

Stephan Grohs

Between Modernization and Fragmentation – Challenges for the Administration of the German Welfare State

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Dr. Stephan Grohs
Lehrstuhl für Vergleichende Policy-Forschung und Verwaltungswissenschaft
Fachbereich Politik- und Verwaltungswissenschaft
Universität Konstanz
Fach D 91
D-78457 Konstanz
Tel ++49 (0)7531 882756
Fax ++49 (0)7531 882381
Email: stephan.grohs@uni-konstanz.de
<http://www.polver.uni-konstanz.de/knill/team/dr-stephan-grohs/>

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1. Introduction

The administration of social policy in Germany is marked by a high degree of significant autonomy from direct state control (*Staatsferne*) and functional separation. The core functions of the German Welfare State are administered on the one hand by autonomous administrative bodies (*funktionale Selbstverwaltung*) operating in a single-purpose-logic from the federal level down to local agencies, covering tasks like old age pensions, social care, employment, health or occupational safety. On the other hand, basic functions of the Welfare State are decentralized to the local governments, covering minimum benefits, childcare and youth welfare services. The state administrations on the federal and state level refrain from the direct administration of welfare provision with only minor exceptions.

Despite the reform reluctance of the state levels, the Welfare administrations, both the self-administered social insurance bodies as well as the local government, have shown strong reform efforts since the 1990s. Especially attempts to implement NPM-oriented reforms lied in the focus of these reforms. Output and performance-oriented instruments (esp. contracts (*Zielvereinbarungen*)) gained influence. Additionally, another problem grew in importance: the fragmentation and lack of coordination between the Welfare functions and the administrative levels. These deficits appeared especially at the intersections of the domains of the single-purpose bodies and the (multi-purpose) local governments. Notorious examples are the formation of the job centers (*ARGE*n) after the Welfare reform of 2005 and the care support centers (*Pflegestützpunkte*).

The contribution¹ will examine the implicit contradictions of these reform developments. The assumption is that NPM-styled reforms lead to a segmentation of service delivery and a growing externalization of social problems from the single administrative bodies. The existing architecture of Welfare functions is not able to address these problems adequately, which leads to an increase of “experimental policies” addressed to the local level.

For underlining this argument the contribution will in a first step sketch the reform efforts in the different strands of Welfare administration. In a second step, the implicit contradictions between NPM-style reforms and the growing importance of coordination will be disclosed by case studies in

¹ This contribution is based on research-projects on Administrative Reform of German Local Governments (“Zehn Jahre Neues Steuerungsmodell” (Hans-Böckler Stiftung) with Jörg Bogumil, Anna K. Ohm and Sabine Kuhlmann (cf. Bogumil et al. 2007; Kuhlmann et al. 2008), Modernization of local social policy (Grohs 2010) and a current research project on “Social Entrepreneurship in an Established Welfare State” (Stiftung Mercator) with Rolf G. Heinze, Katrin Schneiders and Martin Burgi (Grohs et al. 2011). Additional evidence was acquired in a consulting project for the Federal Employment Agency in 2009.

the field of employment and care. Whether new administrative solutions can be a remedy for the resulting externalities will be discussed in the concluding section.

2. Two logics of service provision: The dual polity of the German Welfare State

Since the days of Bismarck’s creation of the social insurance system in the 1880s² the German Welfare state is marked by a division of two substantially different logics: The provision of services of “last resort” by local governments on the one hand and the national social insurance bodies dealing with “standard life risks” on the other.³ Whereas local governments integrate the services in their multi-purpose portfolio⁴, the social insurances are run by single-purpose bodies with a considerable degree of autonomy from the federal bureaucracy. The state administrations of the federal level and the Länder refrain from a direct involvement in the administration of social benefits and services and confine themselves to policy formulation, some fiscal involvement and control of legality. Fig. 1 sketches the basic architecture of this dual polity.

Fig. 1: Architecture of German Welfare Administration

		Administrative Control	
		Direct Multi-Purpose	Indirect Single-Purpose
Administrative Level	Federal	Policy-Formulation -Fed. Ministry of Work and Social Affairs (BMAS) -Fed. Ministry of Health (BMG) -Fed. Ministry of Families, the Elderly, Women and Youth (BMFSFJ)	Benefit- and Service-Provision -Employment Agency (BA) -Pension Agency (DRV) -Health and Care Insurances (148) - Accident Insurers (18 Berufsgenossenschaften)
	Municipal	Service-Provision -Child Care -Youth Welfare -Social Assistance - Care-Infrastructure - “Voluntary” Tasks	(Contract Partners: Voluntaries and Private Providers)

² The health insurance was introduced in 1883, accident insurance in 1884 and old-age pension insurance in 1889. In 1927 followed the unemployment insurance and belatedly in 1995 the care insurance.

