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Ideational Leadership and Structural Policy Change: Comparing German Welfare State Reforms

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Abstract

This paper aims to explain significant policy change in the context of highly change-resistant welfare states. Dominant institutional theories of welfare state politics predict that welfare states are extremely stable constructs. Despite such claims, the German welfare state, being the prototype of such stability, has undergone a number of structural reforms in recent years. I argue that ideational leadership (IL) is able to account for such reforms in status-quo oriented welfare states by changing preferences of actors who formerly opposed far-reaching reforms and breaking through institutional lock-in mechanisms. Evidence from a comparative case study of German welfare state reforms shows that policy-makers indeed displayed ideational leadership, while they also made concessions to overcome political-institutional obstacles. The findings suggest that the politics of transforming welfare states differs from the politics of retrenching welfare states. Furthermore, the concepts introduced enhance current theorizing on policy change with regard to both assessing change and explaining it.

Introduction

Patterns of policy stability and change have engaged analysts in political studies and policy sciences alike for several decades. In particular, analysts are interested in improving knowledge on what constitutes policy change and how “real” change can be distinguished from “minor” change or policy adjustments. A second major question is what determines policy change and major change in particular, and by what mechanisms explanatory factors are linked to policy outcomes. This paper asks both kinds of questions while taking issue with a puzzle in the area of comparative welfare state research. The puzzle concerns a contradiction between theoretical knowledge and empirical observations. Dominant institutional theories of welfare state politics tell us that fundamental welfare state reforms are unlikely to occur. Notwithstanding their predictions, the notoriously stable German welfare state has undergone a number of major reforms in recent years. How is this possible?

Departing from the main drawbacks of historical institutionalist approaches, I argue that ideational leadership (IL) can explain major reforms, defined as structural reforms, in status quo-oriented welfare states. Ideational leaders tackle institutional obstacles by changing preferences of actors who formerly opposed far-reaching reforms; by doing so, they are able to open up institutional lock-in mechanisms. To evaluate this hypothesis, a comparative case study of German welfare state reforms was carried out, investigating four reform processes in considerable detail. The empirical evidence showed that policy-makers indeed displayed ideational leadership, while they also made concessions to overcome political-institutional obstacles. As for the conditions and assumptions underlying welfare state reform, the findings suggest that the politics of transforming welfare states surely differs from the politics of retrenching welfare states. Furthermore, they enhance both the dependent and independent variable dimensions of theorizing on policy change.

The paper is organized as follows. Section 1 presents the arguments of two protagonists of dominant approaches (Esping-Andersen, Pierson) as well as a critique of their theories. Furthermore, it argues that a number of advanced welfare states, including Germany, have recently undergone a

number of major reforms. In order to capture such non-incremental change theoretically, I propose the concept of “structural reform”. Section 2 proceeds to formulate a theoretical explanation of structural reform, arguing that “ideational leadership” (IL) is able to account for them. IL is based on two explanatory variables of policy change, political agency and political ideas. The underlying assumption is that IL changes preferences of actors opposing far-reaching reforms. The following section reports on how the IL hypothesis was operationalised and summarizes the findings of a comparative case study of reform processes in three major areas of the German welfare state: old-age pensions, unemployment insurance and health care (Section 3). Section 4 discusses the empirical findings, considers their implications for welfare state theories. The conclusion briefly reflects on the importance of the findings for studying policy change, also beyond the area of social policy.

1. Highly Change Resistant Welfare States Versus Major Policy Change

1.1 Theories Predicting Change Resistance

Firstly, Gøsta Esping-Andersen has contributed a widely used classification to comparative welfare state research (Esping-Andersen, 1990, 1996). In his seminal book *The Three Worlds of Welfare Capitalism* (1990), he distinguishes three clusters of welfare state regimes, a Social-Democratic, a Liberal and a Conservative type.¹ What are the prospects for policy change given those regimes? Due to their shared institutional characteristics, future policy trajectories are regime-specific, which means that policy change is likely to remain within a regime’s policy path. Moreover, successful reform adoption is dependent upon a broad consensus among various social interests (Esping-Andersen 1996: 266-267), which is needed to overcome a regime’s inherent resistance against change. Despite clear changes in the context of social policy making and politicians’ efforts to adapt welfare states to new challenges, at the end of the 1990’s, Esping-Andersen still held that ‘the inherent logic of our three welfare state regimes seems to reproduce itself’ (Esping-Andersen, 1999:165).

As the second important theorist of historical institutionalism, Paul Pierson has identified three sorts of constraints to radical welfare state reform relevant to policy-makers wishing to pursue retrenchment (Pierson 1994; 1996). Firstly, advanced welfare states, after decades of expansion, constitute the status quo, ‘...with all the political advantages that this status confers. Non-decisions generally favour the welfare state’ (Pierson 1996: 174). Secondly, radical welfare state reform faces electoral hazards. Such reform is politically risky because social policy programmes continue to enjoy widespread popularity among the electorate at large. In addition, the maturation of these programmes

¹ Regimes differ with regard to the mix of institutions guaranteeing the provision of social security: the state, the market and the family. Secondly, they vary with respect to the kind of stratification systems upheld by these institutions (regarding, for instance, the extent of status differentiation and inequality that is accepted). Finally, the degree of de-commodification, i.e. to what extent people can make a living without having to rely on labor market participation, varies across these regimes (Esping-Andersen 1990: 37).

has created new interests, i.e. producers and consumers of social services, acting as their defenders. “New politics” assumes welfare state retrenchment to be inherently unpopular with the electorate, forcing politicians to resort to blame-avoidance strategies. Finally, Pierson argues that the creation of policy programmes in the past has engendered path-dependent processes:

