service) is abolished. Furthermore, the insurance time of 12 months has to be fulfilled in the time frame of two (before: three) years; the possibility to extend the time frame is abolished.	→ *"Commitment-Sustaining": Tightening of Eligibility*
2005	***Fourth Law for Modern Services in the Labour Market [Viertes Gesetz für moderne Dienstleistungen am Arbeitsmarkt ('Hartz')]:*** - Unemployment assistance and social assistance are merged into a new benefit type, the 'unemployment benefit II' on the generosity level of social assistance. - Carrier of the provisions is the Federal Employment Agency, whose financial expenses are then compensated by the federal government; the BA in turn compensates the government for former unemployment benefit recipients transferred into the Unemployment Benefit II ('rejection fee').	Funds are channeled away from contribution funds into government budget → *"Commitment-Breaking"*

Financing and Budgeting

Year	Reform	Effect
1999	***Short-Time Employment Reform Act [Gesetz zur Neuregelung der geringfügigen Beschäftigungsverhältnisse]:*** - The income limit for short-time employment for all social insurance branches is nationwide fixed at 630DM per month.	Increase of circle of insured → *"Commitment-Sustaining": Increase of Revenues*

	- For employees in permanent short-time employment the employers pays a lump-sum contribution amounting to 12% of the wage to the statutory pension insurance. - Employees in permanent short-time employment have the possibility, to turn down their insurance duty exemption; if doing so, they have to pay the difference between their employers' lump-sum contribution and the currently valid contribution rate of the pension insurance (April 1999: 19.5%); in this case, they gain full pension entitlements. - If employees maintain their exemption, they are eligible to supplements to their pension points due to the lump-sum payments of their employers. - For short-time employees which are co-insured in the statutory health insurance, the employers pays a lump-sum contribution of 10% of wages; this does not create an independent, new health insurance status and does not create additional entitlements to benefits.	
1999	***Self-Employment Promotion Act [Gesetz zur Förderung der Selbständigkeit]:*** - The criteria regarding the pension insurance duty for ‚employee-similar' self-employed are changed: obligatory insured are now all persons, which fulfil the criteria of this category (do not employ an employee liable to social insurance contributions; are permanently and basically only working for one client); the client now is considered as employers, which has to fulfil a duties based on the social security code.	Increase of circle of insured → *"Commitment-Sustaining": Increase of Revenues*
2002	***Constitutional Court Ruling:*** - Until 2005, public pension income has been tax free. After a ruling of the constitutional court in March 2002, this tax exemption is illegal and therefore will be reduced step-wise in a 35 year transformation period from 2005 on.	
2002	***Second Law for Modern Services in the Labour Market [Zweites Gesetz für moderne Dienstleistungen am Arbeitsmarkt]:*** - The income limit for short-time employees is raised from €325 to €300; the working time limit of under 15 hours weekly is no longer applied - Above this limit, the employer contribution for social insurance increases step by step for the complete gross wage between €400 and 800. The starting point is at 4%, and increases up to half the current social insurance contribution rate (21%).	Reduction of the contribution revenue for pension insurance; government burdens insurance with negative fiscal effects of economic measures → *"Commitment-Breaking"*

Sources: Steffen 2005; MISSOC various years; European Industrial Relations Observatory On-Line; various other sources

Appendix III: Development of Social Insurance Contribution Rates

Social Insurance Contribution Rates Germany, 1991-2005

Year	Pension	Health (1) (2)	Unemployment	Long-term Care	Total (1)
1991 until 31.3.	18.7	12.2 (12.8)	4.3	x	**35.2** (35.8)
from 1.4.	17.7	12.2 (12.8)	6.8		**36.7** (37.3)
1992	17.7	12.5 (12.7)	6.3	x	**36.5** (36.7)
1993	17.5	13.4 (12.5)	6.5	x	**37.4** (36.5)
1994	19.2	13.4 (13.0)	6.5	x	**39.1** (38.7)
1995	18.6	13.2 (12.8)	6.5	1.0	**39.3** (38.9)
1996 until 30.6.	19.2	13.4 (13.3)	6.5	1.7	**40.1** (40.0)
From 1.7.	19.2	13.4 (13.3)	6.5	1.7	**40.8** (40.7)
1997	20.3	13.3 (13.7)	6.5	1.7	**41.8** (42.2)
1998	20.3	13.6 (14.0)	6.5	1.7	**42.1** (42.5)
1999 until 31.3.	20.3	13.5 (13.9)	6.5	1.7	**42.0** (42.4)
From 1.4.	19.5	13.5 (13.9)	6.5	1.7	**41.2** (41.6)
2000	19.3	13.5 (13.8)	6.5	1.7	**41.0** (41.3)
2001	19.1	13.5 (13.7)	6.5	1.7	**40.8** (41.0)
2002	19.1	14.0 (14.0)	6.5	1.7	**41.3** (41.3)
2003	19.5	14.4 (14.2)	6.5	1.7	**42.1** (41.9)
2004	19.5	14.3 (14.0)	6.5	1.7	**42.0** (41.7)
2005	19.5	13.4+0.9*	6.5	1.7	**42.0** (42.0)

Source: BMGS, VDR
(1) Old/New Länder
(2) Average contribution rate from 1 January
* For the first time, the principle of equal contribution financing between employers and employees is broken, and the legally enforced reduction of health contribution rates by 0.9 percentage points is counter-financed by an additional contribution financed solely by the insured

Contribution Rates Régime Général (% of Gross Wages), 1970-2004

		1970	1981	1990	1995	2000	2004
Health	Employer (total)	2	4.5	12.6	12.8	12.8	12.8
	Employer (< ceiling)	10.25	8.95	-	-	-	-
	Employee (total)	1	5.5	5.9	6.8	0.75	0.75
	Employee (< ceiling)	2.5	-	-	-	-	-
Pension	Employer (total)	-	-	-	1.6	1.6	1.6
	Employer (< ceiling)	5.75	8.2	8.2	8.2	8.2	8.2
	Employee (< ceiling)	3	4.7	7.6	6.5	6.55	6.55
Family	Employer (total)	-	-	7	5.4	5.4	5.4
	Employer (< ceiling)	10.5	9	-	-	-	-
Long-term Care	Employer (total)	-	-	-	-	-	0.3
Total	**< ceiling**	**35**	**40.85**	**41.3**	**39.7**	**33.7**	**33.7**
Contributions	**total**	**3**	**10**	**25.5**	**25**	**18.95**	**19.25**
CSG		-	-	-	2.4	7.5	7.5
CRDS		-	-	-	-	0.5	0.5
TOTAL	**< ceiling**	**35**	**40.85**	**41.3**	**42.1**	**41.7**	**42**
charges	**total**	**3**	**10**	**25.5**	**27.4**	**26.95**	**27.25**

Source: INSEE

Appendix IV: Social Security Funds France

Social Security Funds in 2004

TOTAL: 18 Funds with financial relations with the Régime général and ACOSS:
- €52 bn of total revenues
- €17 bn collected via URSSAF and ACOSS
- €8 bn direct financing by the Régime Général

Health Sector: 7 Funds
- CMU (€0.25 bn)
- Modernisation Établissements de Santé Public et Prive (€0.40 bn)
- Amélioration Qualité et Coordination des Soins Dispenses en Ville (€0.10 bn)
- Information Professionnels de Santé (€0.02 bn)
- Financement Allocation de Remplacement Service aux Médecins (€0.07 bn)
- Prévention Bioterrorisme (€0.19 bn)

Occupational Accident Sector: 3 Funds
- Financement Cessation Anticipée d'Activité des Salaries Exposes a l'Amiante (€0.45 bn)
- Préparation des Préjudices liées a l'Amiante (€0.19 bn)
- Financement des Anciennes Rentes accidents du travail (€0.06 bn)

Pension Sector: 2 Funds
- Fonds de Solidarité Vieillesse (FSV) (€10.07 bn)
- Fonds de Réserve des Retraites (FRR) (€1.66 bn)

Social Assistance Sector: 4 Funds
- Financement des Dépenses d'Allocation Supplémentaire Invalidité (€0.25 bn)
- Financement de l'Allocation Logement à Caractère Social et de l'Allocation Logement Temporaire (€1.69 bn)
- Financement de l'Aide Personnalisée au Logement (€3.13 bn)
- Financement de l'Allocation Personnalisée d'Autonomie (€0.81 bn)

Family Sector: 1 Fund
- Développement des Structure d'Accueil de la Petite Enfance (€0.20 bn)

Reimbursement of Social Debts: 1 Fund
- CADES (€4.10 bn)

Financing of Employers Contribution Exemptions: 1 Fund
- FOREC (€1.5 bn)

Source: ACOSS; own amendments

BIBLIOGRAPHY

Adamy, Wilhelm 2005: Gespaltene Haushalte für die Arbeitsmarktpolitik. In: Soziale Sicherheit, Vol. 1, 2-12.
Advisory Council for the Concerted Action in Health Care 1997: The Health Care System in Germany: Cost Factor and Branch of the Future. Volume II: Progress and Growth Markets, Finance and Remuneration. Special Report 1997, Bonn.
Advisory Council for the Concerted Action in Health Care 2003: Health Care Finance, User Orientation and Quality. Volume I: Health Care Finance and User Orientation. Report 2003, Bonn.
AGIRC 2004: Rapportes d'Activite. Paris: Agirc-Arrco.
Alber, Jens 1982: Vom Armenhaus zum Wohlfahrtsstaat: Analysen zur Entwicklung der Sozialversicherung in Europa. Frankfurt/New York: Campus.
Alber, Jens 1992: Das Gesundheitswesen der Bundesrepublik Deutschland. Entwicklung, Struktur und Funktionsweise. Frankfurt/New York: Campus.
Alber, Jens 1998: Der deutsche Sozialstaat im Licht international vergleichender Daten. In: Leviathan, Vol. 26 (2),199-227.
Alber, Jens 2000: Der Deutsche Sozialstaat in der Ära Kohl: Diagnosen und Daten. In: Stephan Leibfried und Uwe Wagschal (eds.), Der deutsche Sozialstaat: Bilanzen-Reformen-Perspektiven. Frankfurt/New York: Campus, 235-275.
Alber, Jens and Guy Standing 2000: Social dumping, catch-up, or convergence? Europe in a comparative global context. In: Journal of European Social Policy, Vol. 10(2), 99-119.
Alesina, Alberto and Allan Drazen 1991: Why Are Stabilizations Delayed? In: American Economic Review, Vol. 81, 1170-1188.
Alesina, Alberto and Guido Tabellini 1990: A Positive Theory of Fiscal Deficits and Government Debt. In: Review of Economic Studies, Vol. 57, 403-414.
Alesina, Alberto and Roberto Perotti 1999: Budget Deficits and Budget Institutions. In: J. von Hagen/J. Poterba (eds.), Fiscal Institutions and Fiscal Performance. Chicago: Chicago University Press, 13-57.
Ambler, John S. 1991: Ideas, Interests, and the French Welfare State. In: Ambler, J. (ed.), The French Welfare State: Surviving Social and Ideological Change. New York: New York University Press, 1-31.
Armingeon, Klaus, Beyeler, Michelle and Harmen Binnema 2001: The changing politics of the welfare state – a comparative analysis of social security expenditures in 22 OECD countries, 1960–1998. Unpublished manuscript, University of Berne, Institute of Political Science.
Arthur, W. Brian 1994: Increasing Returns and Path Dependence in the Economy. Ann Arbor: University of Michigan Press.
Ashford, Douglas E. 1986: The Emergence of the Welfare States. Oxford: Basil Blackwell.
Ashford, Douglas E. 1991: Advantages of Complexity: Social Insurance in France. In: Ambler, J. (ed.), The French Welfare State: Surviving Social and Ideological Change. New York: New York University Press, 32-57.
Assemblée Nationale 2001: Projet de Loi de financement de la Sécurité Sociale 2001. Paris: Assemblée Nationale.
Aust, Andreas, Bönker, Frank and Hellmut Wollmann 2002: Welfare State Reform in Germany from 1982 to the Present. Conference Paper, 'Welfare Reform and Management of Societal Change', Paris 2002.
Baldwin, Peter 1990: The Politics of Social Solidarity: Class Bases in the European