³ Remarkably, only this second strand of national social insurances attracted the attention of academia in social policy research and led to the classification of Germany as a conservative welfare state (Esping-Andersen 1990).

⁴ Additionally, numerous local services and hospitals are run by non-profits like the charities as well as a growing number of private for-profit enterprises. A discussion of these would overstretch this paper (cf. Grohs 2010; Grohs et al. 2011 for further discussion)

This architecture reflects basic historic legacies. Long time before the establishment of the centrally steered welfare state, local governments were the providers of services like poor relief, cooperating but also competing with the churches. In the course of the 19th century this basic social policy function was expanded to the areas of public health, child welfare and housing. Even before the German nation-state emerged in 1871, “models” of welfare provision spread in a diffusive manner through German municipalities (“*Elberfelder Modell*”; “*Straßburger Modell*”) (Grohs 2010: 18-23). With the establishment of national social security institutions since the 1880s this local policies were supplemented, not replaced. From this time onward, the duality of welfare provision was more and more institutionalized. There was not only a expansion of national provision and the securitization of a growing number of “standard life risks”, but also a growing regulation of local welfare provision, culminating in the major acts of 1922 (Reichsjugendwohlfahrtsgesetz) and 1924 (Reichsverordnung für die Fürsorgepflicht) and the respective post-war legislation of the Jugendwohlfahrtsgesetz 1961 and Bundessozialhilfegesetz 1962, as well as the major reform acts of 1992 (Kinder-und Jugendhilfegesetz) and 2005 (Sozialgesetzbuch II (“Hartzreformen”)). In these acts social assistance, childcare and youth welfare were codified as mandatory tasks of local self administration (“pflichtige Selbstverwaltungsaufgaben”); nowadays these tasks represent the backbone of German local government and the largest block of local expenditures, financed predominantly by taxes (Grohs 2010: 33-46).

On the other hand, the administration of the national welfare tasks was transferred to semi-autonomous institutions of functional self administration, hived of ministerial bureaucracies and governed by boards of stakeholders like employers and employees (Klenk 2008: 25-28; Haarmann et al. 2010). The historical degree of centralization diverged between the highly centralized employment administration and the decentralized landscape of health insurances with a peak number of 1815 insurance bodies in 1970. Besides these differences, functional self-administration was marked by a clear-cut functional specialization, own administrative bodies ranging from the central to the local level and a dominantly contribution based financial base. Table 1 compares these two contrasting models of welfare provision.

Tab. 1: The two logics of welfare provision

	Local Self Government	Functional Self Administration
Level	Municipal	National
Main Tasks	-Child Care -Youth Welfare -Social Assistance - Care-Infrastructure -Social Housing - “Voluntary” Tasks	-Employment and Unemployment Benefits -Old-age and disability pensions -Health -Care - Accident-Insurance
Dominant Financial Base	Taxes	Contributions
Dominant Legal Claim	Means Test	Entitlement
Administrative logic	Multi-Purpose	Single-Purpose
Nature of task	Personal Services	Transfer payments
Political accountability	Direct: Local Councils	Indirect: Governing bodies and federal ministries
Main Deficits	-Sensibility for local disadvantages “Vicious Circle” between tax base and needs - rivalry with other local tasks	-Discrimination against not-entitled person -Coordination deficits -Financing of “Versicherungsfremde Leistungen”
Main Vantages	- Proximity and Flexibility - Responsiveness	- Neutrality of treatment - Potential for redistribution

This basic architecture is faced by several coordination problems which are traditionally labeled as “Verschiebebahnhöfe”, which means that cases with multi-faceted problem-structures are shuffled from one body to another, e.g. between the federal employment (or the pension) agency to local social assistance or from health services to care services (or vice versa). These phenomena were triggers of several policy reforms with a fundamental change in responsibilities like the introduction of the care-insurance in 1995 (local government → federal agency), the Hartz reforms in 2005 (local-governments and federal agency → new “mixed” body) and the basic old-age-security-scheme in 2001 (federal agency → local governments).