Organizations and individuals adapt to particular arrangements, making commitments that may render the costs of change (even to some potentially more efficient alternative) far higher than the costs of continuity. Existing commitments lock in policymakers (Pierson 1996: 175).²

The technical consequences of path-dependence are effects such as policy lock-in and sticky institutions (Van Kersbergen 2000: 23), which are claimed to limit substantially the reform options available to policy makers. As a consequence, path-breaking change is practically ruled out allowing at best “bounded change”, that is within the limits of a previously chosen path (Pierson 2001: 415). Under these circumstances, what are the prospects for major change? Pierson specifies four “tentative hypotheses” for significant reform, according to which retrenchment will be facilitated by electoral slack, budgetary crises, strong chances for reducing the visibility of reform, and good prospects for changing the rules of the game, or “institutional shifts” (Pierson 1996: 176-178). However, the value of these hypotheses is doubtful: the outcome of reform is only specified vaguely; the linkages between the factors are unclear; and the factors specify contextual conditions rather than clarifying what policy-makers should do to achieve reforms. All in all, Pierson’s theory does at best speculate about conditions of path-breaking change, while seeing the continuation of the status quo as the most likely outcome.³

1.2 Criticism of Institutional Approaches

The theorizing of Esping-Andersen and Pierson suffers from two weaknesses. The first relates to their greatest strength: they are very well equipped to explain the relative stability of welfare states. However, the downside is that by overemphasizing the weight of institutions as obstacles to far-reaching change, they leave open few possibilities for such change. Their accounts give little thought to the conditions of significant change and possibilities for leaving historically determined paths of welfare provision are portrayed as severely limited. As a result, their message is that reforms going beyond established policy patterns and regime characteristics can only occur under very narrowly defined circumstances. This stability bias deflects attention from actual patterns of change, including reforms which imply divergence from an existing policy path.

The second weakness is the lack of attention paid to the role of political agency (Ross 2000a). Policy makers do make an appearance in these theories, but their scope for tackling significant

² More precisely, research on technological change indicates that ‘increasing returns’ are based on large set-up or fixed cost, learning effects, coordination effects and actors’ adaptive expectations. For a more detailed treatment of the concept of path-dependence, its origins in the literature on technological change and its application to political science, see Pierson 2000.

³ Admittedly, the conclusion to his edited 2001 volume (Pierson 2001) goes one step further in specifying the conditions of change by hypothesizing about different reform paths for different welfare regimes. However, this text does not build upon his 1996 “preconditions for significant change”, but starts from a ‘broad reform consensus’ assumption and is essentially still historical-institutionalist in orientation.

restructuring is portrayed as severely limited. For instance, Pierson has stressed the contrast between the “Golden Era” of welfare state enlargement and the current “era of austerity”: now, leaders find themselves squeezed between external pressures and internal constraints (Pierson 2001). While Pierson points to a number of factors that might offer politicians opportunities for radical change, including blame-avoidance strategies, Esping-Andersen remains even more pessimistic about the capacity of political agency, when he sees reform only in rare instances of broad social and political consensus. In his view, ‘the alignment of political forces conspires just about everywhere to maintain the existing principles of the welfare state’ (Esping-Andersen 1996: 265).

In a nutshell, dominant approaches of welfare state regimes and their politics display a strong continuity bias that entails the risk of overlooking empirical developments of significant welfare state reform. Furthermore, they underestimate the potential of political agency as a possible motor behind such reforms.

1.3 Major Reforms Do Occur

However, it is doubtful whether the account of welfare states stability is still accurate at the beginning of the 21st century. Indeed, recent empirical developments tell a different story. Despite contrary theoretical predictions, advanced welfare states have seen major reforms in recent years. As for the Social-Democratic welfare states, Sweden carried out an important pension reform in the early 1990s (Anderson 1998; Anderson and Meyer 2003; Lindbom and Rothstein 2004); Denmark restructured its pension arrangements (Andersen and Larsen 2002) and made the transition to a ‘workfare’ type of labour market policies (Torfing 1999; Cox 2001); and Norway’s health care system experienced some important decentralizing reforms (Hagen and Kaarbøe 2006). Liberal welfare states that have undergone some major reforms are the United Kingdom (Clasen 2005; Clasen 2005b), New Zealand, Australia (Boston, Dalziel and St John 1999; Goldfinch and 't Hart 2003), and, to some extent, the United States (Hacker 2002; Hacker 2004). In the Conservative or Continental regimes, the Netherlands adopted activating social policies in a formerly passive welfare state (Hemerijck and Van Kersbergen 1997), and, in 2006, adopted system shifts in health and disability insurance. In France, unemployment insurance as well as the financing base of social contributions have been reformed significantly (Palier 2000; Vail 2004). Italy tackled its pension insurance before participating in EMU in 1996 (Ferrera and Gualmini 2000; Ferrera and Gualmini 2004) and a noteworthy pension reform was passed in Austria (Busemeyer 2005). Even in Germany, analysts have noted examples of path-diverging reforms and signs of transformation in the areas of pensions, unemployment insurance, long-term care insurance and, to some extent, health care (Bönker and Wollmann 2000; Czada 2005; Schmidt 2005).