Welfare State 1875-1975. Cambridge: Cambridge University Press.
Bandelow, Nils C. 2004: Governance im Gesundheitswesen: Systemintegration zwischen Verhandlung und hierarchischer Steuerung. In: S. Lange and U. Schimank (eds.), Governance und gesellschaftliche Integration. Wiesbaden: VS Verlag, 89-107.
Bandelow, Nils C. 2005: Divergente Staatlichung in der Gesundheitspolitik ehemals konservativer Wohlfahrtsstaaten: Deutschland und Frankreich im Vergleich. Unpublished Manuscript, TU Braunschweig.
Bandelow, Nils C. and Patrick Hassenteufel 2006: Mehrheitsdemokratische Politikblockaden und verhandlungsdemokratischer Reformeifer: Akteure und Interessen in der französischen und deutschen Gesundheitspolitik. In: Kölner Zeitschrift für Soziologie und Sozialpsychologie, Vol. 46, 320-342.
Bandelow, Nils C. and Klaus Schubert 1998: Wechselnde Strategien und kontinuierlicher Abbau solidarischen Ausgleichs. Eine gesundheitspolitische Bilanz der Ära Kohl. In: Göttrik Wewer (ed.), Bilanz der Ära Kohl. Opladen: Leske + Budrich, 113-127.
Barbier, Jean-Claude and Bruno Theret 2001: Welfare-to-Work or Work-to-Welfare? The French Case. In: N. Gilbert and R. Van Voorhis (eds.), Activating the Unemployment: A Comparative Appraisal of Work-Oriented Policies. New Brunswick: Transaction, 135-184.
Barth, Hans J. 2004: Fiskalische Interdependenzen sozialer Sicherung in Deutschland. Vortrag im Rahmen der Jahrestagung 2004 des Forschungsnetzwerks Alterssicherung (FNA), 2./3. Dezember, Leipzig.
Behn, Robert D. 1985: Cutback Budgeting. In: Journal of Policy Analysis and Management, Vol. 4(2), 155-177.
Béland, Daniel 2001: Does Labour Matter? Institutions, Labour Unions and Pension Reform in France and the US. In: Journal of Public Policy, Vol.21(2), 153-172.
Bellanger, Martine and Mossé, Philippe 2000: Contracting within a centralised health care system: the ongoing French experience. Paper prepared for the first meeting of the European Health Care Systems Discussion Group (EHCSDG). 14th and 15th September 2000, London.
Beske, Fritz and Thomas Drabinski 2003: Einfluss der Wiedervereinigung auf die Entwicklung des Beitragssatzes der gesetzlichen Krankenversicherung. Schriftenreihe Band 97. Kiel: Fritz Beske Institut für Gesundheitssystem-Forschung.
Beske, Fritz 2004: Zu Lasten der gesetzlichen Krankenversicherung – Politische Entscheidungen 1977-2004 und andere Tatbestände. Schriftenreihe Band 101. Kiel: Fritz Beske Institut für Gesundheitssystem-Forschung.
Bieback, Karl-Jürgen 1997a: Verfassungsrechtlicher Schutz gegen Abbau und Umstrukturierung von Sozialleistungen. Schriftenreihe der Juristischen Gesellschaft zu Berlin, Heft 152. Berlin: Walter de Gruyter.
Bieback, Karl-Jürgen 1997b: Das neue Sozialgesetzbuch III von 1997. In: I. Ebsen (ed.), Stand und Entwicklung des Arbeitsförderungsrechts im Übergang vom AFG zum SGB III. Frankfurt: Kohlhammer, 21-43.
Birnbaum, Pierre 1988: States and Collective Action: The European Experience. Cambridge: Cambridge University Press.
Blanke, Bernhard (ed.) 1994: Krankheit und Gemeinwohl. Gesundheitspolitik zwischen Staat, Sozialversicherung und Medizin. Opladen: Leske & Budrich
Bode, Ingo 2002: Vom Payer zum Player: Krankenkassen im Wandel. In: Duisburger Beiträge zur Soziologischen Forschung, Vol. 4, 1-70.
Bode, Ingo 2004: Disorganisierter Wohlfahrtskapitalismus: Die Reorganisation des

Sozialsektors in Deutschland, Frankreich und Grossbritannien. Wiesbaden: VS Verlag.
Bode, Ingo and Mechthild Veil 2003: Arbeit, Gesundheit, Renten. In: Dokumente, Vol. 3, 24-46.
Bonoli, Giuliano 1997: Classifying Welfare States: A Two-Dimension Approach. In: Journal of Social Policy, Vol.26(3), 351-372.
Bonoli, Giuliano 2000: The Politics of Pension-Reform. Institutions and Policy-Change in Western Europe. Cambridge: Cambridge University Press.
Bonoli, Giuliano 2001: Political Institutions, Veto Points, and the Process of Welfare State Adaptation. In: P.Pierson (ed.), The New Politics of the Welfare State. Oxford: Oxford University Press, 238-64.
Bonoli, Giuliano and Bruno Palier 1998: Changing the Politics of Social Programmes: Innovative Change in British and French Welfare Reforms. In: Journal of European Social Policy, Vol. 8(4), 317-330.
Bonoli, Giuliano and Bruno Palier 2000: How Do Welfare States Change? Institutions and their Impact on the Politics of Welfare State Reform. In: European Review, Vol. 8(2), 333-352.
Bonoli, Giuliano, Vic George and Peter Taylor-Gooby 2000: European Welfare Futures. Towards a Theory of Retrenchment. Cambridge: Polity Press.
Borell, Rolf and Michael Römer 1992: Versicherungsfremde Leistungen in der Arbeitslosenversicherung. Study published by the Karl-Bräuer-Institut of the Federation of Tax Payers.
Börsch-Supan, Axel und Anette Reil-Held 1999: How much is transfer and how much is insurance in a PAYG-system? The German Case.Working Paper, University of Mannheim.
Brady, Henry E. and David Collier (eds.) 2004: Rethinking Social Inquiry. Oxford: Rowman & Littlefield
Braun, B., H. Kühn and H. Reiners 1998: Das Märchen von der Kostenexplosion: Populäre Irrtümer zur Gesundheitspolitik. Frankfurt/Main: Fischer.
Brehm, John and Scott Gates 1997: Working, Shirking and Sabotage: Bureaucratic Response to a Democratic Public. Ann Arbor: University of Michigan Press.
Brewer, Mike, Clark, Tom and Matthew Wakefield 2002: Social Security in the UK under New Labour: What Did the Third Way Mean for Welfare Reform? In: Fiscal Studies, Vol. 23(4), 505-537.
Bruche, Gert and Bernd Reissert 1985: Die Finanzierung der Arbeitsmarktpolitik. System, Effektivität, Reformansätze. Frankfurt/New York: Campus.
Brümmerhoff, Dieter 1991: Äquivalenzprinzip versus Solidaritätsprinzip in der Gesetzlichen Krankenversicherung. In: K.-H. Hansmeyer (ed.), Finanzierungsprobleme der sozialen Sicherung. Berlin: Duncker und Humblot, 177-211.
Bundesanstalt für Arbeit 1993: Geschäftsbericht 1992. Nürnberg: BA.
Bundesministerium der Finanzen 2005: Bericht zur Tragfähigkeit der öffentlichen Finanzen. Berlin: BMF.
Bundesministerium für Arbeit und Sozialordnung 1994: Sozialbericht 1993. Bonn: BMAS.
Bundesministerium für Arbeit und Sozialordnung 1996: Sozialbericht 1995. Bonn: BMAS.
Bundesministerium für Arbeit und Soziales 2006: Sozialbudget 2005. Bonn: BMAS.
Bundesministerium für Gesundheit und Soziale Sicherung 2004a: Sozialbudget 2002. Bonn: BMGS.
Bundesministerium für Gesundheit und Soziale Sicherung 2004b: Statistisches Taschenbuch, Arbeits- und Sozialstatistik. Bonn: BMGS.

Bundesministerium für Gesundheit und Soziale Sicherung 2005: Sozialbudget 2003. Bonn: BMGS.
Bundesregierung 2001: Materialband zum Sozialbudget. Berlin: Bundesministerium für Arbeit und Sozialordnung. www.bma.de/deu/gra/datenbanken/stats/statsonline.cfm
Bundesvereinigung der Deutschen Arbeitgeberverbände 1998: Sozialpolitik für mehr Wettbewerbsfähigkeit und Beschäftigung. Ordnungspolitische Grundsätze der BDA. Köln: BDA.
Bundesvereinigung der Deutschen Arbeitgeberverbände 2004: Aufsichtsfunktion stärken – Autonomie erweitern. Effizienzsteigerung und Modernisierung in der sozialen Selbstverwaltung. BDA-Positionspapier zur Reform der sozialen Selbstverwaltung. Berlin: BDA.
Burchardt, Tania 1999: The Evolution of Disability Benefits in the UK: Re-weighting the basket. CASE Paper 26/1999. London: Center for Analysis of Social Exclusion, LSE.
Burns, Andrew and Alessandro Goglio 2004: Public Expenditure Management in France. Economic Department Working Papers No. 409. Paris: Organisation for Economic Co-operation and Development.
Busemeyer, Marius R. 2005: Pension Reform in Germany and Austria: System Change vs. Quantitative Retrenchment. In: West European Politics, Vol. 28(3), 569-591.
Buti, Marco and Andre Sapir 2002: EMU and Economic Policy in Europe: the Challenge of the Early Years. Cheltenham/Northhampton: Edward Elgar.
Carmel, Emma and Theodoros Papadopoulos 2003: The new governance of social security in Britain. In: J.Millar (ed.), Understanding Social Security. Bristol: Policy Press, 31-52.
Castles, Francis G. 2001: On the political economy of recent public sector development. In: Journal of European Social Policy, Vol.11(3): 195–211.
Castles, Francis G. 2004: The Future of the Welfare State. Crisis Myths and Crisis Realities. Oxford: Oxford University Press.
Catrice-Lorey, Antoinette 1997: La Sécurité sociale en France, institution anti-paritaire? Un regard historique de long terme. In: La Revue de l'IRES, No 24, Numéro spécial 'Le Paritarisme : Institutions et Acteurs', 37-57.
Chaperon, Pierre 1999: Le développement des institutions paritaires de protection sociale complémentaire. In: M. Laroque (ed.), Contribution a l'histoire financière de la sécurité sociale. Paris: La Documentation Française, 461-479.
Clasen, Jochen 1994: Social Security – The core of the German employment-centred social state. In: J.Clasen/R.Freemand (eds.), Social Policy in Germany. New York/London: Harvester Wheatsheaf, 61-82.
Clasen, Jochen 1997a: Social Insurance – an outmoded concept of social protection? In: J.Clasen (ed.), Social Insurance in Europe. Bristol: Policy Press, 1-13.
Clasen, Jochen 1997b: Social Insurance in Germany – Dismantling or Reconstruction? In: J.Clasen (ed.), Social Insurance in Europe. Bristol: Policy Press, 60-83.
Clasen, Jochen 2000: Motives, means and opportunities – reforming unemployment compensation in the 1990s. In: West European Politics, Vol. 23(2), 89-112.
Clasen, Jochen and Wim van Oorschot 2002: Changing Principles in European Social Security. In: European Journal of Social Security, Vol. 4(2), 89-115.
Clasen, Jochen and Daniel Clegg 2003: Unemployment Protection and Labour Market Reform in France and Great Britain in the Nineteen Nineties. In: Journal of Social Policy, Vol. 32(3), 361-381.
Clasen, Jochen and Daniel Clegg 2004: State 'Strength', Social Governance and the Reform of Labour Market Policy in France and Germany. Paper prepared for the

2004 ESPAnet conference 'European Social Policy; Meeting the Needs of a new Europe', University of Oxford, September 9th-11th 2004.
Clegg, Daniel 2005: The 'active turn' in French unemployment policy: the *transformismo* of the Continental welfare state. Paper prepared for ESPAnet Young Researchers Workshop, 'Organised labour and the welfare state: new perspectives on an old couple', Paris, 30th June to 2nd July 2005.
Commission des Comptes de la Sécurité Sociale 1992: Report December 1992. Paris: Cour des Comptes.
Commission des Comptes de la Sécurité Sociale 2005: Les Comptes de la Sécurité Sociale. Paris: CCSS.
Conseil d'Orientation des Retraites 2001: Premier Rapport. Retraites : renouveler le contrat social entre les generations. Paris: COR.
Conseil d'Orientation des Retraites 2003: Retraites: Fiches pour l'information et le débat. Paris: COR.
Couffinhal, Agnès and Valérie Paris 2003: Cost Sharing in France. Working Paper, Paris: CREDES.
Cour des Comptes 1995: Rapport Annuel au Parlement sur la Sécurité Sociale. Paris: Cour des Comptes.
Cour des Comptes 1996: Rapport Annuel au Parlement sur la Sécurité Sociale. Paris: Cour des Comptes.
Cour des Comptes 2001: Rapport Annuel au Parlement sur la Sécurité Sociale. Part V. Paris: Cour des Comptes.
Cour des Comptes 2004: La Sécurité Sociale. Paris: Cour des Comptes.
Cour des Comptes 2005: Rapport Annuel au Parlement sur la Sécurité Sociale. Paris: Cour des Comptes.
Cox, Gary and Mathew McCubbins 2001: The Institutional Determinants of Economic Policy. In: S. Haggard/ M. McCubbins (eds.), Presidents, Parliaments and Policy. New York: Cambridge University Press, 21-63.
Crouch, Colin 1996: Revisited diversity: from the neo-liberal decade to beyond Maastricht. In: J. van Ruysseveldt and J.Visser (eds.), Industrial Relations in Europe. Traditions and Transitions. London: Sage, 359-375.
Crouch, Colin 1999: Employment, Industrial Relations and Social Policy: New Life in an Old Connection. In: Social Policy & Administration, Vol. 33(4), 437-457.
Crouch 2001: Welfare States Regimes and Industrial Relations Systems: The Questionable Role of Path Dependency Theory. In: B.Ebbinghaus/P.Manow (eds.), Comparing Welfare Capitalism: Social Policy and Political Economiy in Europe, Japan and the USA. London: Routledge, 105-124.
Crouch, Colin, and Wolfgang Streeck 1997: Introduction: The Future of Capitalist Diversity. In: C.Crouch/ W.Streeck (eds.), Political Economy of Modern Capitalism: Mapping Convergence and Diversity. Thousand Oaks, CA: Sage, 1-18.
Cukierman, Alex, Steven B. Web and Bilin Neyapti 1992: Measuring the Independence of Central Banks and Its Effect on Policy Outcomes. In: The World Bank Economic Review, Vol. 6(3), 353-398.
Cusack, Thomas 1999: Partisan Politics and Fiscal Policy. In: Comparative Politcal Studies, Vol. 32(4), 464-486.
Czada, Roland 1998: Vereinigungskrise und Standortdebatte. Der Beitrag der Wiedervereinigung zur Krise des "Modells Deutschland". In: Leviathan, Vol. 1(98), 24-59.
Daguerre, Anne and Bruno Palier 2001: Welfare Systems and the management of the economic risk of unemployment. The French case. Report for the European University Institute, Florence.