3. Striving for Efficiency: New Public Management reform of the Welfare administration

Both strands of the welfare state faced far-reaching administrative reform initiatives since the 1990s.⁵ There were two underlying rationales for that: *efficiency* on the one hand and an ambition to provide a better *coordination* between services on the other.

⁵ This paper will not discuss mere policy reforms. Nevertheless, several policy initiatives had a significant impact on administrative arrangements. In these cases it is not possible to discern clearly between policy-policy and administrative policy.

The Efficiency type of reform was oriented on the tool-kit of NPM style reform: Some services underwent a strong marketizing approach: contracting was fostered especially in the health and care sector (Grohs et al. 2011; Schneiders 2010; Klenk 2011; Rothgang et al.), but also in youth welfare (Grohs 2010) or job procurement. A second NPM inspired approach was the introduction of internal performance management, contract management and benchmarks, especially in the employment and the care sector, but also in an uncoordinated manner in local services (Grohs 2010). A third approach were centralizing reforms of the social insurances, which comprised the fusion of insurance bodies (health care, care and old-age pensions) and internal corporate governance reforms (Klenk 2008). In health care the number of bodies shrank from 1815 bodies in 1970 to 154 in 2011 with the peak of the concentration process between 1998 and 2005 (GKV Spitzenverband 2011); a radical concentration can be observed in the administration of old-age pensions: 28 formerly autonomous bodies were fused to 1, the Deutsche Rentenversicherung Bund (Vgl. Klenk 2008a, b).

Table 2 gives an overview of NPM-style reforms in the main strands of the federal Welfare administration. Often neglected by administrative scientists and in a remarkable contrast to the notorious reform resistant direct federal administration (Bach et al. 2010), the indirect federal self-administered bodies experienced far reaching reforms.

Tab. 2: Major NPM-inspired Administrative Reforms

	Employment Agency	Health Insurance	Care Insurance	Old-Age Pensions
Organization	-Reform of management structures (boards). - Customer-oriented rearrangements of service units	-Reform of management structures (boards). -Concentration: (1970: 1815; 2011: 153)	-Reform of management structures (boards). -Concentration: (1995: 960; 2011: 153)	-Reform of management structures (boards). -Concentration: Fusion of 27 bodies to the “Deutsche Rentenversicherung”
Performance Management	-Central Performance management -Target agreements -Benchmarking between comparable Employment Agencies	-Target agreements	- Quality-benchmarks (“Pflege-TÜV”)	
Marketization	-Private job procurement (contracted)	-DRGs and capped budgets -Contracting of Private/Voluntary Hospitals - Enhanced competition between Insurances	-Contracting of Private/Voluntary Care-Providers -capped budgets	-Additional Private Old-age Insurance (“Riester-Rente”)

On the local level – due to a far-reaching autonomy of local governments concerning organizational matters, NPM- style reforms were implemented in a rather heterogenous matter. The German local

version of NPM, the so-called “New Steering Model” (NSM) was inspired by local government modernization in the Netherlands and became very quickly the predominant template of public sector modernization. The German local authorities have noticeably promoted the modernization of their administrations in the past ten years, as the survey results clearly show. Some 92.4 percent of the responding authorities stated that measures to modernize the administration have taken place since the 1990s and an overwhelming majority (82.4 percent) of German municipalities refers to the NSM as their reference model of modernization (Kuhlmann et al. 2008: 853). This high numbers should not be taken for face value, as the municipalities are only partially guided by the NSM when implementing concrete reform projects. More than 65 percent of the municipalities only pick some selected elements of the NSM, while only a minority has organized their reform activities around the entire concept of the NSM (16.1 percent) (Kuhlmann et al. 2008: 854). This phenomenon can be observed as well in the general administration as in the social branches of local government as can be seen in table 1 with the example of youth authorities