In this paper, for several reasons the focus lies on Germany. Germany is an intriguing case for investigating how significant reforms occur due to its peculiar combination of reform obstacles, on the one hand, and, on the other, salient reform pressures. Obstacles to reform are associated with its

particular political and welfare state institutions. The former make for a large number of veto points and veto players, and, in terms of its welfare state make-up, Germany is considered the prototype of the Conservative regime facing formidable obstacles, when adjusting to economic problems (Esping-Andersen 1996; Hemerijck, Manow and Van Kersbergen 2000; Scharpf 2000a). Furthermore, the country is confronted with reform pressures from multiple sources, socioeconomic, fiscal and demographic, all of which have intensified in the wake of unification. All of these factors combine in a perplexing mix of institutional obstacles, on the one hand, and large incentives to tackle reforms, on the other. Against this background, a number of theoretically unexpected major reforms have occurred starting in the 1990's.

1.4 Defining Major Policy Change as Structural Reform

Describing policy change in the domain of the welfare state is no easy task. One reason why a great deal of the existing welfare state literature is hardly comparable is the lack of generally accepted definitions of welfare state reform. The proliferation of labels for gradations of change (“incremental”, “far-reaching”, “major”, “path-breaking” etc.) is compounded by the so-called “dependent variable problem”. Since it was first attested as relating to the conceptualization and operationalization of retrenchment (Green-Pedersen 2004), it has since been described as a broader problem. The authors of a recent agenda for systematically addressing the problem note that it includes disagreements about the nature and scale of welfare state change, its conceptualization and measurement, and even how policy outcomes can be accounted for by causal factors (Clasen and Siegel 2005: 2). In the literature, approaches to welfare state change, relying on quantitative and qualitative conceptualizations, abound. Main types of indicators to capture (changes in) welfare effort are social expenditure data (e.g. social spending in percentage of GDP), social rights indicators (e.g. measures of ‘decommodification’), and institutional characteristics. Studies that apply qualitative typologies of change (Hemerijck and Van Kersbergen 1997; Leitner and Lessenich 2003; Schmid 2003; Clasen and Clegg 2005) tend to draw upon more general models of policy change (Hall 1993; Sabatier and Jenkins-Smith 1993; Hay 2001) that have been adapted to a welfare state context.⁴ The approach taken in this paper also captures major welfare state change in qualitative terms, with the concept of “structural reform” referring to shifts in the institutional set-up of policies. Such shifts differ from incremental changes, which can frequently be expressed in quantitative terms, for instance, changes in benefit levels or the calculation of benefits. In other words, they are distinct from the kind of routine adjustments historical institutionalism or regime theory would allow for.⁵

⁴ Taylor-Gooby notes that while the outcomes of quantitative analyses tend to stress stability and resilience to pressures, in case studies of policy-making processes are more likely to detect ‘current changes in political alignments and in the institutional framework of policy-making which may be opening the way to substantial restructuring’ (Taylor-Gooby 2002: 598). Statistical analyses tend to lead to an emphasis on continuity because they are necessarily based on data which covers a period stretching back into the past, whereas case studies ‘provide a greater opportunity to examine factors that are currently significant and thus direct attention to forces making for change’ (Ibid.).

⁵ As a matter of fact, Pierson and Esping-Andersen do implicitly concede that even in welfare state regimes that are notoriously resistant to change and under conditions of institutional resilience and a political climate of austerity, some

To define structural reform, I drew on a number of existing qualitative definitions of welfare state change (Webber 1989; Bonoli and Palier 2000a). Webber, in his study of health care reform, described structural reforms as ‘purposeful state interventions which effected a structural change of the health care system’ and ‘a re-ordering of competences and responsibilities regarding financing, provision, and regulation of medical services’ (Webber 1989: 263-264; *own translation*). Bonoli and Palier distinguished four institutional dimensions of social policy programmes, a) the mode of access to benefits, b) its benefit structure, c) its financing mechanisms, and, finally, d) the actors who manage the system (Bonoli and Palier 2000b; Palier 2002). Their classification covers the main structures found in any welfare state programme and complements Webber’s definition that is more geared to the service-based health sector. For reasons of parsimony (and keeping in mind that it is difficult to disentangle them empirically), I subsumed Bonoli and Palier’s mode of access under benefit structure. Accordingly, structural reform was defined as reforms producing shifts *in either the financing structure, the benefit structure (rules of eligibility and form of provision), or the management or regulatory structure* of any social policy programme or policy.⁶

Using this definition, it is possible to take a closer look at seemingly major reforms and check whether they have actually entailed structural shifts in some or all of a policy’s dimensions. In this fashion, I was able to identify reforms in Germany that would lend themselves for more detailed analysis in the case studies. For instance, the 2001 pension reform introduced shifts in all three dimensions, and the same goes for the 2003/2004 merger of unemployment and social assistance.

2. A Novel Driver of Change: Ideational Leadership

Commonplace explanations of far-reaching policy change deal with economic, political-institutional, party-political and ideational factors. It can be shown that each of them, when considered separately, cannot satisfactorily account for major reforms in the German context.

reforms remain likely. Pierson, for instance, concludes his 1996 study of the United Kingdom, the United States, Germany, and Sweden by arguing that ‘over the span of two decades, however, *some* changes in social policy are inevitable (...) What is striking is how hard it is to find *radical* changes in advanced welfare states’ (Pierson 1996: 174).

