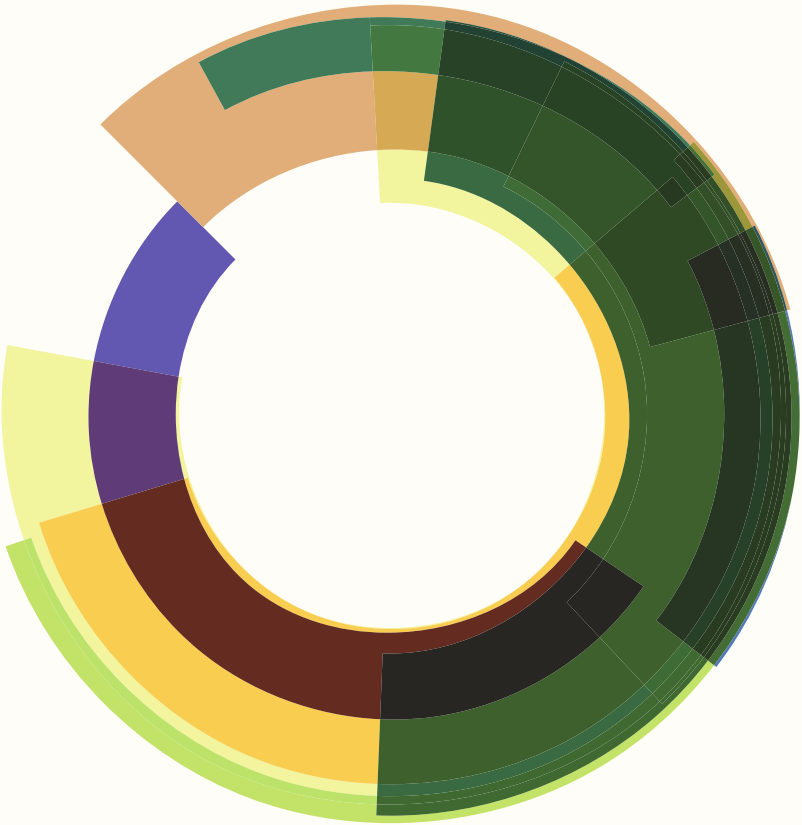
NEW PRIVATE SECTOR PROVIDERS IN THE WELFARE STATE



Jonas Pieper

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List of Abbreviations

ABI	Association of British Insurers
BDPK	German Association of Private Hospitals (Bundesverband Deutscher Privatkliniken)
BUPA	British United Provident Association
BVI	German Investment Funds Association (Bundesverband Investment und Asset Management)
CBI	Confederation of British Industry
CDU	Christian Democratic Union of Germany (Christdemokratische Union Deutschlands)
CSU	Christian Social Union in Bavaria (Christlich-Soziale Union in Bayern)
DKG	German Hospital Federation (Deutsche Krankenhausgesellschaft)
DRGs	Diagnosis Related Groups
FDP	Free Democratic Party (Freie Demokratische Partei)
fsQCA	fuzzy-set Qualitative Comparative Analysis
GDP	Gross Domestic Product
GDV	German Insurance Association (Gesamtverband der Deutschen Versicherungswirtschaft)
il	Absence of institutional leeway (see QCA analysis in Chap. 5)
IL	Presence of institutional leeway (see QCA analysis in Chap. 5)
INUS	Insufficient but necessary part of an unnecessary but sufficient condition (see QCA analysis in Chap. 5)
ISTC	Independent Sector Treatment Centre
NAPF	National Association of Pension Funds
NHS	National Health Service
OECD	Organisation for Economic Co-operation and Development
PAYG	Pay as You Go Pension Scheme
pp	Absence of problem pressure (see QCA analysis in Chap. 5)

PP	Presence of problem pressure (see QCA analysis in Chap. 5)
pwi	Absence of powerful welfare industry (see QCA analysis in Chap. 5)
PWI	Presence of powerful welfare industry (see QCA analysis in Chap. 5)
QCA	Qualitative Comparative Analysis
rpg	Absence of right-wing government (see QCA analysis in Chap. 5)
RPG	Presence of right-wing government (see QCA analysis in Chap. 5)
SERPS	State Earnings-Related Pension Scheme
SPD	Social Democratic Party of Germany (Sozialdemokratische Partei Deutschland)