Damamme, Dominique and Jobert Bruno 2000: Coalitions sociales et innovations institutionnelles: le cas du Plan Juppé. In: M.Tallard/B.Théret/U.Didier (eds.), Innovation institutionnel et territoires. Paris: L'Harmattan.
Daniel, Christine and Carole Tuchszirer 1999: L'État Face aux Chômeurs. L'Indemnisation du Chômage de 1884 a Nos Jours. Paris: Flammarion.
Deakin, Nicholas and Richard Parry 2000: The Treasury and Social Policy. The Contest for Control of Welfare Strategy. Basingstoke: Macmillan.
Delalande, Jean-Pierre 1994: Rapport d'information sur le financement de la protection socialeet l'aide à l'emploi. Rapport pour la Commission des Finances, de l'Économie générale et du Plan. Paris: Assemblée Nationale.
Delsen, Lei 2002: Exit Polder Model? Socioeconomic Changes in the Netherlands. Westport: Praeger.
Department of Social Security 1998: Green Paper Pensions - A new contract for welfare: partnership in pensions. Cm 4179. London: DSS.
Deutscher Bundestag 2000: Antwort der Bundesregierung, Anrechnung von Ausbildungszeiten in der gesetzlichen Rentenversicherung. BT-Drucksache 14/4985.
Deutscher Bundestag 2004a: Protokoll Ausschuss für Gesundheit, Nr. 15/70, 20.09.2004. BT-Drucksache 15/3654.
Deutscher Bundestag 2004b: Rentenversicherungsbericht 2004. BT-Drucksache 15/4498.
Deutscher Bundestag 2005: Antwort der Bundesregierung, Energiepreis-Entwicklung in Deutschland. BT-Drucksache 15/5212.
DGB 2003: Stellungnahme zum Gesetzentwurf eines Dritten Gesetzes für moderne Dienstleistungen am Arbeitsmarkt. Berlin: Deutscher Gewerkschaftsbund.
DGB 2004a: Reformanstöβe des DGB für Wachstum und Beschäftigung, Bildung und Innovation. In: J+P, Vol. 13, January 2004.
DGB 2004b: Stellungnahme zum Entwurf eines Gesetzes zur Organisationsreform in der gesetzlichen Rentenversicherung, 14. September 2004. Berlin: Deutscher Gewerkschaftsbund.
Dixit, Avinash 1996: The Making of Economic Policy: A Transaction-Cost Politics Perspective. Cambridge, Mass.: M.I.T. Press.
Döhler, Marian 1994: Gesundheitsreform als Ausstieg aus der klassischen Sozialversicherung? In: B.Riedmüller/T.Olk (eds.), Grenzen des Sozialversicherungsstaates. Leviathan Sonderheft 14/1994. Opladen: Westdeutscher Verlag, 146-163.
Döhler, Marian and Patrick Hassenteufel 1995: Akteurskonstellationen in der Krankenversicherungspolitik. Ein deutsch-französischer Vergleich. In: Zeitschrift für Sozialreform, Vol.41, 804-822.
Drazen, Allan 2000: Political Economy in Macroeconomics. Princeton, N.J.: Princeton University Press.
DREES 2002: Les retraites en 2001. In: Etudes et Resultats, No. 207.
DREES 2003: Les retraites en 2002. In: Etudes et Resultats, No. 272.
DREES 2004: Les retraites en 2003. In: Etudes et Resultats, No. 362.
DREES 2005a: Les retraites en 2004. In: Etudes et Resultats, No. 454.
DREES 2005b: Les Comptes de la Protection Sociale en 2004. In: Etudes et Resultats, No 435.
Dupuis, Jean-Marc 1989: La réforme du financement de la protection sociale, inventaire bilan. LERE, rapport pour la MIRE, convention n° 310/88.
Ebbinghaus, Bernhard 2002a: Trade unions' changing role: membership erosion, organisational reform, and social partnership in Europe. In: Industrial Relations Journal, Vol. 33(5), 465-483.

Ebbinghaus, Bernhard 2002b: Varieties of Social Governance: Comparing the Social Partners' Involvement in Pension and Employment Policies. Paper presented at BJIR Conference Politics of Employment Relations, Windsor, GB, Sept. 16-17 2002.

Ebbinghaus, Bernhard and Anke Hassel 2000: Striking deals: Concertation in the reform of Continental European welfare states. Journal of European Public Policy, Vol. 7(1), 44-62.

Ebbinghaus, Bernhard and Jelle Visser 2000: Trade Unions in Western Europe since 1945. London: Macmillan.

Edin, Per-Anders and Henry Ohlsson 1991: Political Determinants of Budget Deficits: Coalition versus Minority Effects. In: European Economic Review, Vol. 35, 1597-1603.

Edwards, Paul, Hall, Mark, Hyman, Richard, Marginson, Paul, Sisson, Keith, Waddington, Jeremy and David Winchester 1998: Great Britain: From Partial Collectivism to neo-liberalism to where? In: A. Ferner and R. Hyman (eds), Changing Industrial Relations in Europe. Oxford: Blackwell, 1-54.

Ellison, Nick and Chris Pierson 2003: Introduction. In: N.Ellison and C.Pierson (eds.), Developments in British Social Policy 2. Basingstoke: Palgrave Macmillan, 1-14.

Engelen-Kefer, Ursula 2005: Die Hartz-Gesetze. Eine Zwischenbilanz des DGB. Thesenpapier, Fachtagung der Arbeitnehmerkammer Bremen, 8th February 2005.

Erhel, Christine, Impert, Pierre-Andre and Jean-Luc Outin 2000: Die Finanzierung der Arbeitsmarktpolitik in Frankreich. In: G.Bosch/A.Wagner (eds.), Umbau der Finanzierung der Arbeitslosenversicherung. Graue Reihe des Instituts für Arbeit und Technik 2000-03. Gelsenkirchen: Institut Arbeit und Technik, 115-172.

Epstein, David and O'Halloran, Sharyn 1999: Delegating Powers. A Transaction Cost Politics Approach to Policy Making under Separate Powers. Cambridge: Cambridge University Press.

Esping-Andersen, Gøsta 1985: Politics Against Markets. Princeton: Princeton University Press.

Esping-Andersen, Gøsta 1990: Three Worlds of Welfare Capitalism. New York: Polity.

Esping-Andersen, Gøsta 1996: Welfare States Without Work: The Impasse of Labour Shedding and Familialism in Continental European Social Policy. In G. Esping-Andersen (ed.), Welfare States in Transition. London: Sage, 66-87.

Esping-Andersen, Gøsta 1999: Social Foundations of Postindustrial Economies. Oxford: Oxford University Press.

Estevez-Abe, Margarita, Torben Iversen and David Soskice 2001: Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State. In. Hall, P. and Soskice, D. (eds.), Varieties of Capitalism. The Institutional Foundations of Comparative Advantage. Oxford: Oxford University Press, 145-183.

European Commission 2003: Public Finances in EMU 2003. Communication from the Commission to the Council and the European Parliament. COM(2003) 283 final. Brussels: European Commission.

Evans, Peter, Rüschemeyer, Dietrich and Theda Skocpol (eds.) 1985: Bringing the State Back In. Cambridge: Cambridge University Press.

Evans, Mark and Phil Cerny 2003: Globalization and Social Policy. In: N.Ellison and C.Pierson (eds.), Developments in British Social Policy 2. Basingstoke: Palgrave Macmillan, 19-40.

Fajertag, Giuseppe and Pochet, Philippe 2000: Social Pacts in Europe: New Dynamics. Brussels: ETUI.

Ferejohn, John 2002: Judicializing Politics, Politicizing Law. In: Law and Contemporary Problems, Vol. 65(3), 41-68.
Ferrera, Maurizio 1996: The 'Southern Model' of Welfare in Social Europe. In: Journal of European Social Policy, Vol. 6(1), 17-37.
Ferrera, Maurizio and Martin Rhodes 2000: Building a Sustainable Welfare State. In: West European Politics, Vol. 23(2), 257-282.
Ferrera, Maurizio, Anton Hemerijck and Martin Rhodes 2001: The Future of the European Social Model in the Global Economy. In: Journal of Comparative Policy Analysis, Vol. 3(2), 163-190.
Fiard, Carole and Philippe Cuneo 1999: L'évolution de la protection sociale contre le chômage. In: M. Laroque (ed.), Contribution a l'histoire financière de la sécurité sociale. Paris: La Documentation Française, 443-459.
Finn, Dan 2003: Employment Policy. In: N.Ellison and C.Pierson (eds.), Developments in British Social Policy 2. Basingstoke: Palgrave Macmillan, 111-128.
Fiorina, Morris 1982: Legislative Choice of Regulatory Forms: Legal Process or Administrative Process? In: Public Choice, Vol. 39, 33-66.
Flora, Peter (ed.) 1986: Growth to Limits. The Western European Welfare States since World War II. Berlin: de Gruyter.
Fonds de Réserve pour les Retraites 2004: Rapport Annuel 2004. Paris: FRR.
Foucauld, Jean-Baptiste 1995: Le financement de la protection sociale. Rapport au Premier Ministre. Paris: La documentation Française.
Franzese, Robert 2002: Electoral and Partisan Cycles in Economic Policies and Outcomes. In: Annual Review of Political Science, Vol. 5, 369-421.
Freyssinet, Jacques 1993: France: towards flexibility. In: J. Hartog and J. Theeuwes (eds.), Labour Market Contracts and Institutions: a Cross-National Comparison. Amsterdam: North-Holland, 267-298.
Garrett, Geoffrey 2001: Globalization and Government Spending Around the World, Studies in Comparative International Development, Vol. 35(4), 3-29.
Garrett, Geoffrey and Deborah Mitchell 2001: Globalization, Government Spending and Taxation in the OECD. In: European Journal of Political Research, Vol. 39,145-177.
Genschel, Philipp 2002: Globalization, Tax Competition and the Welfare State. In: Politics and Society, Vol. 30(2), 245-272.
Genzke, Jürgen 2003: Vorläufige Rechnungsergebnisse des Jahres 2002 und Ausblick auf die zukünftige finanzielle Entwicklung. In: Die Angestellten Versicherung, Vol. 4(3), 1-11.
George, Vic and Taylor-Gooby, Peter (eds.) 1996: European Welfare Policy: Squaring the Circle. New York: St. Martin's Press.
Gerlinger, Thomas 2002: Zwischen Korporatismus und Wettbewerb: Gesundheitliche Steuerung im Wandel. WZB Discussion Paper P02-204. Berlin: Wissenschaftszentrum.
Giaimo, Susan 2001: Who Pays for Health Care Reform? In: P.Pierson (ed.), The New Politics of the Welfare State. Oxford: Oxford University Press, 334-367.
Giaimo, Susan and Philip Manow 1999: Adapting the Welfare State. The Case of Health Care Reform in Britain, Germany and the United States. In: Comparative Political Studies, Vol. 32(8), 967-1000.
Gilardi, Fabrizio 2002: Policy Credibility and Delegation to Independent Regulatory Agencies: A Comparative Empirical Analysis. In: Journal of European Public Policy, Vol. 9(6), 873-893.
Glennerster, Howard 2003: Understanding the Finance of Welfare. What welfare costs and how to pay for it. Bristol: Policy Press.
Goetschy, Janine 1998: France: the Limits of Reform. In: A.Ferner and R.Hyman (eds.),

Changing Industrial Relations in Europe. 2nd Edition. Oxford: Blackwell, 357-394.
Goodin, Robert and Julian LeGrand 1987: Not only the poor. The middle classes and the welfare state. London: Allen and Unwin.
Gorges, Michael J. 2001: New Institutionalist Explanations for Institutional Change: A Note of Caution. In: Politics, Vol. 21(2), 137-145.
Gössl, Thomas 1992: Die Finanzverfassung der Sozialversicherung. Münchner Universitätsschriften, Band 88. München: Beck.
Green-Pedersen, Christoffer and Markus Haverland 2002: The New Politics and Scholarship of the Welfare State. In: Journal of European Social Policy, Vol. 12(1), 43-51.
Groser, Manfred 1994: Der Arbeitgeberbeitrag – eine sozialpolitische Illusion? In: B. Riedmüller/T. Olk (eds.), Grenzen des Sozialversicherungsstaates. Leviathan Sonderheft 14/1994. Opladen: Westdeutscher Verlag, 205-216.
Haan, Jakob de and Jan Egbert Sturm 1994: Political and Institutional Determinants of Fiscal Policy in the European Community. In: Public Choice, Vol. 80, 157-172.
Hacker, Jacob S. 2004: Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States. In: American Political Science Review, Vol. 98(2), 243-260.
Hacker, Jacob S. 2005: Policy Drift: The Hidden Politics of US Welfare State Retrenchment. In: W.Streeck/K. Thelen (eds.), Beyond Continuity. Oxford: Oxford University Press, 40-82.
Hagen, Jürgen von 1992: Budgeting Procedures and Fiscal Performance in the European Communities. DG II Economic Papers, Vol. 96, Commission of the European Communities.
Hagen, Jürgen von 2002: Fiscal Rules, Fiscal Institutions, and Fiscal Performance. In: The Economic and Social Review, Vol. 33(3), 263-284.
Hagen, Jürgen von and Ian Harden 1996: Budget Processes and Commitment to Fiscal Discipline. IMF Working Paper WP/96/78. Washington, D.C.: International Monetary Fund.
Hagen, Jürgen von and Rolf Strauch 2001: German Public Finances: Recent Experiences and Future Challenges. ZEI Working Paper, B13/2001. Bonn: Center for European Integration Studies.
Hall, Peter 1986: Governing the Economy: The Politics of State Intervention in Britain and France. New York: Oxford University Press.
Hall, Peter and David Soskice (eds.) 2001: Varieties of Capitalism: The Institutional Foundations of Comparative Advantage. Oxford: Oxford University Press.
Hallerberg, Mark 2000: The Role of Parliamentary Committees in the Budgetary Process within Europe. In: R.Strauch and J.von Hagen (eds.), Institutions, Politics and Fiscal Policy. Boston/Dordrecht/London: Kluwer, 87-106.
Hallerberg, Mark 2004: Domestic Budgets in a United Europe. Fiscal Governance from the End of Bretton Woods to EMU. Ithaca/London: Cornell University Press.
Hallerberg, Mark and Jürgen von Hagen 1999: Electoral Institutions, Cabinet Negotiations, and Budget Deficits in the European Union. Fiscal Institutions and Fiscal Performance. J. M. Poterba and J. von Hagen. Chicago: University of Chicago Press, 209-232.
Hallerberg, Mark, Strauch, Rolf and Jürgen von Hagen 2001: The Use and Effectiveness of Budgetary Rules and Norms in EU Member States. Report Prepared for the Dutch Ministry of Finance. Bonn: Institute of European Integration Studies.
Hamisch, Ann-Christine 2001: Der Schutz individueller Rechte bei Rentenreformen -