⁶ The financing structure may be based on taxation, on employment-related contributions or on (insurance) premiums. A switch from a premium-financed health insurance to a national health care system based on general taxation would be a structural shift, while the mere downward or upward adjustment of contribution rates for the insured would be an incremental change. Secondly, a programme’s benefit structure may include means-tested, flat-rate, earnings-related or contribution-related benefits. Changes from one mode to another, for instance, from a contribution-financed to a means-tested system of unemployment insurance, I consider structural shifts. Similarly, concerning health care, the addition of a new group of health care providers would constitute such a change. Conversely, cuts in benefit allowances or the closing down of certain types of hospitals (as health care providers) would be incremental changes. Finally, the regulation or management structure of a policy may be comprised of different actors, such as the state, the social partners (usually trade unions and employers’ associations) and private actors. If, in pension policy, trade unions get a say in the regulation of (public) pension funds, or, in health care policy, a greater number of actors would start deciding about the level of doctors’ enumerations, and this again would constitute structural shifts. Conversely, if a change of regulation in such programmes leaves the existing distribution of competences intact, the change is merely incremental.

Economic explanations run into trouble as mounting economic and fiscal strain, especially after unification, have not readily translated into far-reaching reforms. German political institutions make for many veto players (Tsebelis 1995), and potentially form a steady defence of the social policy status quo. Party-political factors, for instance, the country's party system with its inbuilt electoral competition on social issues, also tend to make radical reforms difficult (Kitschelt 2001). Likewise, it is questionable whether far-reaching reforms can be explained solely by parties' credit-claiming strategies (Levy 1999) or the advantages party's have from particular issue associations (Ross 2000c). Finally, recent studies using ideational factors, that is, of reform-facilitating discourses (Cox 2001; Schmidt 2002b) found no evidence for them in the period up to 2001, and the conditions for effective framing based on a case study of the United Kingdom (Ross 2000a) would first have to be applied to German reforms.

This leads to the conclusion that such macro- (i.e. regime- or country level) and meso-level (i.e. policy programme level) explanatory factors - in the German context – seem to be better suited to explain stability than major change. Therefore, the solution to the puzzle sketched above may lie in explanations situated at the micro-level of analysis. For such micro-level explanations, one needs to take political agency into consideration, i.e. individual policy makers and their patterns of communication and behaviour. How should one go about this? Existing approaches to leadership that consider the effects of political agency on policy outcomes often poorly specify why politicians are in favour of change and how they achieve it (e.g. Luke 2000). Conversely, idea-based explanations may just offer those clues to the motives and strategies used by political agents, while they also have drawbacks. Specifically, they often neglect to specify causal mechanisms that connect ideas with policy change, and lack attention to how ideas rise to prominence, for instance through political agency (Ross 2000b; Schmidt 2002b). In my view, by developing a “joint concept”, ideational leadership (IL), from the two literatures, it is possible to compensate these weaknesses by combining the strengths of these approaches. IL has been devised after reviewing relevant concepts in the leadership (Burns 1978; Blondel 1987; Moon 1995; 't Hart 2000; Luke 2000; Goldfinch and 't Hart 2003) and ideational literatures related to policy change (Braun 1999; Ross 2000a; Schmidt 2002a; Schmidt 2002b). From these concepts, leadership-related tasks that enable reform as well as elements clarifying the role played by ideas in substantial policy change were selected. The resulting hypothesis on IL specifies that key politicians achieve structural reforms by showing certain communicative and behavioural patterns. Key politicians are considered to be ministers who typically come forward with such proposals and have the formal authority to do so. IL is made up of the following aspects expressing those patterns:

Aspects making up ideational leadership (IL)

Communicative/behavioural aspects

- 1) Exposing the drawbacks of the policy status quo
- 2) Making constant efforts to legitimize (the principles of) new policy
- 3) Engaging with reform opponents by framing their resistance as “problematic”
- 4) Making efforts at political consensus-building to muster support for a particular reform initiative

Orientation/motivation aspect

- 5) Being policy- rather than power-oriented

Figure 1: Conceptualisation of Ideational Leadership (IL)

Two types of causal mechanisms link these aspects with the outcome of structural reform. The first one operates at the level of beliefs (both cognitive and normative) of opposing actors and the level of (ideal) interests. This ideational mechanism changes cognitive and normative preferences of reform-resisting actors, and relates to Heclø’s concept of “puzzling”(Heclø 1974: 305-306). The second one relates to the interests of a such actors and changes how they perceive them, which is reminiscent of the notion of “powering within puzzling”(Ferrera and Gualmini 2004): policy actors who try to organise consensus around preferred policy solutions are also influenced by political considerations. The two mechanisms are supported by the assumption about the orientation of IL-type actors: it assumes that they are predominantly policy-oriented, which contrasts with the more conventional view of policy-makers being power-oriented or office-seeking. Such policy-orientation is equally assumed to help with changing the preferences of opposed actors.

Ideational mechanisms

- 1) *policy failure or loss of effectiveness brings on the search for alternatives*
- 2) *creating insights into the logics of appropriateness and necessity behind the innovation helps to lower switching costs and re-define values underlying old policy and institutions*

Interest-related mechanisms

- 3) *reform-critical interest groups that are made to “face the facts” or redefine (the perception) of their interests lower switching costs*
- 4) *forging consensus based on policy-seeking and not power-seeking motives reduces switching costs*

Figure 2: Four causal mechanisms linking the aspects of ideational leadership with the outcome of structural reform

The combination of these mechanisms (effecting changes in beliefs, norms, and ideal interests of opposing actors or policy stakeholders), creates favourable circumstances for an institutional “break-out”(cf. Woerdman 2002). In other words, the policy lock-in of the status quo, which is responsible for

institutional resilience, is overcome and opens the way for structural reform: a re-ordering of actors' competences and responsibilities in a given social policy programme.

Essentially, IL breaks with traditional thinking about leadership as a power-related concept. Instead of holding that formal sources of authority are important to achieve reforms, it stresses that a reform-minded leader possesses the will to innovate as well as persuasive skills. IL thus extends the meaning of leadership in the context of policy-making and addresses a gap in welfare state research: it specifies how policy ideas, vested interests and political institutions interact during different stages of the policy process (Béland 2005: 15).