Tab. 3: Implementation of NSM-elements in General and Social Administration

NSM-Elements	General Local Government (n=870 mayors)	Youth Departments (n=242 heads of departments)
New Department Structures	43.6%	47,5%
Strategic Steering Units	25.9%	34,7%
Decentralized/ Operative Controlling Units	10.9%	31,8%
Internal Service Centers	23.9%	31,4%
Abolishing Levels of Hierarchy	34.5%	38,8%
Decentralized Management of Resources	33.1%	39,7%
New Budgeting Procedures	33.1%	41,3%
Output Analyses (Definition of “Products”)	29.0%	41,7%
Cost and Activity Accounting	12.7%	15,3%
Reporting	22.1%	35,1%
Contracts between Top Management and Services	24.3%	32,2%
Contracts between Politics and Administration	14.8%	20,2%
Quality Management	13,9%	29,3%
One-Stop-Agencies	57,5%	19,0%
Customer Surveys	54,7%	36,0%
Citizens’ Charters/ Service Guarantees	7,1%	5,4%

Sources: Kuhlmann et al. 2008: 854 (General Local Government); Grohs 2010: 161 (Youth Departments)

As the social and youth administration are executed only by larger local governments and counties, the numbers table 2 differ and show a slightly stronger reform record by the social administration.

4. Fragmentation from within: Effects of NPM reforms

New Public Management reform has – inspired by the new institutional economics – a separation of functions and responsibilities as a central focus point. The Downside of clear-cut responsibilities is the fostering of departmental egoisms by a wrong set of incentives. As it is impossible to review all Welfare bodies in this paper, two exemplary bodies will be examined in the following: the Federal Employment Agency and Local Youth authorities, for showing the different experiences on the federal and the local levels.

The *Federal Employment Agency* (BA –Bundesagentur für Arbeit) underwent several far-reaching administrative reform measures in the aftermath of the Hartz reforms in 2005. After the so called Hartz IV law, the administration had two main responsibilities, the so called “Unemployment benefit I” (ALG I) and the “Unemployment benefit II” (ALG II). Whereas the ALG I was insurance based and administered by the BA autonomously, the ALG II is tax financed and administered in cooperation with local governments.⁶ In spite of these different logics, the central headquarters of the BA in Nürnberg followed the strategies of similar NPM-inspired performance management systems for both strands of unemployment benefits. Therefore, a set of performance indicators was installed. These are collected on the basis of small teams and reported to the controlling staff at the individual agency. The individual Employment agencies and *Argen*⁷ report the data to the regional offices and finally to the headquarters in Nürnberg where comparisons between Employment Agencies with similar economic and social background are carried through. Monetary incentives being absent, the central feedback instrument are feedback talks (“*Nachhaltgespräche*”). Facing a large number of performance indicators on the one hand, narrowly ring-fenced budgets on the other, the actors in the single agencies tend to follow several strategies⁸: In spite of individual quality-oriented professional ambitions, professionals concentrate on the fulfillment of tasks covered by indicators. This “*tunnel vision*” avoids especially the acknowledgement of coordination needs in the sense of a holistic case management (which would be appropriate for a clientele with cumulating problem situations). A second reaction is the “*creaming off*” of promising clients for budget-relevant measures, neglecting “hard cases”. This behavior leads to the common strategy of *shifting* these “hard cases” into the responsibility of other bodies or at least other divisions of the own body. An appropriate lever for shifting is the valuation of employability. Summing up, the introduction of Performance Management fostered the egoism of Employment Agencies and made cooperative efforts to solve the underlying problem – unemployment and a deficit of employability - unlikely. This “autistic” behavior was additionally triggered by the externally induced evaluation clause in the Hartz law (SGB II §6a).

⁶ For a further complication, 69 local governments (Optionskommunen) administer the ALG II autonomously, in 2012 41 further municipalities will join this model.

⁷ *Argen* (Arbeitsgemeinschaften) are the joined bodies of Employment Agencies and local governments.

⁸ The evidence for the following is based on several interviews, background talks and group discussions with heads of local Employment Agencies and Headquarter staff of the Steering department in Nürnberg in 2009 and is presented here in rather condensed form.