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CHAPTER 1

Introduction

Business and politics are closely linked in welfare state politics. This is the impression we get from media reports about jobs that policymakers have besides their political position or after resigning as ministers or members of parliament. Let us start with two examples: When former German Minister of Labour and Social Affairs Walter Riester resigned from his position in government, he was soon regularly hired as a well-paid speaker for events of financial service companies.[1] They were interested in his expertise and experience with a new private pension scheme, publicly known as *Riester-Rente*. Some years before Riester had been the minister responsible for the introduction of voluntary, publicly subsidized private pensions. Similarly, in another country and another policy area, Alan Milburn, British Secretary of Health from 1999 to 2003 and responsible for opening the public healthcare system National Health Service (NHS) to private providers, right after resigning from government became consultant with Bridgepoint Capital, an investment firm that provides expertise for companies in the healthcare sector, before joining PricewaterhouseCoopers UK in 2013 as chair of the health industry board (BBC 2004; PricewaterhouseCoopers 2013). Notwithstanding the motives of both politicians and companies about which we can only speculate, these examples have a broader lesson for students of the political economy of welfare reforms: Apparently, relations between politics and business can be close in the area of social policy. It will thus be worthwhile to include these connections into the analysis of welfare state change.

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The two examples are not just cases of general welfare state politics, but, rather, they represent a specific trend of recent welfare state change. Both Walter Riester and Alan Milburn were members of governments that promoted the growth of private provision of social policy and the emergence of for-profit providers in the welfare state. Over the last decades markets have become increasingly important in coordinating the production and provision of social policies. Without a doubt markets have always played a role in the welfare state (Zapf 1984)—and welfare mixes have different shapes in different countries as one can learn from the literature about welfare regimes (Esping-Andersen 1990). However, in recent years, there has been a change in the welfare mix all over Western welfare states, shifting the responsibility from the state to the market (and, in some fields, to families and the voluntary sector). One aspect of marketization is the increasing relevance of for-profit actors for both the provision of services in healthcare, elderly care, or education and the management of cash benefits such as old-age pensions. This process can be called *privatization of social policy provision*. It is privatization in that previously state-led and not-for-profit production is transformed into a profitable business activity. On the following pages, the sum of firms that are active on markets of social policy provision will be called the *welfare industry*.

What happens when for-profit firms enter the welfare state as providers of social policies? The political consequences of this development in the transformation of advanced welfare states are the subject of this book. It thereby addresses a paradox of welfare state reforms: While social policies have traditionally been perceived as politics *against* markets (Esping-Andersen 1985), they are now increasingly provided *on* markets—and thus also by for-profit providers. The present book sheds light on this new actor by delving into the analysis of the consequence of the rise of firms as providers of social policy. Existing research provides ambiguous answers to the question of what the political role of these providers is. While one scholarly camp sees powerful business as a causal factor for the strengthening of markets and private provision (Farnsworth 2004; Leifeld 2011; Leimgruber 2012; Naczyk and Palier 2014; Orenstein 2008), others highlight various driving forces behind marketization that rule out the influence of private providers (Gingrich 2011; Häusermann 2010). Speaking to this debate about the political success of welfare industries, this book proposes to look into different periods of the privatization of social policy provision. It will be argued that firms, once they have become part of social policy delivery, develop a stake in welfare state politics. Apart

from providing social policies, firms will also become political actors that are likely to alter existing actor constellations. Put differently, welfare industries do not just provide services, they also 'power' (Heclo 1974). Analysing how the privatization of social policy provision affects welfare state politics, this book will answer the question whether welfare industries become powerful actors in politics.

State of the Art: From Retrenchment to Welfare Industries

In spite of the increasing relevance of for-profit providers for the production and provision of social policies, welfare state research has so far neglected welfare industries. For quite some time, this was due to the focus on quantitative changes and debates on whether mature welfare states have been retrenched or not. Since the end of the post-war era of economic growth in the mid-1970s, governments have faced increasing constraints on public expenditure. It was this point in time that was later identified by researchers as the end of the golden age of the welfare state. Although political economies have since then found several mechanisms to compensate for weaker economic growth—inflation, public debt, or private debt (Streeck 2011)—there is no doubt that the welfare state is an increasingly contested part of advanced democratic capitalism.

Contradicting all expectations of a fundamental retrenchment of the welfare state which seemed even more plausible in the light of neo-liberal ideas becoming popular and affecting US and UK governments of the 1980s, comparative welfare state research in the 1990s was dominated by the diagnosis that welfare state cuts were largely absent. In his famous contributions, Paul Pierson (1994, 1996, 1998) argued that social policy programmes were much more resistant to social expenditure cuts than could have been expected considering the structural problems and the neo-liberal reform rhetoric. Especially focusing on continental European welfare states, this resilience seemed to be an appropriate description. Pierson's pointed argument provoked several critical answers discussing whether or to what extent social policy reforms have dismantled the welfare state (Korpi and Palme 2003; Nullmeier and Kaufmann 2010; Palier and Martin 2007; Starke 2006). Most prominently, Korpi (2006) highlighted alternative measures of retrenchment, for example, eligibility and social rights. In sum, this debate evolved around the (differently measured) size of the welfare state, asking whether there was more or less of it.