3. Empirical Evidence from German Welfare State Reform

3.1 Research Design and Methodology

The IL hypothesis was evaluated in a small-n comparative case study of three social policy areas, which suited two requirements: being able to trace IL empirically, and evaluating its linkages with reform outcomes in a complex empirical context. Germany formed the context of analysis, and the case studies focussed on individual reform processes as object of investigation. Within the cases, I applied the process-tracing technique, and used two alternative explanations to overcome reform obstacles as additional tools for evaluating the IL hypothesis.⁷ The main empirical question guiding the case study analyses was twofold: To what extent it is possible to observe IL in the reform processes leading up to reform adoption and in what ways does it relate to the adoption of structural reform? To operationalize IL, each of its aspects was translated into approximate textual "indicators" that could be used to carry out systematic analyses of data sources aimed at detecting the presence of IL. Likewise, structural reform was operationalised as to allow case selection in accordance with my theoretical criteria of substantial reform.

Within the overall case study design, each of the cases had a different function assigned to it. The first case study served primarily as a plausibility probe, that is, to check whether evidence of IL could be found at all in a case of structural reform. The second case study was carried out to see if the conclusions from the first case about the plausibility of IL would hold in another case with an outcome

⁷ Alternative explanations imply that a certain outcome is the result of other influences than the one(s) hypothesized. By collecting information about those other influences, hypothesized explanations can become potentially stronger by excluding other plausible explanatory factors or alternative explanations. Drawing on Burns' volume on leadership (1975), I specified two sorts of alternative explanations operating on the level of individual actors. He considered a number of possible strategies to overcome resistance to change, including coercive, normative, utilitarian, empirical-rational, power-coercive, and re-educative strategies. Based on Burns' list, I chose two plausible strategies key politicians might utilize: The first one involves that they try to ignore or outmanoeuvre reform critics (both in parliament and outside). In short, this strategy sees politicians at a minimum refusing to engage with reform criticism and at a maximum trying to adjust the institutional context in which they operate in order to push through their preferred policy adjustments. This explanation reflects the use of political power. The second alternative explanation states that key policy-makers make concessions in order to push through reforms. The promise of some form of pay-off, i.e. financial benefits or other compensation for societal groups and/or political veto players may be another way to calm opposition and get reforms adopted. Theoretically, these two power- and exchange-related explanations can be distinguished from the IL hypothesis, which draws attention to processes of persuading critics and getting consensus for reforms.

of structural reform, and to make visible the effects of IL on reform adoption. Both cases were selected on the dependent variable, structural reform. The third and final case, selected on the independent variable, IL, served to assess whether there was also a reverse relationship between the two variables. In other words, would a selected “presumed” ideational leader also accomplish structural reforms while in office?

For collecting empirical evidence, the case studies relied on a triangulation of sources: policy-related documents; speeches and press interviews of key policy-makers; thirty-five expert interviews; and daily and weekly quality press coverage. The process of collecting data and conducting interviews in the three policy sectors took place between May 2004 and February 2006. Subsequently, a qualitative content analysis was performed on the written material as well as on interview transcripts, applying the indicators for IL as well as indicators for the occurrence of alternative explanations, in order to gauge the presence and effectiveness of ideational leadership.

3.2 Case Study Findings

To corroborate the hypothesis, IL needed to be identified in the two cases selected on the outcome of structural reform. In addition, a connection between IL and structural reform had to be demonstrated, preferably along the lines of the causal mechanisms outlined earlier. Conversely, if ministers did not meet the criteria of IL, or if they met the criteria, but if a link to the reform outcome could not be established, the hypothesis would be rejected. In the case analyses outlined below, both lines of evaluation were followed, establishing first the characteristics of the key politicians under investigation, and then gathering evidence of their efforts to realize structural reform.

Old-age Pensions

The first case study analysed the process preceding the 2001 pension reform, named after Minister of Labour, Walter Riester. This significant piece of legislation ended the *de facto* one-pillar structure of German pension arrangements, introduced a privately financed and state-subsidised element, and strengthened the company-based element of pension provision. I considered this reform to be structural in character due to the changes it introduced to financing, benefits, and the regulation of pension arrangements. In response to the Minister’s initial reform proposal, considerable opposition, both parliamentary and societal, had gathered against it, and needed to be addressed by the reformist camp headed by the Minister. Despite repeated changes to the proposal, and various concessions on the part of the Ministry to its critics (including opponents within the Social Democrats, the opposition Christian Democrats, and major trade unions); Minister Riester nevertheless preserved the core innovations of the reform until its adoption in the spring of 2001. The evidence collected confirmed that the Minister acted in accordance with IL on the basis of the concept’s three core aspects, “rejecting the policy status quo”, “legitimizing new policy proposals” and “appealing to critics to rethink their resistance”. In addition, studying the Minister’s leadership attributes showed that he was

predominantly policy-oriented. At the same time, Riester failed to pay due attention to consensus-building with *all* relevant critics, including the trade unions and his left-wing opponents within the SPD. His failure to engage in comprehensive consensus-building suggested an addition to the IL concept in terms of further refining it, more specifically, adding an aspect dealing with “efforts at political consensus-building”. From the Minister’s perspective, his neglect to build stable bridges with important reform critics complicated the course of the reform process, but, essentially, could not stop it.