The decentralization of budgetary responsibility and advanced performance management had also segmenting effects in the modernization of *local governments*. But, due to the multi-purpose character of local government there were also coordination enhancing elements of reform. In a survey conducted in 2005 rather centrifugal tendencies between departments occurred in modernizing municipalities. Furthermore, when comparing the percentage of local governments, which have introduced a central controlling unit (38.3 percent), with the percentage of local governments that have decentralized the responsibility for the management of resources (59.3 percent), a considerable “controlling gap” becomes apparent. In more than one-fifth of the cases, it is not clear how the decentralized units feed back to the central city-management. Against this background, particularly in the advanced NSM-cities with a conspicuously decentralized administration, awkward centrifugal forces have occurred (cf. Kuhlmann et al. 2008: 858). This had rather contra-intuitive effects on the part of social and youth departments due to insufficient steering capacities of the administrative heads, new freedoms fostered the professional orientation of the departments and they were able to implement improvements like preventive work, new decentralized coordination structure (Sozialraumorientierung) (Grohs 2010). In comparison with the centralized BA, it is obvious, that local governments followed a more decentralized approach to NPM reform with rather diverging effects. When, in the case of BA, performance management was too tight and decentralized responsibilities too narrow, the opposite seems to be true for the better part of local governments. In addition to these differences in the implementation of performance management, German local governments followed an additional strategy of integrating similar tasks in larger departments for a better coordination. It was claimed for instance to abolish steep hierarchies, to re-integrate “over-specialized” and “atomized” service structures. Table 2 shows such integrative steps in the case of youth departments.

Tab. 4: Integration of Services

Youth departments were integrated with...	
Services for Senior citizens	29,1%
Schools	25,2%
Health	7,9%
Social Assistance	36,2%
Migration	30,7%
(Local) Employment Services	30,7%
Culture	14,2%
Sports	22,0%
Housing	11,8%
Integrated Social Services (ASD)	54,3%
Else	23,8%

Source: Bogumil et al. 2007: 44.

These findings show a better capacity for coordination on the side of local governments as could be suggested by the distinction of multi- and single-purpose organization. However, these capacities were shrunked by two additional factors: the declining fiscal capacities of local governments which forces them to concentrate on their core business and therefore neglecting peripheral tasks (Holtkamp 2010)

and the impact of rearrangement of duties and function by the federal (and also the states') governments which were triggered by social and economic developments in the "real world". As an extensive discussion of the growing fiscal constraints would overstretch this paper, I will focus on the second aspect in the following.

5. Fragmentation from outside: Functional reforms and "real world" developments

The architecture of the German Welfare state as sketched in Fig. 1 developed in rather different circumstances than it is facing today. Some real-world development triggered a rearrangement of functions which induced new imbalances. Mass unemployment, German unification, demographic changes, fragmenting family structures, migration are some of these developments which triggered several measures. Table 3 shows only some of them with a focus on local governments.

Tab. 5: Exemplary Reform measures (Reforms on Länder level excluded)

Year	Domain	Subject	Importance Federal Agency	Importance Local Government
1992/ 1994	Childcare	Entitlement Child Care 3+		+
1995	Care	Care Insurance	+	-
2003/ 2005	Social Assistance	Basic Assistance for the Elderly		+
2005	Social Assistance	SGB II: Fusion of Social Assistance and Long Term Unemployment benefits	+	-
2005	Childcare	Tagesbetreuungsausbaugesetz (TAG) Expansion of care facilities 3-		+
2008	Childcare	Kinderförderungsgesetz (KiföG). Further Expansion of care facilities 3-		+
2008	Care	Pflegestützpunkte	-	+
2011	Social Assistance	Reform of SGB II (Organizational features)	+/-	+/-

These developments and reforms weakened or strengthened the importance of the respective levels of government and – most important in our context – had side effects on other tasks and therefore demanded new coordination structures both for coordination in a vertical sense (e.g. between

employment agencies and local governments) as for horizontal coordination between different departments in local government. These coordination demands are conflicting with the efficiency-driven NPM-reforms as can be illustrated with two recent reforms: The reform of the administration of SGB II (Assistance for long-term-unemployment) and the introduction of the so called care support centers (*Pflegestützpunkte*).

When the SGB II was introduced in 2005 the law prescribed a cooperative body (“ARGE”) between the deconcentrated Employment agencies and Local government as the “normal” case, with the exception of “*Optionskommunen*” (cf. Fn. 6). Besides the rivalry between these models (cf. BMAS 2008; Hesse/Götz 2008)⁹ one interesting feature was the introduction of the performance management system of the federal agency to these bodies. At the same time, local steering bodies (“*Trägerversammlungen*”) with representatives from local government and the employment agency should fix local priorities and coordination with other local services (in some cases even representatives from welfare associations (cf. Grohs et al. 2011) were included.). In effect the administration of the agencies faced a double-headed structure of principal. Summing up the effects for steering shortly: Due to the far more centralized performance management of the BA and the weaker steering capacities of the *Trägerversammlungen*, the administration followed the rules given by the BA. This was supported by a more hierarchical mind-set on the part of bureaucrats socialized in the BA, compared to the personnel recruited from local government. After a further reform in 2010 which was induced by a decision by the Federal Constitutional Court, the ARGEN were renamed and the cooperation between local government and Employment Agency got a new constitutional foundation. Additionally more municipalities have received the opportunity to opt out. On the other hand, the *Optionskommunen* will be urged to join the Federal performance management system. The implementation is still to happen, but the experiences in the ARGEN lead to the guess that the orientation on the “core business” will intensify, while the coordinative advantages might diminish.