Deutschland und Großbritannien im Vergleich. Schriften zum Deutschen und Europäischen Sozialrecht, Vol. 3. Nomos: Baden-Baden.
Hassel, Anke 1998: Soziale Pakte in Europa. In: Gewerkschaftliche Monatshefte, Vol. 10, 617-28.
Hassel, Anke 2003: The Politics of Social Pacts. In: British Journal of Industrial Relations, Vol. 41(4), 707-726.
Hassenteufel, Patrick 1997: Les médecins face à l'État. Paris: Presses de Sciences Po.
Hassenteufel, Patrick and Bruno Palier 2005: Les trompes l'œil de la "gouvernance" de l'assurance maladie : contrastes franco-allemends. In: Revue Française d'Administration Publique, Vol. 113, 13-27.
Heclo, Hugh 1974: Modern Social Politics in Britain and Sweden. New Haven: Yale University Press.
Heinelt, Hubert 1994: Arbeitsmarktpolitik nach der Vereinigung – Überforderung und Substanzverlust des Beitragsfinanzierungsprinzips? In: B. Riedmüller/T. Olk (eds.), Grenzen des Sozialversicherungsstaates. Leviathan Sonderheft 14/1994. Opladen: Westdeutscher Verlag, 191-204.
Hennock, Ernest Peter 1987: British Social Reform and German Precedents: The Case of Social Insurance, 1880-1914. Oxford: Clarendon.
Hemerijck, Anton and Philip Manow 2001: The Experience of Negotiated Reforms in the Dutch and German Welfare States. In: B.Ebbinghaus/P. Manow (eds.), Comparing Welfare Capitalism, Social Policy and Political Economy in Europe, Japan and the USA. London/New York: Routledge, 217-238.
Hemerijck, Anton and Mark Vail 2006: The Forgotten Center: State Activism and Corporatist Adjustment in Holland and Germany. In: J.Levy (ed.), The State after Statism. New State Activities in the Age of Liberalization. Cambridge, Mass.: Harvard University Press, 57-92.
Hicks, Alexander and Lane Kenworthy 1998: Cooperation and political economic performance in affluent democratic capitalism. In: American Journal of Sociology, Vol.103(6), 1631–72.
Hill, John 2003: Inclusion or Insurance? National Insurance and the future of the contributory principle. CASE Paper 68, Centre for Analysis of Social Exclusion, London School of Economics.
Hinrichs, Karl 1994: Restrukturierung der Sozialpolitik? In: B. Riedmüller/T. Olk (eds.), Grenzen des Sozialversicherungsstaates. Leviathan Sonderheft 14/1994. Opladen: Westdeutscher Verlag, 119-145.
Hinrichs, Karl 2001: Elephants on the move. Patterns of public pension reform in OECD countries. In: S. Leibfried (ed.), Welfare State Futures. Cambridge: Cambridge University Press, 77-102.
Horn, Murray 1995: The Political Economy of Public Administration. Cambridge: Cambridge University Press.
Horst, Patrick 1995: Haushaltspolitik und Regierungspraxis in den USA und der Bundesrepublik Deutschland. Frankfurt a.M.: Peter Lang.
Huber, Evelyne, Ragin, Charles and John D. Stephens 1993: Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State. In: American Journal of Sociology, Vol. 99(3), 711-749.
Huber, Evelyne and John D. Stephens 2001: Development and Crisis of the Welfare State: Parties and Policies in Global Markets. Chicago: Chicago University Press.
Huteau, Gilles 2001: Sécurité sociale et politiques sociales. 3rd edition. Paris: Armand Colin.
Huteau, Gilles and Eric Le Bont 1997: Sécurité Sociale et Politiques Sociales. Paris: Masson & Armand Colin.

Immergut, Ellen 1992: Health Politics. Interests and Institutions in Western Europe. Cambridge: Cambridge University Press.
Immergut, Ellen 1998: The Theoretical Core of the New Institutionalism. In: Politics and Society, Vol. 26(1), 5-34.
Iversen, Torben and Thomas R. Cusack 1998: The Causes of Welfare State Expansion: Deindustrialization or Globalization? WZB Discussion Paper FSI 98 304. Berlin: Social Science Research Centre Berlin.
James, Oliver 2004: The UK Core Executive's Use of Public Service Agreements as a Tool of Governance. In: Public Administration, Vol. 82(2), 397-419.
Jochem, Sven and Nico A. Siegel (eds.) 2003: Konzertierung, Verhandlungsdemokratie und Reformpolitik im Wohlfahrtsstaat. Das Modell Deutschland im Vergleich. Opladen: Leske + Budrich.
Join-Lambert Marie-Thérèse 1997: Politique sociales. Paris: Presses de Sciences Po.
Kania, Helga and Bernhard Blanke 2000: Von der "Korporatisierung" zum "Wettbewerb". Gesundheitspolitische Kurswechsel in den Neunzigerjahren. In: R.Czada/H.Wollmann (eds.), Von der Bonner zur Berliner Republik. 10 Jahre Deutsche Einheit. Leviathan Sonderheft 19/1999. Wiesbaden: Westdeutscher Verlag, 567-591.
Katzenstein, Peter 1987: Policy and Politics in West Germany: the Growth of a Semisovereign State. Philadelphia: Temple University Press.
Kato, Junko 2003: Regressive Taxation and the Welfare State. Path Dependence and Policy Diffusion. Cambridge: Cambridge University Press.
Kay, Adrian 2005: A Critique of the Use of Path Dependency in Policy Studies. In: Public Administration, Vol. 38(3), 553-571.
Kemmerling, Achim and Oliver Bruttel 2005: New Politics in German Labour Market Policy? The Implications of the Recent Hartz Reforms for the German Welfare State. WZB Discussion Paper. Berlin: Wissenschaftszentrum Berlin für Sozialforschung.
Kersbergen, Kees van 1995: Social Capitalism: A Study of Christian Democracy and the Welfare State. London: Routledge.
Kersbergen, Kees van 2000: The Declining Resistance of National Welfare States to Change? In: S.Kuhnle (ed.), Survival of the Welfare State. London and New York: Routledge, 19-36.
Kessler, Francis 2000: Droit de la Protection Sociale. Paris: Dalloz.
Kitschelt, Herbert 2001: Partisan competition and retrenchment. In: P.Pierson (ed.), The New Politics of the Welfare State. Oxford: Oxford University Press, 265–302.
Kittel, Bernhard, Obinger, Herbert and Uwe Wagschal 2000: Die gezügelten Wohlfahrtsstaaten im internationalen Vergleich: Politisch-institutionelle Faktoren der Entstehung und Entwicklungsdynamik. In: H.Obinger/U.Wagschal (eds), Der gezügelte Wohlfahrtsstaat. Sozialpolitik in reichen Industrienationen. Frankfurt/M.: Campus, 329–64.
Kittel, Bernhard and Herbert Obinger 2003: Political parties, Institutions, and the Dynamics of Social Expenditure in Times of Austerity. In: Journal of European Public Policy, Vol. 10(1), 20-45.
Klein, Rudolf 1995: The New Politics of the National Health Service. New York: Longman.
Köhler, Peter A. and Hans F. Zacher 1982 (eds.): The Evolution of Social Insurance 1881-1981. Studies of Germany, France, Great Britain, Austria and Switzerland. London: Frances Pinter.
Kontopolous, Yianos and Perotti, Roberto 1999: Government Fragmentation and Fiscal

Policy Outcomes: Evidence from the OECD Countries. In J. Poterba and J. von Hagen (eds.), Fiscal Institutions and Fiscal Perfomance. Chicago: University of Chicago Press, 81-102.
Kopits, George and Steven Symanski 1998: Fiscal Policy Rules. Washington, D.C.: International Monetary Fund.
Kornai, J., E. Maskin and G. Roland 2003: Understanding the Soft Budget Constraint. In: Journal of Economic Literature, Vol. 41: 1095–1136.
Korpi, Walter 1979: The Working Class in Welfare Capitalism. London: Routledge and Kegan Paul.
Korpi, Walter 1983: The Democratic Class Struggle. London: Routledge and Kegan Paul.
Kotlikoff, Laurence, J., Persson, Torsten and Lars E. Svensson 1998: Social Contracts as Assets: A Possible Solution to the Time-Consistency Problem. In: The American Economic Review, Vol. 78(4), 662-77.
Kramer, Hans-Jörg 2004: Rentenversicherungs-Nachhaltigkeitsgesetz – ein Überblick. In: Die Angestellten Versicherung, Vol. 9(4), 404-414.
Kühn, Jürgen 1994: Zur Veränderung der arbeitsmarktpolitischen Instrumente seit 1990. In: H.Heinelt/G.Bosch/B.Reissert (eds.), Arbeitsmarktpolitik nach der Vereinigung. Berlin: edition sigma, 13-29.
Kuhnle, Stein 2000: Survival of the European Welfare State. London: Routledge.
Lallement, Michel 2006: New Patterns of Industrial Relations and Political Action since the 1980s. In: P. Culpepper / P.A. Hall / B. Palier (eds.), Changing France: The Politics that Markets Make. London: Palgrave Macmillan.
Lamping, Wolfram and Friedbert W. Rüb 2004: From the Conservative Welfare State to 'Something Uncertain Else': German Pension Politics in Comparative Perspective. In: Policy & Politics, Vol. 32(2), 169-91.
Laroque, Pierre 1983 (ed.): The Social Institution of France. New York/London: Gordon and Breach.
Lauer-Kirschbaum, Thomas 1994: Kollektivverhandlungen und Selbstverwaltungskonsens: Interessenegoismus und Gemeinwohlorientierung in der Entwicklung und Reform der Gesetzlichen Krankenversicherung. In: B. Blanke (ed.), Krankheit und Gemeinwohl. Opladen: Leske & Budrich, 207-243.
LeGrand, Julian and W. Bartlett (eds.) 1993: Quasi Markets and Social Policy. Basingstoke, Hampshire: McMillan Press.
Le Grand, Julian 1999: Competition, Cooperation, or Control? Tales from the British National Health Service. In: Health Affairs, Vol. 18(3), 27-39.
Lehmbruch, Gerhard 2000: Institutionelle Schranken einer ausgehandelten Reform des Wohlfahrtsstaates. Das Bündnis für Arbeit und seine Erfolgsbedingungen. In: R.Czada/H.Wollmann (eds.), Von der Bonner zur Berliner Republik: 10 Jahre Deutsche Einheit. Leviathan Sonderheft 19/1999. Wiesbaden: Westdeutscher Verlag.
Lehmbruch, Gerhard 2003: Welfare state adjustment between consensual and adversarial politics. The institutional context of reform in Germany. In: F.van Waarden/G.Lehmbruch (eds.), Renegotiating the Welfare State – Flexible Adjustment through Corporatist Concertation. London/New York: Routledge, 142-167.
Leibfried, Stephan 2001: Welfare State Futures. Cambridge: Cambridge University Press.
Levy, Brian and Pablo T. Spiller 1994: The Institutional Foundations of Regulatory Commitment: A Comparative Analysis of Telecommunications Regulation. In: Journal of Law, Economics & Organization, Vol. 10(2), 201-246.
Levy, Jonah D. 2000: France – Directing Adjustment? In: Schmidt, V. and Scharpf,