Realizing that this discussion about levels of social expenditure, eligibility, and social rights only covers one part of welfare state change, scholars have additionally turned to new modes of organizing and delivering social policies. The trend within this *organizational dimension* of the welfare state has been labelled liberalization, privatization, or marketization of social policy (Béland and Gran 2008; Dixon and Hyde 2001; Le Grand 1991), whereas the new arrangements resulting from this transformation can be called *welfare markets* (Bode 2008; Nullmeier 2001; Taylor-Gooby 1999; Taylor-Gooby et al. 2004). To put it shortly, welfare markets are politically initiated and regulated markets providing social services and social security. While the expansion of the welfare state after 1960 can be read as a process of nationalization that marginalized the family as a producer of social security, the last decades are characterized by the 'prioritization of the market and the creation of fields of private welfare production by competitive businesses […]' (Nullmeier and Kaufmann 2010, p. 96).

Examples of the new modes of welfare governance range from the private provision of hospital services to contracting out of education services to the social regulation of private pensions. In the case of pensions, for instance, apart from social expenditure cuts that shift responsibility from the collective to the individual, new organizational forms play an increasingly important role. Across the OECD capital markets have gained in importance in delivering old-age security (Ebbinghaus 2011). Interestingly, the rise of market-based provision does not automatically lead to a decline of the state. By certifying and subsidizing products, the state maintains a dominant role as tasks shift from provision to regulation. This new regulatory welfare state attempts to meet traditional social policy aims with new instruments (Leisering 2011). Looking at other areas of social policy provision, we similarly observe that market-based social policy provision does not always go along with a retreat of the state. Markets in public services such as elderly care, education, or healthcare vary widely with regard to the dominant mode of organization. Some favour consumer power, while others are especially beneficial for providers. Yet, states can also remain in a very strong position in steering these markets (Gingrich 2011).

Previous research has contributed to our understanding of these transformations of the welfare state, by analysing how welfare markets are created, how the roles of states change, and how regulatory frameworks imitate specific welfare state institutions. It has, however, neglected crucial actors on these markets: firms that produce, provide, or distribute social goods and services such as hospital chains, nursing homes, health and life

insurers and banks, and so on. As an effect of neglecting the supply side of welfare markets, the existing literature has missed to study how privatization of social policy provision alters the actor constellations in politics. The question raised in this book therefore is this: *Do welfare industries become powerful actors in welfare state politics*?

Sketch of Argument: Private Sector Provider Power

I argue that welfare industries become increasingly powerful. Once there are new market opportunities, they develop a stake in welfare state politics. This is mainly because business in welfare markets heavily depends on political decisions to create and maintain these markets. Income often comes directly from public budgets or is managed by semi-public authorities. As the share of welfare market business grows, industries become interested in affecting the rules of the game, aiming at expanding—or at least stabilizing—the income from social policy provision. Why should we expect that these interests translate into power? I argue that welfare industries as business actors can rely on power resources that provide them with a privileged access to policymakers as well as to crucial actors in society. Both their economic resources, that is, size and position in an industry, and their political resources, that is, associations, party donations, and networks, make it likely that their voice is heard in political processes.

Certainly, welfare industries do not always get what they want in politics. First of all, we will have to consider coalitions with political parties and the interaction with structural conditions such as problem pressure and institutional constraints. What is more, we can expect that time matters for the power of welfare industries. They will especially become powerful in later phases of privatization, while initial steps towards the introduction of private provision also happens without powerful welfare industries. The more developed welfare markets are and the more involved the welfare industries are, the more likely they will be powerful. This implies that the age of a welfare industry is a crucial factor. Industries that are established political and economic actors even before the creation of welfare markets will be more powerful than those industries that only emerge as a consequence of market creation. Consequently, we can expect differences of welfare industry power across pension and hospital sectors. Finally, constraints arise from the character of the political process and other actors. Welfare industry power will be limited by existing institutions, other interest groups, and high topic salience.

Definitions: What Are Welfare Markets and Welfare Industries?