In sum, the first case delivered evidence for both IL and concession-making. By demonstrating the presence of an IL-type policy-maker, Minister of Labour Riester, it underlined the plausibility of the IL hypothesis. The Minister proved successful in pushing through the innovation of an additional private pension pillar in order to save the traditional pay-as-you-go system. That innovation weakened the principle of securing former living standards without dismantling it completely. At the same time, Riester combined IL with concessions to reform opponents in order to realize his plans. This case also demonstrated that a successful re-definition of policy principles (under the condition of proximate elections) and verbal tackling of reform opponents may not be sufficient in getting a reform adopted; making material concessions also proved to be important.

Unemployment Insurance

The second case study focused on the process preceding the 2004 reform of unemployment and social assistance, known as “Hartz IV”. This structural reform broke with the status quo of a *de facto* three-pillar system of German unemployment protection and provoked substantial debate on how to effectively deal with mass unemployment. The evidence collected established that the Minister of Economic Affairs and Labour Clement had acted in accordance with the criteria of ideational leadership during the reform process. In addition, his endeavour was aided by Chancellor Schröder and the Hartz commission, an *ad hoc* body of expert advisors. While Clements' performance was undoubtedly important, it was a combination of argumentation and concessions that allowed “Hartz IV” to materialise: IL was shown to have been a necessary but insufficient condition for structural reform.

The analysis of the effects of IL highlighted the importance of the Minister’s leadership, confirming that it was crucial to break with traditional ways of thinking in labour market policy and to move an ambitious reform plan closer to decision point. Yet, IL alone was not sufficient, but Clements’ relentless effort in combination with the government’s willingness to achieve a compromise on implementation matters (not least to prove the government’s capacity to pass reforms) led to its adoption. The communication of this reform-minded and results-oriented Minister was essential for keeping the momentum in the reform process and for pushing the parliamentary opposition towards the conclusion of the reform. Despite the efforts by the reformist Clement to bring about a mentality change in tackling long-term unemployment, the reform was not concluded until the criticism of the

parliamentary opposition, concerning the role of local governments and the *Länder* in the *Bundesrat*, was accommodated. Instead of adopting Ministry's "centralistic" solution (with the Federal Employment Agency as responsible actor), the compromise foresaw a split of administrative competences between local consortia and a number of local authorities, and the division of financing responsibilities concerning the new benefit.

In his mission to move the reform plans towards completion, Clement could rely on the political commitment Chancellor Schröder, who also provided a general framework for social and economic policy reform. Moreover, he could draw upon the preparatory work carried out by the advisory Hartz commission. Clement's willingness and ability to achieve a compromise proved crucial in ensuring that the core of the reform was adopted (even though the final result differed from the initial government concept), and it helped immensely to uphold the government's image as being capable of pushing through important reforms.

Echoing the findings of the pension case, the second case revealed that IL, in combination with concession-making (and to a lesser extent strategies that circumvent reform opposition), led to the adoption of a structural reforms, the Hartz IV reform, which eventually resulted in a strengthened principle of activation ("Fördern und Fordern") for unemployment policy. The mix of federal, regional and local authorities involved in the process made for conflicting interests of reform stakeholders and forced the Minister to resort to concessions. Eventually, this enabled a compromise on how and at what state level (federal versus local) the new policy instruments should be administered. Nonetheless, the policy outcome owed much to Minister Clement's strong display of IL, aided by Schröder and the Hartz commission.

Health Care

The third case evaluated the skills of an IL-type politician in the field of health care policy. The choice of "presumed" ideational leader Minister Seehofer was based on a short expert survey and an additional criterion that gauged the scope of initial policy ideas of several Ministers. The study focussed on two major reforms during his period in office, the 1992 Structural Health Reform Act (GSG) and the 1997 Health Care Reorganization Acts (1. and 2. GKV-NOG).

The first reform aimed to control health care costs through the imposition of budgeting on various care providers; and introduced an organizational reform affecting sickness fund membership (free choice of sickness fund for patients) and relations between insurers (introduction redistributive risk-adjustment scheme to spread insurance risks). It was structural due to its changes in the sphere of regulation. The state reaffirmed its regulatory power vis-à-vis the self-administration bodies and interest groups and the market gained ground in a formerly static and state-regulated system through sickness fund reform. The rapid conclusion of the reform stemmed from Seehofer's attempt to strike a deal with the Social Democrats. His new approach looking at how to deal with health care stakeholders and his fast and determined way of acting also speeded up the reform project. Moreover,

his distinctive and determined style of legitimizing the aims of the GSG, cost containment and structural reform (of sickness funds), proved effective. The Minister's dual goal of stabilizing the statutory health insurance while opening it up to competition, while spreading the burdens amongst all relevant stakeholders, was convincing and withstood the protest of care providers. The resulting reform reflected Seehofer's commitment to change the unfavourable state of the health care scheme, his ability to legitimize a bold reform concept, and the will and skill to overcome reform resistance, confirming the choice for the Minister as "presumed" ideational leader.