F.W. (eds.), Welfare and Work in the Open Economy, Vol. 2. Oxford: Oxford University Press: 308-250.
Linke, Lothar 1994: Reorganisation der Arbeitsmarktpolitik. Weiterbildung für Arbeitslose in Deutschland. Working Paper FSI 94-203. Berlin: WZB.
Lohmann, Susanne 1998: Reputational versus Institutional Solutions to the Time-Consistency Problem in Monetary Policy. In: Sylvester C.W. Eijffinger and Harry P. Huizinga (eds.), Positive Political Economy: Theory and Evidence. New York: Cambridge University Press, 9-22.
Lohmann, Susanne 2003: Why Do Institutions Matter? An Audience-Cost Theory of Political Commitment. In: Governance, Vol. 16(1), 95-110.
Mabbett, Deborah and Helen Bolderson 1999: Devolved Social Security Systems: Principal-agent versus multi-level governance. In: Journal of Public Policy, Vol. 18(2), 177-200.
Macey, Jonathan 1992: Administrative Design and Political Control of Government Agencies. Journal of Law, Economics and Organization, Vol. 8, 93-110.
Majone, Giandomenico 1997: Independent Agencies and the Delegation Problem: Theoretical and Normative Dimensions. In: B. Steuenberg/F. van Vught (eds.), Political Institutions and Public Policy. Dordrecht: Kluwer Academic Publishers, 139–56.
Mandin, Christelle and Bruno Palier 2002: Welfare Reform in France, 1985-2002. Conference Paper, 'Welfare Reform and Management of Societal Change', 20th to 22nd September 2002, Paris.
Mares, Isabela 2001: Firms and the Welfare State: When, Why and How Does Social Policy Matter to Employers? In: P.Hall/D.Soskice (eds.), Varieties of Capitalism. Oxford: Oxford University Press, 184-213.
Marie, E. 1997: La convention d'objectifs et de gestion entre l'Etat et la CNAF. In : Droit Social, Vol. 9/10 : 810-815.
Marier, Patrik 2002: Institutional Structure and Policy Change: Pension Reforms in Belgium, France, Sweden and the UK. PhD Thesis, University of Pittsburgh.
Marier, Patrik 2005: Where Did the Bureaucrats Go? Role and Influence of the Public Bureaucracy in the Swedish and French Pension Reform Debate. In: Governance, Vol. 18(4), 521-544.
McCubbins, Mathew, Roger Noll and Barry Weingast 1987: Administrative Procedures as Instruments of Political Control. In: Journal of Law, Economics and Organization, Vol. 3, 243-77.
Merrien, Francois-Xavier 1991: L'État par défaut. In: J.-P. Durand/F.-X. Merrien (eds.), Sortie de siècle: Le France en mutation. Paris: Editions Vigot, 273-93.
Merrien, Francois-Xavier and Bonoli, Giuliano 2000: Implementing Major Welfare Reforms. A comparison of France and Switzerland – a New Institutionalist Approach. In: S.Kuhnle (ed.), The Survival of the European Welfare State. London: Routledge, 128-45.
Metzger, Oswald 2003: Einspruch! Wider den organisierten Staatsbankrott. München: Riemann.
Miller, Gary 2000: Above Politics: Credible Commitment and Efficiency in the Design of Public Agencies. In: Journal of Public Administration Research and Theory. Vol. 10(2), 289-327.
Ministère du Travail et des Affaires Sociales 1996: Les Comptes de la Protection Sociale: 1990-1995. Paris: Service des Statistiques, des Études et des Systèmes d'Information.
Moe, Terry 1989: The Politics of Bureaucratic Structure. In: J. Chubb/P. Peterson (eds.), Can the Government Govern? Washington, DC: Brookings Institution, 267-329.

Molander, Per 2000: Reforming Budgetary Institutions: Swedish Experiences. In: R. Strauch and J. von Hagen (eds.), Institutions, Politics and Fiscal Policy. Boston/Dordrecht/London: Kluwer Academic Publishers, 191-214.
Moran, Michael 1994: Health Care Policy. In: J.Clasen/R.Freemand (eds.), Social Policy in Germany. New York/London: Harvester Wheatsheaf, 83-101.
Mosley, Hugh, Keller, Tiziana and Stefan Speckesser 1998: The Role of the Social Partners in the Design and Implementation of Active Measures. In: Employment and Training Papers, Vol. 27, ILO.
Mutualité Sociale Agricole 2005: Annuaires Statistique. Resultats nationaux 2002. Bagnolet Cedex: MSA, Direction des Statistiques et des Etudes économiques et financiers.
Müller-Jentsch, W. 1995: Auf dem Prüfstand: Das deutsche Modell der industriellen Beziehungen. In: Industrielle Beziehungen, Vol. 2(1), 11-24.
Mutual Information System on Social Protection (MISSOC) various years: http://ec.europa.eu/employment_social/social_protection/missoc_en.htm. Paris: European Commission.
Natali, David 2004: France. The Pension System. Report prepared for the Research Project 'La Méthode Ouverte de Coordination en Matière des Pensions et de l'Intégration Européenne', Service Public Fédéral Sécurité Sociale.
Natali, David and Martin Rhodes 2004a: The 'New Politics' of the Bismarckian Welfare State: Pension Reforms in Continental Europe. SPS Working Paper 2004/10. lorence: European University Institute.
Natali, David and Martin Rhodes 2004b: Trade-Offs and Veto Players: Reforming Pensions in France and Italy. In: French Politics, Vol. 2(1), 1-23.
Nesbitt, Steve 1995: British Pension Policy Making in the 1980s: The Rise and Fall of a Policy Community. Aldershot: Avebury.
Niskanen, William A. 1971: Bureaucracy and Representative Government. Chicago: Aldine.
North, Douglass 1990: Institutions, Institutional Change and Economic Performance. Cambridge: Cambridge University Press.
North, Douglass 1993: Institutions and Credible Commitment. Journal of Institutional and Theoretical Economics, Vol. 149, 11-23.
North, Douglass C. and Barry R. Weingast 1994: Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England. In: Journal of Economic History, Vol. 49(4), 311-343.
Noweski, Michael 2004: Der unvollendete Korporatismus. Staatliche Steuerungsfähigkeit im ambulanten Sektor des deutschen Gesundheitswesens. WZB Discussion Paper, 2004-304. Berlin: Wissenschaftszentrum Berlin für Sozialforschung.
Nullmeier, Frank 1992: Der Zugriff des Bundes auf die Haushalte der Gemeinden und Parafisci. In: Hans-Hermann Hartwich und Goettrik Wewer (eds.), Regieren in der Bundesrepublik, Vol. 4. Opladen: Leske + Budrich, 147-180.
Nullmeier, Frank and Friedbert W. Rüb 1993: Die Transformation der Sozialpolitik. Vom Sozialstaat zum Sicherungsstaat. Frankfurt: Campus.
Nullmeier, Frank and Friedbert W. Rüb 1994: Erschöpfung des Sozialversicherungsprinzips? Gesetzliche Rentenversicherung und sozialstaatlicher Republikanismus. In: B. Riedmüller/T. Olk (eds.), Grenzen des Sozialversicherungsstaates. Leviathan Sonderheft 14/1994. Opladen: Westdeutscher Verlag, 59-80.
Oates, Wallace E. 2005: Towards a Second-Generation Theory of Fiscal Federalism. In: International Tax and Public Finance, Vol. 24(4), 349-373.
Oberender, Peter O. and Jürgen Zerth 2002: Gesundheitspolitik in Deutschland.

Bayreuth: P.C.O.
Observatoire des Retraites 2004: Retirement Pensions. A Statistical Analysis. Special Edition, January 2003. Paris: Observatoire des Retraites.
Obst, Susanne and Alexandra Wagner 2000: Die Finanzierung der Arbeitsmarktpolitik. Ein internationaler Vergleich. In: G.Bosch/A.Wagner (eds.), Umbau der Finanzierung der Arbeitslosenversicherung. Graue Reihe des Instituts für Arbeit und Technik 2000-03. Gelsenkirchen: Institut Arbeit und Technik, 7-56.
OECD 2000: Economic Survey France. Paris: Organisation for Economic Co-operation and Development.
OECD 2002: Distributed Public Governance. Agencies, Authorities and Other Government Bodies. Paris: Organisation for Economic Co-operation and Development.
OECD 2003: Economic Survey France. Paris: OECD.
OECD 2004a: Social Expenditure Database. Paris: Organisation for Economic Co-operation and Development.
OECD 2004b: Reallocation: The Role of Budget Institutions. Final Conference Report. Paris: Organisation for Economic Co-operation and Development.
OECD 2005a: Economic Survey France. Paris: Organisation for Economic Co-operation and Development.
OECD 2005b: Economic Outlook Vol. 77, Statistical Annex. Paris: Organisation for Economic Co-operation and Development.
OECD 2005c: National Accounts of OECD Countries. Vol IV – General Government Accounts 1993-2004. Paris: Organisation for Economic Co-operation and Development.
OECD 2006a: Economic Survey Germany. Paris: Organisation for Economic Co-operation and Development.
OECD 2006b: National Account Statistics Database. Paris: Organisation for Economic Co- operation and Development. http://www.oecd.org/topicstatsportal/0,2647, en_2825_495684_1_1_1_1_1,00.html
OECD 2006c: Revenue Statistics 1965-2005. Paris: Organisation for Economic Co-operation and Development.
Offe, Claus 1981: The Attribution of Public Status to Interest Groups: Observations on the West German Case. In: S.Berger (ed.), Organising Interests in Europe. Cambridge/New York: Cambridge University Press, 123-158.
Offe, Claus 1990: Akzeptanz und Legitimität strategischer Optionen in der Sozialpolitik. In: C.Sachsse/H.Engelhardt (eds.), Sicherheit und Freiheit. Zur Ethik des Wohlfahrtsstaates. Frankfurt: Suhrkamp, 179-202.
Olk, Thomas and Barbara Riedmüller 1994: Grenzen des Sozialversicherungsstaates oder grenzenloser Sozialversicherungsstaat? Eine Einführung. In: B.Riedmüller/ T.Olk (eds.), Grenzen des Sozialversicherungsstaates. Leviathan Sonderheft 14/1994. Opladen: Westdeutscher Verlag, 1-17.
Olson, Mancur 1965: The Logic of Collective Action: Public Goods and the Theory of Groups. Oxford: Oxford University Press.
Ostrom, Elinor 1990: Governing the Commons. The Evolution of Institutions for Collective Action. Cambridge: Cambridge University Press.
Palier, Bruno 1997: A 'liberal' dynamic in the transformation of the French social welfare system. In: J. Clasen (ed.), Social Insurance in Europe. Bristol: Policy Press, 84-105.
Palier, Bruno 2000: "Defrosting" the French Welfare State. In: West European Politics, Vol. 23(2), 113-36.
Palier, Bruno 2001: Re-shaping the Social Policy-Making Framework in France. In: P. Taylor-Gooby, (ed.), Welfare States under Pressure. London: Sage, 52-75.

Palier, Bruno 2002: Gouverner la Sécurité sociale. Les réformes du système francais de protection sociale depuis 1945. Paris: Presses Universitaires de France.
Palier, Bruno 2005: Re-Negotiating the Continental European Welfare States: The Case of France in the 1990s. Paper presented at the ESPAnet Young Researcher Workshop, 'Organised Labour and the Welfare State : New Perspectives on an Old Couple', Paris, 30th June to 2nd July 2005.
Parry, Richard, Hood, Christopher and Oliver James 1997: Reinventing the Treasury: Economic Rationalism or an Econocrat's Fallacy of Control? In: Public Administration, Vol. 75(3), 395-415.
Patashnik, Eric M. 2000: Putting Trust in the US Budget. Federal Trust Funds and the Politics of Commitment. Cambridge: Cambridge University Press.
Perotti, Roberto, Rolf Strauch and Jürgen von Hagen 1998: Sustainable Public Finances. London: Centre for Economic Policy Research.
Perschke-Hartmann Christiane 1993: Das Gesundheits-Struktur-Gesetz von 1992. Zur Selbstevaluation staatlicher Politik. In: Leviathan, Vol. 21, 564–583.
Persson, Torsten and Guido Tabellini (eds.) 1994: Monetary and Fiscal Policy. Vol. 1: Credibility. Cambridge: The MIT Press.
Pierson, Christopher 1998: Beyond the Welfare State? The New Political Economy of Welfare. Cambridge: Polity.
Pierson, Paul 1994: Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment. Cambridge: Cambridge University Press.
Pierson, Paul 1996: The New Politics of the Welfare State. In: World Politics, Vol. 48 (2), 143–79.
Pierson, Paul 1998: Irresistible Forces, Immovable Objects: Post-Industrial Welfare States Confront Permanent Austerity. In: Journal of European Public Policy, Vol. 5(4), 539-60.
Pierson, Paul 2000a: Increasing Returns, Path Dependence, and the Study of Politics. In: American Political Science Review, Vol. 94(2), 251-267.
Pierson, Paul 2000b: Three Worlds of Welfare State Research. In: Comparative Political Studies, Vol. 33 (6/7), 791-821.
Pierson, Paul (ed.) 2001a: The New Politics of the Welfare State. Oxford: Oxford University Press.
Pierson, Paul 2001b: Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies. In: P. Pierson (ed.), The New Politics of the Welfare State. Oxford: Oxford University Press, 410-455.
Pierson, Paul 2001c: Introduction. Investigating the Welfare State at Century's End. In: P. Pierson (ed.), The New Politics of the Welfare State. Oxford: Oxford University Press, 1-15.
Pierson, Paul 2005: The Study of Policy Development. In: The Journal of Policy History, Vol. 17(1), 34-51.
Poterba, James M. and Jürgen von Hagen (eds.) 1999: Fiscal Institutions and Fiscal Performance. Chicago/London: University of Chicago Press.
Quermonne, Jean-Louis 1991: L'appareil administrative de l'État. Paris: Éditions du Seuil.
Rabe, Birgitta and Günther Schmid 1999: Eine Frage der Balance: Reform der Arbeitsmarktpolitik. In: Aus Politik und Zeitgeschichte, Vol. 37, 21-30.
Radner, Alfred 1978: Soziale Sicherheit und Staatsfinanzen. In: The Geneva Risk and Insurance Review, Vol. 10(1), 85-95.
Rehfeld, Uwe and Hilmar Luckert 1989: Die versicherungsfremden Leistungen der Rentenversicherung - Eine Schätzung von Häufigkeiten und Volumen. In: Deutsche Rentenversicherung, Vol. 1-2, 42-71.
Reissert, Bernd 1994: Beitrags- oder Steuerfinanzierung der Arbeitsmarktpolitik?