What exactly are welfare industries that feature so prominently in this project? And what are welfare markets, if, according to economic theory, markets are always about (allocating) welfare? *Welfare markets* are markets in which social services or social security is allocated, provided, or exchanged (Köppe 2015, pp. 39–40; Nullmeier 2001; Taylor-Gooby 1999). Regulation of these markets follows some of the traditional social policy principles such as redistribution, security, or equality of access. This is due to the fact that, from a historical perspective, welfare markets have mostly been arising from the liberalization and marketization of the welfare state, thus serving as a partial or full substitute for previously state-managed provision of social policies. Following from this, it should be no surprise that we often find traces of specific welfare state institutions in welfare markets (Köppe 2015; Willert 2013).[2]

As a *welfare industry* we can understand the sum of for-profit firms that engage in activities on welfare markets: firms that produce or provide social policies as their product market strategy (Klenk and Nullmeier 2010). This definition excludes both voluntary organizations and purely employer-based social policies. As to voluntary organizations, some private hospitals are owned and run by charities but do not aim for profits. The organizational features as well as the origin and corporate culture of these hospitals differ from that of private for-profit hospitals. Furthermore, while the existence of non-profit hospitals may be a new phenomenon in some healthcare systems (UK), they are highly established in others (Germany). Unlike the rise of for-profit hospitals, a new role of voluntary organizations is not so much a global phenomenon in the world of Western welfare states. They will thus not be included in the definition. Second, the term 'welfare industry' describes firms that focus their product market strategies on the provision of social policies. This excludes firms that provide social policies such as occupational pensions or health insurance as part of their labour market strategy. Social security that employers provide for employees has a long tradition dating back to the times before the invention of the intervention state (Gilbert 1983). Although relevant transformations take place in this area, for example, the shift in occupational pensions from defined-benefit to defined-contribution schemes, the provision of occupational social policies is analytically distinct from the activity of welfare industries.[3] Chapter 3 presents the largest providers in each of the cases under study.

The talk about welfare markets and welfare industries has a privatization focus. Yet, I neglect changes in how social policies are funded and study only changes in the provision of welfare (Köppe 2015, p. 56; Olesen 2010, p. 39). The funding of welfare markets can take different forms in different social policy areas: While the income of providers on welfare markets in the hospital sector stems from public sources, either taxes or social insurance contributions, welfare markets in pensions generate their earnings from private spending and—to a smaller extent—public subsidies.

Having introduced the terms 'welfare markets' and 'welfare industries', one might wonder due to which processes these phenomena have emerged. The growth of private provision is part of a broader trend that has transformed the modes by which social policy is provided. Typically, market mechanisms have been prominent reform elements. This is why we can call the trend *marketization* (Béland and Gran 2008). However, market reforms vary widely with regard to the exact mechanisms they introduce, ranging from competition-based measures of managing public administration units to the contracting out of services to full market provision where private providers compete on the supply side while welfare state clients compete on the demand side. Distinguishing between marketization as a broad category and the increasing relevance of for-profit providers, I will call the latter process *privatization of social policy provision*. Marketization and privatization of social policy provision describe different aspects of one trend. However, these two aspects do not always overlap. There are markets without for-profit providers and for-profit providers without markets. Typical examples of the former are reforms of public administrations that aim at increasing competition. The NHS represents such a case. While competition within the NHS was introduced already in the late 1980s, for-profit providers entered as providers of healthcare only in the mid-1990s. Conversely, the example of for-profit provision without marketization seems more hypothetical. Low-competition markets that yield high payoffs for providers and shift costs either to the state or to consumers come closest to this type (Gingrich 2011, pp. 12–19).

Empirical Strategy

The study is designed as a comparison of welfare industries in two countries and two sectors. I analyse for-profit providers of hospital services and pensions in Germany and the UK[4] from 1990 to 2010. While firms increasingly engage in various areas of the welfare state such as old-age

care, employment services, or education, hospitals and pensions are especially relevant for two reasons: They represent the largest proportion of social expenditure and are central elements of welfare state legitimacy (Obinger and Wagschal 2010, pp. 339–340; Svallfors 2010). More importantly for the logic of comparison, choosing these two countries and two sectors allows comparing diverse cases as the relevance of private provision largely varies across the four settings.