The 1997 reform package aimed to limit contribution rates by linking them to increases in co-payments and increased sickness fund choice for those insured. Moreover, these laws considerably increased patients' co-payments, strengthened the financial liability of sickness funds, and extended the competences of self-governance bodies. Moreover, patients' rights were strengthened, the hospital sector faced financial stability regulations, and dentists faced new remuneration rules. The Reorganization Acts were less far-reaching in scope than the GSG and perceived by critics as one-sided, overstating the personal responsibility of patients and the liability of sickness funds to contain costs. Although their provisions altered the regulation structure of the SHI, they reversed former provisions on self-governance, making it difficult to compare them to truly innovative structural reforms. Minister Seehofer had to operate in an unfavourable, policy-making climate compared to the GSG. Having restored closer relations with interest groups, and after a failed attempt at taking the opposition on board, he tried to push the reform through despite considerable resistance from the Social Democrats and the *Länder*. Due to clear instructions by Chancellor Kohl to cut costs without alienating health care providers, the Minister's leeway to continue with structural reforms had shrunk considerably. Seehofer failed to organize the necessary support for a more far-reaching reform and was unable to sell the resulting reform proposal as a logically consistent and well-balanced plan. Although the Minister *did* display some characteristics of IL in the process, its effects were surely limited and the reform outcome can hardly be described as a clear-cut structural shift. In a nutshell, Seehofer's ability to promote and legitimise these reforms did not lead to visible results, as it seemed to be detained by the substantive content of the reform that put greater burdens on patients than on care providers. Moreover, his attempts at consensus-building ran aground and were restricted in their scope, due amongst other things to the lack of political backing by the Chancellor.

The analysis found clear differences between reform outcomes, the processes, and the Minister's role. In 1992, Seehofer clearly displayed IL in the run-up to the Health Restructuring Act, re-ordering the financial regulation and insurance function of sickness funds. Conversely, IL played a less prominent (and effective) role concerning the second reform plan in 1996/1997. The Reorganization Acts, although representing a structural shift in the regulatory dimension of health care, reversed earlier provisions and produced a controversial and short-lived outcome. The third case indicates that the effects of IL may be contingent, leading to structural reform in one case, and to a less clear-cut reform outcome in another. Moreover, it underlines that sector-specific features may be

consequential for the ease of reform adoption: in health care, the presence of strong stakeholders and diametrically opposed interests inevitably makes for strong opposition to comprehensive reforms from different sources. Under unfavourable circumstances, these may prove problematic for IL-type communication and behavioural patterns.

4. Interpreting the Findings

Overall, the comparative case study provided evidence in favour of the IL hypothesis, as IL-type actors were identified in the first two cases on pension and unemployment reform. With regard to their assumed effectiveness, these cases also demonstrated that the same actors also had to resort to other strategies: IL alone did not shape the conditions for structural reforms. Instead, IL-type actors also resorted to concessions, as the reforms initiated by Riester and Clement indicated. Finally, the third case demonstrated that “presumed” IL Seehofer operated effectively in one reform process, while running into difficulties in another. The bottom line of the three analyses is that there is empirical backing for the IL concept. IL-type leaders do indeed exist in empirical reality and their actions do matter. Furthermore, the observations on the effects of IL point to a number of conditions which offer interesting prospects for further research.

Implications for Studying Welfare State Change

What do the affirmative empirical findings about IL imply for the historical institutional perspective on welfare states and their politics? Are these theories in need of modification to accommodate political agency and ideas? Or should the IL framework be seen as their complement, to help explaining empirical instances they cannot elucidate? I believe that the answer is yes to both questions. These theories are still useful to welfare state analysts as they offer credible explanations for why welfare state regimes tend to change incrementally or why (some) policy-makers shy away from unpopular reforms. Undoubtedly, electoral reasons or institutional characteristics, as Pierson originally contended, still explain instances where far-reaching reform has not come off the ground. At the same time, however, these theories need to supply explanations for far-reaching reform, if they seek to explain more recent empirical welfare state developments, or need to be complemented by new theories of welfare state transformation.⁸ The case studies have produced a number of conditions

⁸ For instance, Esping-Andersen’s regime theory would explain more if it specified conditions under which reforms other than incremental ones may happen. This might include stating how and under what conditions reforms might transform welfare states by introducing features of other regimes over time (e.g. by shifting responsibilities and competences within policies, as implied by structural reforms). Equally, Pierson’s “new politics” account would benefit if it not only specified that politicians tend to shy away from potentially unpopular reforms and at best engage in patterns of blame-avoidance. It would also need to spell out how the same politicians might proactively promote such reforms, as the theoretical framework of IL does. Thus, IL is a valuable complement to the literature of welfare state politics, as it sheds light on such patterns of reform promotion.

impacting upon the relationship between IL and structural reform, which are relevant for patterns of welfare state transformation.⁹

- **proximity/distance of key election data**
- **financial/economic crisis perception imposed on reformists/used by reformists**
- **relative proximity/distance of party-political positions on reform**
- **lack of backing/backing by head of government**
- **absence/presence of catalytic effect by external actors**
- **low/high degree of fairness in how reform burdens are spread among stakeholders**

Figure 3: Summary of additional restrictions on/opportunities for IL-type policy-makers

Returning to the relevance for theorizing welfare state change, the combined findings on the IL hypothesis and its conditions are extending the “new politics” argument, which claimed that the politics of retrenching welfare states differs fundamentally from the politics of extending them (Pierson 1996). Importantly, the conditions for IL arose from studying reforms that were not examples for retrenchment (for which politicians allegedly pursue defensive blame-avoidance strategies), but which were associated with restructuring, prompting politicians to promote them as innovative proposals. This strongly suggests that contemporary processes of welfare state restructuring differ from those leading to retrenchment. Spelling out how politicians might tackle major and potentially controversial reforms questions important assumptions of “new politics”, specifically, the unpopularity of reforms and the character of policy-makers as office-seekers who fear electoral hazard. On the basis of German reform patterns, the argument can be made that reforms that involve restructuring and recalibration of policies are not unpopular *per se*.¹⁰ Moreover, policy-makers did not behave as mere office-seekers. On the contrary, they showed an active interest in the substance of policy and were not put off in the first place by potential electoral losses (whether their ulterior motives were also office-seeking cannot be ruled out, but this remains an empirical question).