The second example, the care support centers (*Pflegestützpunkte*) are a rather new feature introduced in 2008. These reform is a reaction to the fragmenting effects of the introduction of the care insurance in 1995 as well to demographic changes, resulting in a growing number of people in need of care. In this reform the main responsibility for financing old-age care was shifted to the care insurances. Formerly the elderly had to finance care by themselves or rely on the social assistance schemes run by local governments (*Hilfe in besonderen Lebenslagen; Hilfe zur Pflege*). Since 1995 local governments lost their material interest in supporting care facilities and often their only activity was to run their own care facilities, now financed primarily by the care insurance and contributions of the clients. Due to the fragmented structure of the care insurances (about 150 in 2011), and a regionalization of

⁹ Several Evaluations come to rather consistent results: The ARGEN show better performance regarding the placements in the first labour market and the efficient use of fiscal resources; the *Optionskommunen* achieve better results in placements to public work (second labour market) and the promotion of employability (BMAS 2008; Hesse/Götz 2008).

infrastructural planning (“*Pflegekonferenzen*”) there was a lack of encompassing competencies for old – age care on the local level. The care support points are considered to be new institutions which provide support and information for people in need of care and their relatives by individual case management. Especially the coordination of different forms of help lies in the core of these institutions run by the care insurances in the first hand, but with the option of cooperation with local governments, welfare associations and other providers of care. First evaluations (Lang 2009) show here major problems to build up cooperation and trust between the care insurances which have a strict focus on market-like transactions and a clear “business-like”-attitude, despite being legally bodies of public law. These rationales which come close to NPM- models of the marketizing type clash with the orientations of local government and charities. One evaluation describes their relationship: „*Obwohl beide als öffentlich-rechtliche Körperschaften Sozialleistungsträger sind, sind sie keinesfalls »gute«, sondern eher »ferne« Bekannte*“ (Lang 2009:194). This situation is further aggravated by the the market-like competition between the single care-insurances which is fostered by federal policies.

These two examples show clearly, how the internal NPM style reforms hinder the cooperative efforts in sub-fields of the welfare administration. In both cases the segmenting logic of NPM-reform dominates the more coordination-oriented local governments. These show –paradoxically not unrelated to their own NSM reforms – diminished steering capacities and are often unable to respond adequately to the more hierarchical bodies of federal self-administered bodies.

6. Conclusion

Starting from a sketch of the “dual polity” of German Welfare administration, this contribution has examined two different reform strands: an efficiency-driven type of NPM-inspired reforms and the introduction of new cooperative structures which answer to obvious coordination deficits. It has revealed implicit contradictions of these reform developments. The assumption is that NPM-styled reforms lead to a segmentation of service delivery and a growing externalization of social problems from the single administrative bodies. The existing architecture of Welfare functions is not able to address these problems adequately.

One answer to these obvious deficits are an increasing of “experimental policies” addressed to the local level. There are several examples for these (Bogumil et al. 2008) like the programs “social city”, “Lernende Regionen” and several other programs, which have one feature in common: Despite constitutional obstacles the federal level tries to circumvent the established division of tasks, with the hope that local governments will run these programs even when federal funding is faded out. As far as can be seen this hope is diminished by the severe fiscal restraints.

For a real reform of the deficits in the welfare administration two other scenarios are more likely: A further centralization of social tasks, which is discussed for the basic assistance for the elderly for

example, with further fiscal engagement of the federal level. This would clearly alleviate the fiscal burden of local governments and enhance the equity between municipalities. The downside of this policy would be a further fragmentation of service delivery and even more severe coordination deficits. The other way would be a decentralization which would foster cooperation, but enhance territorial inequalities.

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