Private pensions[5] have a long tradition in the UK and have especially been promoted since the late 1980s. The German pension system, on the contrary, remained an almost pure one-pillar system until 2001. While firms providing old-age security in Germany operate in an emerging market that is still getting established in terms of actors, strategies, and institutional framing (Berner et al. 2009), British firms can rely on established market structures (Clasen 2005, pp. 93–136; Davy 2003). More generally speaking, both countries represent distinct types of pension systems. The public pension system in Germany is based on earning-related pensions and draws on private pensions only to a limited extent. The mature three-pillar system in the UK, on the other hand, relies on a basic state pension and developed private, especially occupational, pensions (Ebbinghaus 2011). Figure 1.1 displays how Germany and the UK compare to other countries with regard to private pensions. It presents private pension expenditure as a share of total pension expenditure in selected OECD countries. While Germany scores low by international standards, the UK is among the countries with the highest share

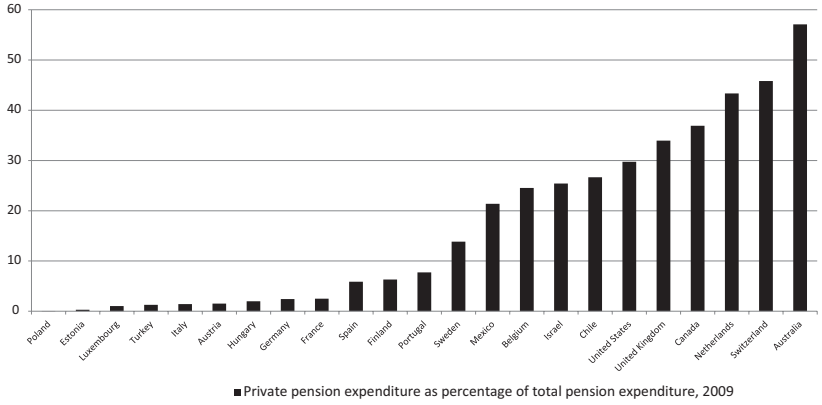

Fig. 1.1 Share of private pension expenditure, 2009
Source: OECD (2014)

of private pensions. This observation also holds if we consider other measures such as the relation of pension fund assets to gross domestic product (GDP). Both countries represent distinct types of pension fund capitalism. While pension fund assets add up to almost two-third of the GDP in the UK, the German pension system is a latecomer in this regard with pension fund assets amounting to less than 5 per cent of GDP (Ebbinghaus and Wiß 2011, p. 359).

As in the case of pensions, the market share of for-profit hospital providers varies widely across healthcare systems (Fig. 1.2). This is mainly due to the specific development of different health regimes: private insurance systems, social insurance systems, and national health services systems. While Germany is classified as a social insurance system, traditionally relying on social insurances for financing, regulating, and partially even providing healthcare, the national healthcare systems of the UK are classical examples of tax-financed universal systems (Wendt et al. 2009, pp. 84–85). As to hospitals, Germany has experienced one of the strongest trends of privatization since the 1990s. Between 1991 and 2010, the market share of for-profit hospitals rose from 15.2 to 33.2 per cent (Statistisches Bundesamt 2011). While there is a tradition of coexistence of public and private (especially not for-profit) ownership in the German hospital sector, the UK is a model of a state-based health system. However, although resistance against hospital privatization has traditionally been strong, private for-profit and voluntary providers of hospital services have recently become more relevant both within and in addition to the NHS.

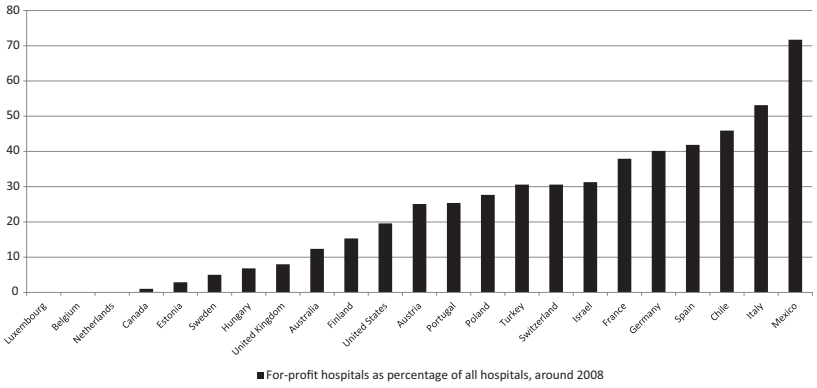

Fig. 1.2 Share of for-profit hospitals, around 2008
Source: OECD (2011), Brandt and Schulten (2007, p. 114), Bundesamt für Statistik (2010), Kaiser Foundation (2011)

Comparing figures, we see that Germany and the UK represent two distinct privatization patterns. The cases cover different stages of welfare market development. While there is advanced privatization of provision in British pensions, the NHS has only recently been opened for private provision. The picture is reversed in Germany where for-profit hospitals have overtaken all other types of providers in terms of market share. On the contrary, pension provision is still dominated by the statutory insurance scheme.