In short, I found that the politics of transforming welfare states are different from the politics of retrenching welfare states, which could be observed during the 1990’s. In order to explain welfare state reform in the early 21st century, analysts need to rethink their assumptions and analytical tools.

⁹ These additional conditions largely differ from earlier work on the politics of retrenchment (Pierson 1996), whether one looks at factors assumed to obstruct reform (electoral hazard, “status quo-ness”, organized interests, path-dependent effects) or to present opportunities for retrenchment (electoral slack, budgetary crisis, changing the rules of the game, potential for hiding reforms through blame-avoidance strategies). Most of these conditions, As for the other points, restricting and enabling conditions on reformist politicians differ considerably from past thinking on obstacles to and opportunities for retrenchment. The only overlapping elements are the conditions with respect to elections and crisis, which in the present study were found to restrict the prospects for structural reform, but, in Pierson’s opinion, facilitated retrenchment. Strictly speaking, the condition on crisis perception is close to the first aspect of IL, “rejecting the status quo”. However, with the second health care reform, a general perception of economic crisis (not restricted to the status quo in the health care sector) became synonymous with the imperative to effect cost-savings and prevented Seehofer from continuing with structural reforms rather than helping him.

¹⁰ Admittedly, restructuring may also include unpopular measures (for instance, the merger of benefits implied by the Hartz IV reform also included substantial and potentially unpopular benefit cuts that were feared by important actors in the process), but the presence of IL-type actors who explain and defend the necessity of reforms may redress the popular appearance of reforms as painful cutbacks of social security provision.

Moreover, as Pierson has aptly recognised in his more recent work, welfare state restructuring occurs according to different political dynamics in different welfare state regimes (Pierson 2001). In this line of reasoning, reforms in Social Democratic or Liberal regimes may follow a different logic than in Continental regimes. The IL framework has made a step towards disclosing the reform logic of this pre-eminently resilient regime by stressing the role of individual actors in contrast to Pierson's "new middle coalition" (2001: 452).

Conclusion

To sum up, this paper has addressed the puzzle of major welfare state reforms in the German context. It has proposed that key policy-makers with attributes of ideational leadership (IL) facilitate structural reforms by changing policy stakeholders' policy preferences and gathering support for their policy ideas. The evidence from a comparative study of four reforms showed that policy-makers indeed displayed IL. In addition, they resorted to concession-making to overcome political-institutional obstacles to reform adoption. One conclusion to draw is that the politics of transforming welfare states, in contrast to retrenching them, offers opportunities for political agency to shape policy outcomes, within certain contextual conditions.

Moreover, the paper has taken up a number of themes that are pertinent to the larger debate on policy change and deserve highlighting. First, it has offered a new answer to what drives policy change, and, by extension, on what level(s) its analysis should take place. The concept of ideational leadership (IL) specifies a novel driver of change, based on the combination of political agency and their policy ideas, defined in terms of communicative and behavioural patterns that lend themselves to empirical investigation. IL provides fresh input into the conceptual debate on what best explains changes in public policy and political order: ideas, interests or - perhaps - both (Majone 1996; Lieberman 2002; Starke 2006). In addition, IL is situated at a level of analysis that has been little considered in existing research: the micro- or individual actor level. Departing from the observation that meso- and macro-level explanations cannot explain change satisfactorily in the German context, it was shown how a micro-level explanation may be linked to policy change measured at the meso- (or policy programme) level.

Second, the paper has dealt with the question of how to operationalize and assess policy change. Major change in a social policy context can be measured by focusing on the main structural dimensions of a policy programme (regarding finance, benefit and regulation structures), and shifts within these dimensions can be characterized as structural reform. Depicting major change as shifts in the structural dimensions of a policy provides an extra dimension to existing theories of policy change, which often rely on concepts of path-dependency and departure. This focus makes it more likely to detect policy changes that cover the middle ground between frequent incremental policy adjustments

and rarely occurring paradigmatic changes. In addition, the study contributes to the debate on the temporal dimension of significant change. It does so by suggesting that structural reforms are the result of gradually evolving and lengthy reform processes, even when the object of study are individual reforms. One reason for this may be difficulties to get reform ideas on political agendas, as well as the gradual character of learning and acceptance processes of opposing actors, which supposed IL-type policy-makers are supposed to encourage.

As a final note, IL has been geared to the specific context of change in welfare states with its high degree of institutional resilience and strong vested interests. Surely, social policy is not the only domain of public policy where political agency might break up institutional obstacles to change. The IL proposition may be usefully applied to other policy areas where major changes have been observed despite strong path dependencies, policy legacies and stakeholders. Examples that come to mind are, for instance, agricultural, environmental, energy, or gender equality policy. It might take an innovative leader in agricultural policy to carry out subsidization reform against powerful farmers and bio-industry lobbies who want to keep current subsidy structures. Far-reaching changes in policy on environmental and energy issues (and most recently, climate protection policy) may just take innovation-minded politicians. In these policy fields, politicians confront well-organized lobbies that defend traditional energy sources or represent energy-consuming and polluting means of transport (air travel, car industries). Explaining significant changes in these areas would be facilitated by an actor-centred approach along the lines of IL. Gender equality policy may serve as a final example. Large steps forward on this policy terrain (for instance, the adoption of guidelines on gender mainstreaming) to enhance women's chances and career possibilities on the labour market typically meet with resistance of ministerial bureaucrats or conservative trade unions who fear legal interventions as attacks on well-established competences. However, this list is not exhaustive and other instances of large-scale change in areas of public policy that defy such change, could be added.

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