Rückblick und Ausblick auf eine Debatte. In: H.Heinelt/G.Bosch/B.Reissert (eds.), Arbeitsmarktpolitik nach der Vereinigung. Berlin: edition sigma, 43-57.
Rey, Jean-Louis 1999: La mutation financière et économique depuis 1981. In: M. Laroque (ed.), Contribution a l'histoire financière de la sécurité sociale. Paris: La Documentation Française, 393-441.
Reynaud, Emmanuel 2000: Social Dialogue and Pension Reform. Geneva: International Labour Office.
Rhodes, Martin 2001: The Political Economy of Social Pacts: 'Competitive Corporatism' and European Welfare Reform. In: P.Pierson (ed.), The New Politics of the Welfare State. Oxford: Oxford University Press, 165-194.
Richter, Saskia 2001: Ideen, Interessen und Institutionen. Bestimmungsfaktoren des rentenpolitischen Entscheidungsprozesses. Köln: Deutsches Institut für Altersvorsorge.
Rodden, Jonathan A., Eskeland, Gunnar S. and Jennie Litvack (eds.) 2003: Fiscal Decentralization and the Challenge of Hard Budget Constraints. Cambridge, MA: MIT Press.
Rodrik, Dani 1997: International Trade and Big Government. In: B.J. Cohen (ed.), International Trade and Finance: New Frontiers for Research-Essays in Honor of Peter B. Kenen. New York: Cambridge University Press, 89-124.
Römer, Michael and Ralf Borell 2002: Versicherungsfremde Leistungen in der Arbeitslosenversicherung. Studie des Karl-Bräuer-Instituts, Heft 96. Berlin: Karl-Bräuer-Institut.
Rose, Richard and Philip Davies 1994: Inheritance in Public Policy: Change without Choice in Britain. New Haven: Yale University Press.
Ross, Fiona 1997: Cutting Public Expenditures in Advanced Industrial Democracies: The Importance of Avoiding Blame. In: Governance, Vol. 10(2), 175-200.
Ross, Fiona 2000: Beyond left and right: the new partisan politics of welfare. Governance, Vol.13(2): 155–83.
Rothgang, Heinz, Cacace, Mirella, Grimmeisen, Simone and Claus Wendt 2005: The Changing Role of the State in Health Care Systems. In: European Review, Vol. 13, Suppl. No 1, 187-212.
Roubini, N. and J. Sachs 1989: Political and Economic Determinants of Budget Deficits in the Industrial Democracies. In: European Economic Reviews, Vol. 33, 903-938.
Ruellan, Rolande 1993: Retraites: l'impossible reforme est-elle achevée? In: Droit Social, Vol. 12, 911-929.
Ruysseveldt, Joris van and Jelle Visser (eds.) 1996a: Industrial Relations in Europe. Traditions and Transitions. London: Sage.
Ruysseveldt, Joris van and Jelle Visser 1996b: Contestation and State Intervention Forever? Industrial Relations in France. In: J. van Ruysseveldt/J. Visser (eds.), Industrial Relations in Europe. Traditions and Transitions. London: Sage, 82-123.
Sachverständigenrat für die Konzertierte Aktion im Gesundheitswesen 2003: Health Care Finance, User Orientation and Quality. Report, Bonn.
Sachverständigenrat zur Begutachtung der Entwicklung im Gesundheitswesen 2005: Koordination und Qualität im Gesundheitswesen. Gutachten 2005, Bonn.
Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung 2006: Jahresgutachten 2005/06, Statistischer Anhang. Wiesbaden: Statistisches Bundesamt.
Saint-Jours, Yves 1982: France. In: Köhler,P./Zacher,H. (eds.), The Evolution of Social Insurance 1881-1981. London: Frances Pinter, 93-149.
Sandier, Simone, Dominique Polton, Valérie Paris and Sarah Thomson 2004: France.

In: A. Dixon/E.Mossialos (eds.) 2002: Health Care Systems in Eight Countries: Trends and Challenges. Report prepared by the European Observatory on Health Care Systems, LSE, London.
Scarbrough, Elinor 2000: West European Welfare States: The Old Politics of Retrenchment. In: European Journal of Political Research, Vol. 38, 225-259.
Scharpf, Fritz W. 1997: Games Real Actors Play: Actor-Centered Institutionalism in Policy Research. Boulder: Westview Press.
Scharpf, Fritz W. 2000: Institutions in Comparative Policy Research. In: Comparative Political Studies, Vol. 33 (6/7), 762-790.
Scharpf, Fritz W. and Vivien Schmidt (eds.) 2000: Welfare and Work in the Open Economy, Vol. 1 and 2. Oxford: Oxford University Press.
Schmähl, Winfried 1991: Technological Innovation and Social and Contributory Social Security Financing. Bremen: Zentrum für Sozialpolitik.
Schmähl, Winfried 1994: Fundamental Issues of Financing of Social Security with Respect to the Tranformation of former Socialist Economics. In: B.von Maydell/ E.M.Hohnerlein (eds.), The Transformation of Social Security Systems in Central and Eastern Europe. Leuven: Peeters Press, 285-325.
Schmähl, Winfried 1999: Public Pensions Reform in Germany – Major Post-War Reform and Recent Decisions. Social Security Research Abroad, No. 126, IPSS.
Schmähl, Winfried 2001: Alte und neue Herausforderungen nach der Rentenreform 2001. In: Die Angestellten Versicherung, Vol. 48(9), 1-10.
Schmähl, Winfried 2004: Paradigm Shift in German Pension Policy: Measures Aiming at a New Public-Private Mix and their Effects. In: M.Rein/W.Schmähl (eds.), Rethinking the Welfare State: The Political Economy of Pension Reform. Cheltenham: Edward Elgar, 153-204.
Schmid, Günther 1983: Handlungsspielräume der Arbeitsämter beim Einsatz aktiver Arbeitsmarktpolitik. In: F.W.Scharpf /M.Brockmann (eds), Institutionelle Bedingungen der Arbeitsmarkt- und Beschäftigungspolitik. Frankfurt am Main: Campus Verlag, 135–178.
Schmid, Günther, Bernd Reissert and Gerd Bruche 1992: Unemployment Insurance and Active Labor Market Policy. An International Comparison of Financing Systems. Detroit: Wayne State University Press.
Schmidt, Manfred G. 1996: When Parties Matter: A Review of the Possibilities and Limits of Partisan Influence on Public Policy. In: European Journal of Political Research, Vol. 30: 155-183.
Schmidt, Manfred G. 2000: Immer noch auf dem „mittleren Weg"? Deutschlands Politische Ökonomie am Ende des. 20. Jahrhundert. In: R.Czada/H.Wollmann (eds.), Von der Bonner zur Berliner Republik: 10 Jahre Deutsche Einheit. Leviathan Sonderheft 19/1999. Wiesbaden: Westdeutscher Verlag, 514-538.
Schmidt, Manfred G. 2001: Wohlfahrtsstaatliche Politik: Institutionen, Prozesse, Leistungsprofile. Oplade: Leske & Budrich.
Schmidt, Wolfgang 2005: Die Zuständigkeiten in der Gesetzlichen Rentenversicherung nach dem RVOrgG. In: Die Angestellten Versicherung, Vol. 52(3), 113-118.
Schmitter, Philippe and Grote, Jürgen 1997: The Corporatist Sisyphus: Past, Present and Future. EUI Working Paper 97/4. Florence: European University Institute.
Schokkaert, Erik and Phillipe Van Parijs 2003: Debate on Social Justice and Pension Reform: Social Justice and the Reform of Europe's Pension Systems. In: Journal of European Social Policy, Vol. 13(3), 245-279.
Scholz, Wolfgang, Hagemejer, Krzysztof and Michael Cichon 2000: Social Budgeting. Geneva: International Labour Office, Social Security Department.
Serré, Marina and Bruno Palier 2004: France: Moving Reluctantly in the OECD's

Direction. In: K.Armingeon/M.Beyeler (eds.), The OECD and European Welfare States. Cheltenham: Edward Elgar, 101-112.
Shalev, Michael 1983: The Social Democratic Model and Beyond: Two generations of comparative research on the welfare state. In: Comparative Social Research, Vol. 6, 315-51.
Shepsle, Kenneth A. 1991: Discretion, Institutions, and the Problem of Government Commitment. In: P.Bordieu/J. Coleman (eds.), Social Theory for a Changing Society. Boulder: Westview Press, 245-265.
Shepsle, Kenneth A. 1992: Bureaucratic Drift, Coalitional Drift, and Time Consistency: A Comment on Macey. In: Journal of Law, Economics and Organization, Vol. 8, 111-118.
Siegel, Nico A. 2002: Baustelle Sozialpolitik. Konsolidierung und Rückbau im Internationalen Vergleich. Frankfurt: Campus.
Siegel, Nico A. 2005: Social Pacts Revisited. 'Competitive Concertation' and Complex Causality in Negotiated Welfare State Reforms. In: Jouropean Journal of Industrial Relations, Vol. 11(1), 107-126.
Smith, Anthony B. 2005: France in Crisis. Welfare, Inequality and Globalization since 1980. Cambridge: Cambridge University Press.
Soskice, David 1999: Divergent Production Regimes: Coordinated and Uncoordinated Market Economies in the 1980s and 1990s. In: H.Kitschelt/P.Lange/G.Marks/ John.D.Stephens, Continuity and Change in Contemporary Capitalism. Cambridge: Cambridge University Press, 101-134.
Soulie, Bruno 1996: Les conventions d'objectifs et de gestion : le nouveau cadre d'exercice des responsabilités respectives de l'Etat et de la Sécurité sociale. In : Droit Social, Vol. 9/10, 794-798.
Spicker, Paul 1998: Le Trou de la Secu: Social Security in France. In: Social Policy Review, Vol. 10, 203-216.
Standing, Guy 1997: Globalization, Labour Flexibility and Insecurity: The Era of Market Regulation. In: European Journal of Industrial Relations, Vol. 3(10), 7-37.
Starke, Peter 2006: The Politics of Welfare State Retrenchment: A Literature Review. In: Social Policy & Administration. Vol. 40(1), 104-120.
Statistisches Bundesamt 2003: Gesundheitsausgaben und Gesundheitspersonal 2001. Wiesbaden: Statistisches Bundesamt.
Steffen, Johannes 2005: Sozialpolitische Chronik: Die wesentlichen Änderungen in der Arbeitslosen-, Renten-, Kranken- und Pflegeversicherung sowie bei der Sozialhilfe (HLU) und der Grundsicherung für Arbeitsuchende - von den siebziger Jahren bis heute. Bremen: Arbeitnehmerkammer Bremen.
Steinmo, Sven 1994: The End of Redistributive Taxation: Tax Reform in a Global World Economy. In: Challenge, Vol. 37(6), 9-17.
Stephens, John D. 1979: The Transition from Capitalism to Socialism. London: Macmillan.
Steuerle, Eugene C. and Kawai, Masahiro 1996: The New World Fiscal Order: Implications for Industrialized Nations. Washington, D.C.: The Urban Institute Press.
Strauch, Rolf and Jürgen von Hagen (eds.) 1999: Institutions, Politics, and Fiscal Policy. Boston: Kluwer Academic Publishers.
Strauch, Rolf and Jürgen von Hagen 2001: Formal Fiscal Restraints and Budget Processes as Solutions to a Deficit and Spending Bias in Public Finances – US Experience and Possible Lessons for EMU. ZEI Working Paper B14/2001. Bonn: Center for European Integration Studies.
Streeck, Wolfgang 2005: Industrial Relations: From State Weakness as Strength to State