Overall, the case selection takes into account the international and inter-sectoral variety of welfare industries, therewith following the strategy of selecting diverse cases in order to maximize variation. The rationale for this choice is to increase the leverage of the findings: If welfare industries become more powerful in such different institutional contexts as covered in this book, then interest-based explanations of the transformation of welfare states should have good reasons to include this actor into future analyses. Additionally, the comparison of diverse cases helps in assessing whether the rise of a welfare industry is a phenomenon that similarly affects different welfare states or that takes different shapes in different institutional settings. It thereby speaks to the debate in comparative political economy whether varieties or commonalities of capitalism prevail (Streeck 2009).

I use different methods of data collection and analysis throughout the book. The first two empirical chapters deal with welfare industries as actors in both social policy provision and welfare state politics. First, mapping welfare industries, I use descriptive statistics about the size of welfare markets and describe types of firms that engage in these markets and how relevant social policy provision is for them. Data are available from industry associations, government agencies, national statistical offices, and the OECD. Some of these sources are also helpful for collecting data on the resources that welfare industries can use in welfare state politics. Annual reports of companies, biographical databases, and public registers of party donations complement these sources. Data from these sources are presented as descriptive statistics or combined to a composite indicator as a strategy of data reduction.

The focus shifts for the following two chapters where welfare industries are no longer the explanandum. Instead, I analyse if welfare industry power can explain the growth of private provision of social policies. In these parts of the book, welfare state reforms are the outcome and welfare industries an explanatory factor. I proceed in two steps. First, I run a fuzzy-set qualitative comparative analysis (fsQCA) to detect patterns of causal factors that lead to privatizing reforms. This analysis relies on a number of different sources providing aggregate data for cross-national analysis (Armingeon et al. 2013; OECD publications; see Chap. 5 and Online Appendix

for details). Case studies of selected reforms complement the fsQCA, adding information on the reform processes and causal mechanisms leading to privatization of social policy provision. Academic literature on these reforms, newspaper articles, and government documents are sources of information. Overall, the empirical strategy of this book is to combine different data sources and methods of analysis in order to shed light on a new actor in social policy provision and welfare state politics.

Plan of the Book

In what follows in this book, I will first discuss theoretical expectations about the political role of welfare industries (Chap. 2). Previous research on both the introduction of markets in social policy provision and welfare state change in general has come to ambiguous findings. I argue that considering welfare industry power as well as its constraints helps us to better explain the increasing share of private providers. Chapter 3 will provide basic information about welfare markets and welfare industries in pension and hospital sectors in Germany and the UK. I will briefly trace the introduction and development of welfare markets and proceed with mapping the landscape of providers: What types of firms are central actors of welfare industries? Who are the largest providers? How relevant is welfare market business for them? After I have analysed if welfare industries have an economic interest in engaging in welfare state politics, I turn my attention to their power resources (Chap. 4). Expecting that the emergence of this industry as a political player is reflected in increasing power resources, I collect data on firm and industry characteristics and relations between business and politics. These data will be combined to a composite indicator that serves as a tool to comparatively describe patterns of welfare industry power over time and across countries and fields. In Chap. 5, I study the determinants of privatizing reforms, analysing whether there is support for the hypothesis that powerful welfare industries together with other factors can explain the growth of private provision. In other words, I will examine whether welfare industries increasingly get what they want in welfare state politics, by analysing political reforms in each of the fields under study. Chapter 6 complements this analysis by zooming into the policy processes of four welfare state reforms. What were the mechanisms of reform? How did welfare industries try to get a say in the political process? What channels could they use to exert power? I close the book with summarizing the main results and discussing their implications for both existing theories of welfare state change and the argument presented in this book.

The main contribution of this book is to put a new type of actor in the welfare state into focus: for-profit firms as providers of social policy. Describing the emergence of private providers of hospital services and pensions, I first show who these new actors are and what role welfare markets play for their economic strategies. As a consequence of newly arising market opportunities in the welfare state, private providers develop a stake in welfare state politics. The second part of the book thus analyses how these providers affect political reform processes. It thereby points to both theoretical and practical consequences. Speaking to previous research, it shows that existing theories of welfare state change should consider private providers as a new interest group. More practically and politically, we learn that privatization does not only have economic or social consequences such as more or less efficiency or stratification. Rather, we should also consider political effects of privatization: policies create politics—and privatizing reforms can lead to the emergence of new interest groups. I will have accomplished the main goal of this project, if the reader, by the end of this book, has a better understanding of both the characteristics and the power resources of private providers of social policy and their (successful and unsuccessful) attempts to get a say in politics.

Notes

1. Between 2005 and 2009, Walter Riester, while being a member of parliament, earned a minimum of 237,000 EUR from talks for insurers, banks, and other financial industry firms (Deutscher Bundestag 2009).
2. There is some overlap of the concepts of welfare markets and quasi-markets (Le Grand 1991). However, as to the supply side, Le Grand has put a special focus on non-profit providers, while the demand is publicly controlled and guaranteed. This definition of the supply side is not in line with the focus of this study on for-profit providers. Furthermore, Le Grand's definition of the demand side does not cover pension markets.
3. Note that some welfare markets in pensions include occupational pensions, for instance, when life insurers manage pension funds for employers.
4. Note that the study of NHS policies is limited to England because the National Health Services in the UK largely differ with regard to management and legal rules. Throughout the study I will refer to England when discussing the NHS only, but I will use UK as a summarizing and simplifying label when discussing pensions and healthcare.
5. I use the term 'private pensions' to describe both occupational and individual pensions.

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CHAPTER 2

Private Sector Provider Power in Welfare State Politics

This chapter deals with theoretical expectations about the role of for-profit providers in welfare state politics. Do welfare industries become powerful actors in political processes? Previous research gives ambiguous answers to this question. While one camp sees powerful business as a causal factor for the strengthening of markets and private provision, others highlight various driving forces of welfare state change that rule out the influence of private providers. Speaking to this debate about the chances and conditions of the political success of welfare industries, this chapter will discuss why and when we can indeed expect welfare industries to become powerful in welfare state politics.

I will first briefly present the two opposing perspectives of welfare state scholars on the political role of private providers. I then present the main argument of this book: Welfare industries have developed a stake in certain social policies and, as I will argue, can be expected to become powerful in the politics of welfare state reform because of the special position of business as an interest group. However, the power of these actors is constrained by a number of factors, ranging from issue salience to institutional settings. What is more, welfare industries will not be successful on their own but need allies and favourable institutional and structural conditions. Completing this chapter, I formulate hypotheses in order to empirically analyse the argument of constrained provider power in subsequent parts of this book.

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Private Provider Power? Divided Research

Do for-profit providers of social policies become powerful actors in welfare state politics? The existing welfare state literature is divided over this question. Recent studies of welfare state change have put a new focus on interest groups as drivers for social policy reform, basically dealing with preferences of groups that are well-known in welfare state studies or with new coalitions of them. This *post-Pierson interest group literature* starts from the observation that welfare state reforms have been possible in spite of existing institutional obstacles and welfare state resilience against cuts (Pierson 1996, 1998). It thereby goes beyond institutionalist approaches that for a long time had shaped the study of retrenchment, emphasizing the institutional features that constrain policymakers' leeway for reform. In fact, however, reforms, even structural ones, took place. Consequently, there has been an upsurge of research that puts interest groups as well as political parties and the electorate back into focus.

Häusermann's (2010) seminal work about the politics of reform in post-industrial welfare states has shown how change is possible against the background of complex arrangements of interests and institutions. According to her analysis, problems translate into reforms if policymakers can build large coalitions across socio-economic and cultural conflict dimensions. Häusermann diverges from institutionalist approaches by showing how social and economic change creates conflicts that can be used by policymakers to form new coalitions in newly emerging multidimensional conflict spaces. In German pension politics, for example, Social Democrats and Greens faced pressure from socio-cultural professions with many female and high-skilled employees pushing for more flexible pension solutions than the traditional male breadwinner model offered. Additionally, there was a strong divide between authoritarian and libertarian values which allowed political parties to create reform packages that compensated cuts with improved gender equality, individualization, or outsider protection. Häusermann stresses the emergence of new actors and unexpected new coalitions in welfare state politics. With regard to the role of for-profit provider influence in pension reforms, her study indirectly suggests that the influence of a particular interest group, such as providers of private pensions, is very unlikely in light of a highly institutionalized policy area and vested interests.

In another area of the welfare state, namely, public services, Gingrich (2011) has developed a comprehensive theoretical and empirical study of

marketization that resembles Häusermann's work in that it departs from purely institutionalist explanations of welfare state change. Gingrich argues that strategic calculations of political parties are key factors for the introduction of markets of social policy provision. In contrast to the notion of uniform markets that prevailed in most of the literature on marketization, Gingrich shows that there is a variety of markets ranging from state-led to consumer-led to producer-led types. Political parties use this variety to introduce those types of markets that are favourable for their electorate. Introducing political processes to the debate about marketization, Gingrich argues that political parties are driven by voter preferences and dismisses approaches that see interest groups as push factors, be it labour unions, professions, or business groups. As to the latter, Gingrich points to the variety of markets that cannot be explained by a theory that starts from a dichotomous understanding of state and market and assumes uniform markets. If business power was relevant, she asks, why do we see cases of marketization such as in the Dutch healthcare system where the state became stronger after introducing markets?