Weakness as Weakness. Welfare Corporatism and the Private Use of the Public Interest. In: S.Green/W.E.Paterson (eds.), Governance in Contemporary Germany. The Semisovereign State Revisited. Cambridge: Cambridge University Press, 138-164.
Streeck, Wolfgang and Anke Hassel 2004: The Crumbling Pillars of Social Partnership. In: H.Kitschelt/W.Streeck (eds.), Germany: Beyond the Stable State. London: Frank Cass, 101-124.
Streeck, Wolfgang and Kathleen Thelen 2005: Introduction: Institutional Change in Advanced Political Economies. In: W. Streeck/K. Thelen (eds.), Beyond Continuity: Institutional Change in Advanced Political Economies. Oxford: Oxford University Press, 1-39.
Streeck, Wolfgang and Christine Trampusch 2005: Economic Reform and the Political Economy of the German Welfare State. MPIfG Working Paper 05/2. Cologne: Max Planck Institute for the Study of Societies.
Sturm, Roland with Markus Müller 1999: Public Deficits: A Comparative Study of their Economic and Political Consequences in Britain, Canada, Germany and the United States. London: Longman.
Suntum, Ulrich van and Dirk Schlotböller 2002: Internationales Beschäftigungs-Ranking 2002. Gütersloh: Bertelsmann Stiftung.
Swank, Duane 2001: Political Institutions and Welfare State Restructuring: The Impact of Institutions on Social Policy Change in Developed Democracies. In: Paul Pierson (ed.), The New Political of the Welfare State. New York: Oxford University Press, 197-237.
Taylor-Gooby, Peter and Anne Daguerre 2002: Welfare Reforms in the UK, 1985-2002. WRAMSOC Working Paper, University of Kent.
Taylor-Gooby, Peter 2002: The Silver Age of the Welfare State: Perspectives on Resilience. Journal of Social Policy, Vol. 31(4), 597-621.
Taylor-Gooby, Peter 2005: Is the Future American? Or, Can Left Politics Preserve European Welfare States from Erosion through Growing 'Racial' Diversity? In: Journal of Social Policy, Vol. 34(4), 661-672.
Teague, Paul 1999: Reshaping Employment Regimes in Europe: Policy Shifts Alongside Boundary Change. In: Journal of Public Policy, Vol. 19(1), 33-62.
Ter-Minassian, Teresa 1997 (ed.): Fiscal Federalism in Theory and Practice. Washington, D.C.: International Monetary Fund.
Thain, Colin and Maurice Wright 1995: The Treasury and Whitehall. The Planning and Control of Public Expenditure, 1976-1993. Oxford: Clarendon Press.
Thelen, Kathleen 2001: Varieties of Labor Politics in the Developed Democracies. In P. Hall/ D.Soskice (eds.), Varieties of Capitalism. New York: Oxford University Press, 71-103.
Thelen, Kathleen 2003: How Institutions Evolve: Insights from Comparative-Historical Analysis. In: J. Mahoney/D.Rueschemeyer (eds.), Comparative Historical Analysis in the Social Sciences. Cambridge: Cambridge University Press, 208-239.
Thelen, Kathleen and Sven Steinmo 1992: Historical Institutionalism in Comparative Politics. In: S. Steinmo, K. Thelen and F. Longstreth (eds.), Structuring Politics. Cambridge: Cambridge University Press, 1-32.
Timmins, Nicholas 1995: Five Giants: A Biography of the Welfare State. London: Harper Collins.
Titmuss, Richard M. 1968: Commitment to Welfare. London: Allen & Unwin.
Trampusch, Christine 2000: Arbeitsmarktpolitik, Gewerkschaften und Arbeitgeber. Ein Vergleich der Entstehung und Transformation der öffentlichen Arbeitsverwaltungen in Deutschland, Großbritannien und den Niederlanden

zwischen 1909 und 1999. PhD Thesis, University of Göttingen.
Trampusch, Christine 2002: Die Bundesanstalt für Arbeit und das Zusammenwirken von Staat und Verbänden in der Arbeitsmarktpolitik von 1952 bis 2001. MPIfG Working Paper 02/5. Köln: Max-Planck-Institute for the Study of Societies.
Trampusch, Christine 2003: Ein Bündnis für die nachhaltige Finanzierung der Sozialversicherungssysteme: Interessenvermittlung in der bundesdeutschen Arbeitsmarkt- und Rentenpolitik. MPIfG Discussion Paper 03/1. Köln: Max-Planck-Institut für Gesellschaftsforschung.
Trampusch, Christine 2004: Von Verbänden zu Parteien: Der Elitenwechsel in der Sozialpolitik. MPIfG Discussion Paper 04/3. Köln: Max-Planck-Institut für Gesellschaftsforschung.
Traxler, Franz 1997: The Logic of Social Pacts. In: G.Fajertag/P.Pochet, Social Pacts in Europe. Brussels: ETUI, 27-36.
Tsebelis, George 1995: Decision-Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism, and Multipartyism. In: British Journal of Political Science, Vol. 25, 289-326.
Tsebelis, George 2000: Veto Players and Institutional Analysis, Governance, Vol. 13(4), 441–74.
Tsebelis, George and Eric C. Chang 2004: Veto Players and the Structure of Budgets in Advanced Industrialized Countries. In: European Journal of Political Research, Vol. 43, 449-476.
Unedic 2005: Rapport Financier 2004. Paris: Unedic – Direction de l'Information et de la Communication.
Urban, Hans-Jürgen 2001: Wettbewerbskorporatistische Regulierung im Politikfeld Gesundheit. Der Bundesausschuss der Ärzte und Krankenkassen und die Gesundheitspolitische Wende. WZB-Paper 1/2006. Berlin: Wissenschaftszentrum Berlin für Sozialforschung.
Vail, Mark I. 1999: The Better Part of Valour: The Politics of French Welfare Reform. In: Journal of European Social Policy, Vol. 9(4), 311-329.
Vail, Mark 2004: The Myth of the Frozen Welfare State and the Dynamics of Contemporary French and German Social-Protection Reform. In: French Politics, Vol. 2, 151-183.
Vail, Mark I. and Anton Hemerijck 2006: The Forgotten Center: State Activism and Corporatist Adjustment in Holland and Germany. In: J.D. Levy (ed.), The State after Statism: New State Activities in the Age of Liberalization. Harvard University Press, 57-92.
Van der Veen, Romke and Willem Trommel 1999: The Dutch Miracle: Managed Liberalisation of the Dutch Welfare State: A Review and Analysis of the Reform of the Dutch Social Security System, 1985-1997. London: Institute for Public Policy Research.
Van Waarden, Frans 2003: Renegotiating the Welfare State through Corporatist Concertation: An Introduction. In: F.van Waarden/G.Lehmbruch (eds.), Renegotiating the Welfare State – Flexible Adjustment through Corporatist Concertation. London/New York: Routledge, 3-29.
Veil, Mechthild 2004: Zukunft der Alterssicherung: Rentenpolitik und Rentenreformen in Frankreich und Deutschland. In: Wolfgang Neumann (ed.), Welche Zukunft für den Sozialstaat? Reformpolitik in Frankreich und Deutschland. Wiesbaden: VS Verlag, 138-152.
Verband Deutscher Rentenversicherungsträger 1995: Versicherungsfremde Leistungen – Sachgerecht Finanzieren! In: Fakten und Argumente, Vol. 5. Frankfurt a.M.: VDR.
Verband Deutscher Rentenversicherungsträger 2001: Rentenreform 2001: Das

Wichtigste im Überblick. Frankfurt a.M.: VDR.
Visser, Jelle and Joris van Ruysseveldt 1996: Robust Corporatism, Still? Industrial Relations in Germany. In: J. van Ruysseveldt and J. Visser (eds.), Industrial Relations in Europe. Traditions and Transitions. London: Sage, 124-174.
Visser, Jelle and Anton Hemerijck 1997: A Dutch Miracle. Job Growth, Welfare Reform and Corporatism in the Netherlands. Amsterdam: Amsterdam University Press.
Visser, Jelle und Anton Hemerijck 2000: Die Pragmatische Anpassung des Niederländischen Sozialstaates – ein Lehrstück? In: S. Leibfried und Uwe Wagschal (eds.), Der deutsche Sozialstaat. Bilanzen-Reformen-Perspektiven. Frankfurt/New York: Campus, 452-473.
Volkerink, Bjørn and Jakob de Haan 2000: Fragmented Government Effects of Fiscal Policy: New Evidence. CCSO Working Paper 2000/6. Groningen: Centre for Economic Research.
Volovitch, Pierre 2001: L'evolution des ressources de la protection sociale (1959-1999). In: Reveue d'IRES, Vol. 37, 3-29.
Weaver, Kent R. 1986: The Politics of Blame Avoidance. In: Journal of Public Policy, Vol.6, 371-398.
Wehner, Joachim 2006: Assessing the Power of the Purse: An Index of Legislative Budget Institutions. In: Political Studies, Vol. 54(4), 767-785.
Weingast, Barry R. 1990: The role of credible commitment in state finance. In: Public Choice, Vol. 66, 89-97.
Weingast, Barry, Shepsle, Kenneth and Christopher Johnsen 1981: The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics. In: Journal of Political Economy, Vol. 89, 642-664.
Wildavsky, Aaron 1975: Budgeting: A Comparative Theory of Budgeting Processes. Boston: Little, Brown.
Wilensky, Harold L. 1975: The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures. Berkeley: University of California Press.
Wissenschaftlicher Beirat beim Bundesministerium für Wirtschaft und Technologie 2000: Aktuelle Formen des Korporatismus. Gutachten vom 26./27. Mai 2000, Berlin. In: Bundesministerium für Wirtschaft und Technologie (ed.), Der Wissenschaftliche Beirat beim Bundesministerium für Wirtschaft und Technologie, Stuttgart, Vol. 16, 2077-2103.
Woll, Cornelia 2005: The Difficult Organization of Business Interests: MEDEF and the Political Representation of French Firms. MPIfG Discussion Paper, 05/12. Cologne: Max Planck Institute for the Study of Societies.
Wood, Dan B. and Richard W. Waterman 1991: The Dynamics of Political Control of the Bureaucracy. In: American Political Science Review, Vol. 85(3), 801-828.
Wood, Stewart 2001: Business, Government, and Patterns of Labor Market Policy in Britain and the Federal Republic of Germany. In: P.Hall/D.Soskice (eds.), Varieties of Capitalism – The Institutional Foundations of Comparative Advantage. Oxford: Oxford University Press, 247-273.
Wuttke, Jürgen 2002: Endlich Kurswechsel in der Arbeitsmarktpolitik? In: Arbeitgeber, Vol. 54(4), 20-24.
Zohlnhöfer, Reimut 2001: Parteien, Vetospieler und der Wettbewerb um Wählerstimmen: Die Arbeitsmarkt- und Beschäftigungspolitik der Ära Kohl. In: Politische Vierteljahresschrift, Vol. 42(4), 655-82.
Zöllner, Detlef 1982: Germany. In: P.Köhler/ D. Zöllner (eds.), The Evolution of Social Insurance. London: St. Martin's Press, 1-82.

Newspaper Articles:

Agence France Presse, 5 September 1995, 'Chirac backs tough stand over unemployment pay and deficits'

Agence France Presse, 18 January 2000, 'French bosses meet to decide whether to quit social welfare system'

Der Spiegel, Vol. 15, 2004, 'In der Schuldenfalle'

Die Zeit, 17 March 2005, 'Hans Eichels ominöse Milliardenquelle'

Financial Times, 24 November 1993, 'Ciampi calls meetings to save budget'

Financial Times, 5 September 1995, 'Chirac backs tough stand over unemployment pay and deficits'

Financial Times, 15 June 2000, 'French employers in unions deal'

Financial Times, 28 July 2000, 'Jospin heads for autumn showdown with employers: Pact between bosses and trade unions has caught the socialist government in a political dilemma'

Financial Times, 29 July 2000, 'Jospin heads for autumn showdown with employers: Pact between bosses and trade unions has caught the socialist government in a political dilemma'

Financial Times, 27 October 2000: 'Flexibility gains ground in France: Lionel Jospin's decision to back an agreement over unemployment benefit marks a change of heart towards business'

Financial Times, 21 June 2001, 'To the barricades'

Financial Times, 12 June 2003, 'After weeks of protest over pension reform, the government is claiming the upper hand'

Financial Times Germany, 22 February 2002, 'Arbeitgeber für erneuerte Selbstverwaltung'

Focus, 5 July 1993, 'Vorstoß: Sparen durch Teilen'

Frankfurter Rundschau, 16 August 2003, 'Union droht erneut mit Blockade im Bundesrat'

Frankfurter Rundschau, 15 November 2003, 'Praxisgebühr: Gesundheitsministerin mahnt Ärzte und Kassen'

Le Monde, 2 June 2003, 'Tous coupables du blocage'

La Tribune, 10 July 2002, 'Les depenses de maladie font plonger la secu dans le rouge'

Les Echos, 16 November 2001, 'Le fin programme du paritarisme'

Les Echos, 19 May 2004, 'Assurance-maladie: le Medef decide de son retour'

Market News, 4 May 2004, 'France Court Ruling on Jobless Benefits to Cost Government €1.2 Bln'

Spiegel Online, 12 July 2005, 'Schmidt rügt Schuldenabbau der Kassen'

Stuttgarter Zeitung, 11 May 2004, 'Staat soll aus Sozialkassen raus'

Süddeutsche Zeitung, 18 December 1992, 'Nürnberg lehnt Haushalt 1993 ab. Bundesanstalt für Arbeit geht auf Konfrontationskurz zu Bonn'

Süddeutsche Zeitung, 8 May 1993, 'Arbeitsförderung in der Krise: Der Standpunkt des DGB'

Süddeutsche Zeitung, 13 May 1996, 'Schäuble schließt Erhöhung der Mehrwertsteuer nicht aus'

Süddeutsche Zeitung, 18 June 2004, 'Schmidt glaubt an niedrigere Beitragssätze – Krankenkassen widersprechen'

Süddeutsche Zeitung, 12 February 2005, 'Hartz IV reisst Milliarden-Loch in Etat'

Süddeutsche Zeitung, 17 November 2005, 'Fusionspläne: Aus 262 Kassen mach 30'

Sunday Times, 19 November 1995, 'Juppe the Bold bets billions on his future'

Weakness as Weakness. Welfare Corporatism and the Private Use of the Public Interest. In: S.Green/W.E.Paterson (eds.), Governance in Contemporary Germany. The Semisovereign State Revisited. Cambridge: Cambridge University Press, 138-164.
Streeck, Wolfgang and Anke Hassel 2004: The Crumbling Pillars of Social Partnership. In: H.Kitschelt/W.Streeck (eds.), Germany: Beyond the Stable State. London: Frank Cass, 101-124.
Streeck, Wolfgang and Kathleen Thelen 2005: Introduction: Institutional Change in Advanced Political Economies. In: W. Streeck/K. Thelen (eds.), Beyond Continuity: Institutional Change in Advanced Political Economies. Oxford: Oxford University Press, 1-39.
Streeck, Wolfgang and Christine Trampusch 2005: Economic Reform and the Political Economy of the German Welfare State. MPIfG Working Paper 05/2. Cologne: Max Planck Institute for the Study of Societies.
Sturm, Roland with Markus Müller 1999: Public Deficits: A Comparative Study of their Economic and Political Consequences in Britain, Canada, Germany and the United States. London: Longman.
Suntum, Ulrich van and Dirk Schlotböller 2002: Internationales Beschäftigungs-Ranking 2002. Gütersloh: Bertelsmann Stiftung.
Swank, Duane 2001: Political Institutions and Welfare State Restructuring: The Impact of Institutions on Social Policy Change in Developed Democracies. In: Paul Pierson (ed.), The New Political of the Welfare State. New York: Oxford University Press, 197-237.
Taylor-Gooby, Peter and Anne Daguerre 2002: Welfare Reforms in the UK, 1985-2002. WRAMSOC Working Paper, University of Kent.
Taylor-Gooby, Peter 2002: The Silver Age of the Welfare State: Perspectives on Resilience. Journal of Social Policy, Vol. 31(4), 597-621.
Taylor-Gooby, Peter 2005: Is the Future American? Or, Can Left Politics Preserve European Welfare States from Erosion through Growing 'Racial' Diversity? In: Journal of Social Policy, Vol. 34(4), 661-672.
Teague, Paul 1999: Reshaping Employment Regimes in Europe: Policy Shifts Alongside Boundary Change. In: Journal of Public Policy, Vol. 19(1), 33-62.
Ter-Minassian, Teresa 1997 (ed.): Fiscal Federalism in Theory and Practice. Washington, D.C.: International Monetary Fund.
Thain, Colin and Maurice Wright 1995: The Treasury and Whitehall. The Planning and Control of Public Expenditure, 1976-1993. Oxford: Clarendon Press.
Thelen, Kathleen 2001: Varieties of Labor Politics in the Developed Democracies. In P. Hall/ D.Soskice (eds.), Varieties of Capitalism. New York: Oxford University Press, 71-103.
Thelen, Kathleen 2003: How Institutions Evolve: Insights from Comparative-Historical Analysis. In: J. Mahoney/D.Rueschemeyer (eds.), Comparative Historical Analysis in the Social Sciences. Cambridge: Cambridge University Press, 208-239.
Thelen, Kathleen and Sven Steinmo 1992: Historical Institutionalism in Comparative Politics. In: S. Steinmo, K. Thelen and F. Longstreth (eds.), Structuring Politics. Cambridge: Cambridge University Press, 1-32.
Timmins, Nicholas 1995: Five Giants: A Biography of the Welfare State. London: Harper Collins.
Titmuss, Richard M. 1968: Commitment to Welfare. London: Allen & Unwin.
Trampusch, Christine 2000: Arbeitsmarktpolitik, Gewerkschaften und Arbeitgeber. Ein Vergleich der Entstehung und Transformation der öffentlichen Arbeitsverwaltungen in Deutschland, Großbritannien und den Niederlanden

zwischen 1909 und 1999. PhD Thesis, University of Göttingen.
Trampusch, Christine 2002: Die Bundesanstalt für Arbeit und das Zusammenwirken von Staat und Verbänden in der Arbeitsmarktpolitik von 1952 bis 2001. MPIfG Working Paper 02/5. Köln: Max-Planck-Institute for the Study of Societies.
Trampusch, Christine 2003: Ein Bündnis für die nachhaltige Finanzierung der Sozialversicherungssysteme: Interessenvermittlung in der bundesdeutschen Arbeitsmarkt- und Rentenpolitik. MPIfG Discussion Paper 03/1. Köln: Max-Planck-Institut für Gesellschaftsforschung.
Trampusch, Christine 2004: Von Verbänden zu Parteien: Der Elitenwechsel in der Sozialpolitik. MPIfG Discussion Paper 04/3. Köln: Max-Planck-Institut für Gesellschaftsforschung.
Traxler, Franz 1997: The Logic of Social Pacts. In: G.Fajertag/P.Pochet, Social Pacts in Europe. Brussels: ETUI, 27-36.
Tsebelis, George 1995: Decision-Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism, and Multipartyism. In: British Journal of Political Science, Vol. 25, 289-326.
Tsebelis, George 2000: Veto Players and Institutional Analysis, Governance, Vol. 13(4), 441–74.
Tsebelis, George and Eric C. Chang 2004: Veto Players and the Structure of Budgets in Advanced Industrialized Countries. In: European Journal of Political Research, Vol. 43, 449-476.
Unedic 2005: Rapport Financier 2004. Paris: Unedic – Direction de l'Information et de la Communication.
Urban, Hans-Jürgen 2001: Wettbewerbskorporatistische Regulierung im Politikfeld Gesundheit. Der Bundesausschuss der Ärzte und Krankenkassen und die Gesundheitspolitische Wende. WZB-Paper 1/2006. Berlin: Wissenschaftszentrum Berlin für Sozialforschung.
Vail, Mark I. 1999: The Better Part of Valour: The Politics of French Welfare Reform. In: Journal of European Social Policy, Vol. 9(4), 311-329.
Vail, Mark 2004: The Myth of the Frozen Welfare State and the Dynamics of Contemporary French and German Social-Protection Reform. In: French Politics, Vol. 2, 151-183.
Vail, Mark I. and Anton Hemerijck 2006: The Forgotten Center: State Activism and Corporatist Adjustment in Holland and Germany. In: J.D. Levy (ed.), The State after Statism: New State Activities in the Age of Liberalization. Harvard University Press, 57-92.
Van der Veen, Romke and Willem Trommel 1999: The Dutch Miracle: Managed Liberalisation of the Dutch Welfare State: A Review and Analysis of the Reform of the Dutch Social Security System, 1985-1997. London: Institute for Public Policy Research.
Van Waarden, Frans 2003: Renegotiating the Welfare State through Corporatist Concertation: An Introduction. In: F.van Waarden/G.Lehmbruch (eds.), Renegotiating the Welfare State – Flexible Adjustment through Corporatist Concertation. London/New York: Routledge, 3-29.
Veil, Mechthild 2004: Zukunft der Alterssicherung: Rentenpolitik und Rentenreformen in Frankreich und Deutschland. In: Wolfgang Neumann (ed.), Welche Zukunft für den Sozialstaat? Reformpolitik in Frankreich und Deutschland. Wiesbaden: VS Verlag, 138-152.
Verband Deutscher Rentenversicherungsträger 1995: Versicherungsfremde Leistungen – Sachgerecht Finanzieren! In: Fakten und Argumente, Vol. 5. Frankfurt a.M.: VDR.
Verband Deutscher Rentenversicherungsträger 2001: Rentenreform 2001: Das

Wichtigste im Überblick. Frankfurt a.M.: VDR.
Visser, Jelle and Joris van Ruysseveldt 1996: Robust Corporatism, Still? Industrial Relations in Germany. In: J. van Ruysseveldt and J. Visser (eds.), Industrial Relations in Europe. Traditions and Transitions. London: Sage, 124-174.
Visser, Jelle and Anton Hemerijck 1997: A Dutch Miracle. Job Growth, Welfare Reform and Corporatism in the Netherlands. Amsterdam: Amsterdam University Press.
Visser, Jelle und Anton Hemerijck 2000: Die Pragmatische Anpassung des Niederländischen Sozialstaates – ein Lehrstück? In: S. Leibfried und Uwe Wagschal (eds.), Der deutsche Sozialstaat. Bilanzen-Reformen-Perspektiven. Frankfurt/New York: Campus, 452-473.
Volkerink, Bjørn and Jakob de Haan 2000: Fragmented Government Effects of Fiscal Policy: New Evidence. CCSO Working Paper 2000/6. Groningen: Centre for Economic Research.
Volovitch, Pierre 2001: L'evolution des ressources de la protection sociale (1959-1999). In: Reveue d'IRES, Vol. 37, 3-29.
Weaver, Kent R. 1986: The Politics of Blame Avoidance. In: Journal of Public Policy, Vol.6, 371-398.
Wehner, Joachim 2006: Assessing the Power of the Purse: An Index of Legislative Budget Institutions. In: Political Studies, Vol. 54(4), 767-785.
Weingast, Barry R. 1990: The role of credible commitment in state finance. In: Public Choice, Vol. 66, 89-97.
Weingast, Barry, Shepsle, Kenneth and Christopher Johnsen 1981: The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics. In: Journal of Political Economy, Vol. 89, 642-664.
Wildavsky, Aaron 1975: Budgeting: A Comparative Theory of Budgeting Processes. Boston: Little, Brown.
Wilensky, Harold L. 1975: The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures. Berkeley: University of California Press.
Wissenschaftlicher Beirat beim Bundesministerium für Wirtschaft und Technologie 2000: Aktuelle Formen des Korporatismus. Gutachten vom 26./27. Mai 2000, Berlin. In: Bundesministerium für Wirtschaft und Technologie (ed.), Der Wissenschaftliche Beirat beim Bundesministerium für Wirtschaft und Technologie, Stuttgart, Vol. 16, 2077-2103.
Woll, Cornelia 2005: The Difficult Organization of Business Interests: MEDEF and the Political Representation of French Firms. MPIfG Discussion Paper, 05/12. Cologne: Max Planck Institute for the Study of Societies.
Wood, Dan B. and Richard W. Waterman 1991: The Dynamics of Political Control of the Bureaucracy. In: American Political Science Review, Vol. 85(3), 801-828.
Wood, Stewart 2001: Business, Government, and Patterns of Labor Market Policy in Britain and the Federal Republic of Germany. In: P.Hall/D.Soskice (eds.), Varieties of Capitalism – The Institutional Foundations of Comparative Advantage. Oxford: Oxford University Press, 247-273.
Wuttke, Jürgen 2002: Endlich Kurswechsel in der Arbeitsmarktpolitik? In: Arbeitgeber, Vol. 54(4), 20-24.
Zohlnhöfer, Reimut 2001: Parteien, Vetospieler und der Wettbewerb um Wählerstimmen: Die Arbeitsmarkt- und Beschäftigungspolitik der Ära Kohl. In: Politische Vierteljahresschrift, Vol. 42(4), 655-82.
Zöllner, Detlef 1982: Germany. In: P.Köhler/ D. Zöllner (eds.), The Evolution of Social Insurance. London: St. Martin's Press, 1-82.

Newspaper Articles:

Agence France Presse, 5 September 1995, 'Chirac backs tough stand over unemployment pay and deficits'

Agence France Presse, 18 January 2000, 'French bosses meet to decide whether to quit social welfare system'

Der Spiegel, Vol. 15, 2004, 'In der Schuldenfalle'

Die Zeit, 17 March 2005, 'Hans Eichels ominöse Milliardenquelle'

Financial Times, 24 November 1993, 'Ciampi calls meetings to save budget'

Financial Times, 5 September 1995, 'Chirac backs tough stand over unemployment pay and deficits'

Financial Times, 15 June 2000, 'French employers in unions deal'

Financial Times, 28 July 2000, 'Jospin heads for autumn showdown with employers: Pact between bosses and trade unions has caught the socialist government in a political dilemma'

Financial Times, 29 July 2000, 'Jospin heads for autumn showdown with employers: Pact between bosses and trade unions has caught the socialist government in a political dilemma'

Financial Times, 27 October 2000: 'Flexibility gains ground in France: Lionel Jospin's decision to back an agreement over unemployment benefit marks a change of heart towards business'

Financial Times, 21 June 2001, 'To the barricades'

Financial Times, 12 June 2003, 'After weeks of protest over pension reform, the government is claiming the upper hand'

Financial Times Germany, 22 February 2002, 'Arbeitgeber für erneuerte Selbstverwaltung'

Focus, 5 July 1993, 'Vorstoß: Sparen durch Teilen'

Frankfurter Rundschau, 16 August 2003, 'Union droht erneut mit Blockade im Bundesrat'

Frankfurter Rundschau, 15 November 2003, 'Praxisgebühr: Gesundheitsministerin mahnt Ärzte und Kassen'

Le Monde, 2 June 2003, 'Tous coupables du blocage'

La Tribune, 10 July 2002, 'Les depenses de maladie font plonger la secu dans le rouge'

Les Echos, 16 November 2001, 'Le fin programme du paritarisme'

Les Echos, 19 May 2004, 'Assurance-maladie: le Medef decide de son retour'

Market News, 4 May 2004, 'France Court Ruling on Jobless Benefits to Cost Government €1.2 Bln'

Spiegel Online, 12 July 2005, 'Schmidt rügt Schuldenabbau der Kassen'

Stuttgarter Zeitung, 11 May 2004, 'Staat soll aus Sozialkassen raus'

Süddeutsche Zeitung, 18 December 1992, 'Nürnberg lehnt Haushalt 1993 ab. Bundesanstalt für Arbeit geht auf Konfrontationskurz zu Bonn'

Süddeutsche Zeitung, 8 May 1993, 'Arbeitsförderung in der Krise: Der Standpunkt des DGB'

Süddeutsche Zeitung, 13 May 1996, 'Schäuble schließt Erhöhung der Mehrwertsteuer nicht aus'

Süddeutsche Zeitung, 18 June 2004, 'Schmidt glaubt an niedrigere Beitragssätze – Krankenkassen widersprechen'

Süddeutsche Zeitung, 12 February 2005, 'Hartz IV reisst Milliarden-Loch in Etat'

Süddeutsche Zeitung, 17 November 2005, 'Fusionspläne: Aus 262 Kassen mach 30'

Sunday Times, 19 November 1995, 'Juppe the Bold bets billions on his future'