Summing up, these two prominent accounts of post-Pierson studies of welfare state change in both social insurance systems and public services assume that private providers of welfare did not play a crucial role in the politics of reform. They see a variety of mechanisms at work, ranging from changing voter preferences and strategically acting political parties to new coalitions that explicitly or implicitly run counter to the argument that business gets what it wants in welfare state politics.

A second camp of research contradicts these expectations. This *private provider power literature* argues that business indeed is a crucial actor when it comes to pushing reforms that open new market possibilities for private providers. Examples range from contracting out in the National Health Services of the UK (Farnsworth and Holden 2006; Pollock 2005; Ruane 1997, 2000, 2010) to the introduction or strengthening of private pension schemes (Kemmerling and Neugart 2009; Leimgruber 2012; Orenstein 2008; Wehlau 2009). Business can be successful in convincing policymakers that pension privatization is a crucial contribution for developing national financial centres (Naczyk and Palier 2014) and that it can affect the establishment of pension regimes in post-communist countries (Orenstein 2008) or contribute to spreading ideas of pension reforms that are favourable for business (Leifeld 2013; Leimgruber 2012). While authors stress different mechanisms of influence, they agree upon a basic statement: for-profit providers see a business opportunity in the welfare

state and can become successful in realizing these potentials through influencing political decisions (Farnsworth 2004, 2006, 2012; Miller and Mooney 2010; Whitfield 2001).

Summarizing, previous research provides contradicting answers to the question of whether private provider power is a driving force behind the privatization of social policy provision. While one strand of recent research has revived the focus on interest groups but implicitly or explicitly suggests that welfare providers are not a relevant group for explaining the introduction of markets or private provision, another strand of literature stresses the power of private providers in political processes. I will argue in the following section that there are indeed reasons to expect private providers to become powerful. However, this power is highly dependent on a number of factors, ranging from institutional constraints to the availability of political allies.

Argument: Interests and Power of Private Providers

The main argument of this book is that welfare industries become powerful actors in politics. As private provision becomes more relevant in welfare states, for-profit providers develop a stake in welfare state politics because their turnover increasingly depends on selling services within the welfare state. In short, welfare industries become *constituencies* of partially privatized welfare states aiming to maintain or expand existing levels of private provision. The interest of private providers in political processes is a necessary condition for their political success. However, it does not guarantee that they become politically successful. I will argue that welfare industries as business actors are a special type of interest group due to both instrumental and structural power. They are consequently more likely than other interests groups to get what they want in politics. The following paragraphs will unfold the argument in two steps: Why should private providers be interested in welfare state politics? And why should they become powerful political actors?

Why Are They Interested in Welfare State Politics?

It does not go without saying that welfare industries are interested in politics at all. In the first place, firm leaders aim for profits, market share, or the survival of the organization. They are market actors, not political actors. Since the organizational capacities of a firm are focused on market

action, corporate political action bears economic risks. Political activity consumes resources for lobbying personnel and the establishment and maintenance of interest groups or party donations. These costs may not be very large in relation to overall resources of business organizations (Ansolabehere et al. 2003), but they are concentrated. As opposed to this, possible gains are diffuse. Evaluating the success of their political efforts is a difficult task for firms because the political game is complex and results can hardly be predicted due to the large number of actors. Additionally, gains from political activity can be very small if, for instance, regulatory decisions only affect a small share of the market activity of a firm or industry.

Apart from economic risks, there are also political risks related to attempts of influencing political decisions. If lobbying efforts become publicly visible and scandalized, they can backfire and attack the legitimacy of market actors. Once delegitimized, policy preferences of these actors will become more difficult to pursue (Hillman et al. 2004). This could especially hold for welfare state topics which are usually under public scrutiny.

In light of these risks of corporate political action, we could expect that welfare industries will not become politically active. Against this proposition, however, we have good reasons to expect firms in general and welfare industries in particular to aim for political influence. Generally speaking, this is because they face incentives to change the rules of the game in a favourable direction. In the terms of Fligstein (1996, p. 657), 'social structures of markets and the internal organization of firms are best viewed as attempts to mitigate the effects of competition with other firms'. Firms apply different instruments ranging from market strategies (such as cooperation, integration, or diversification) to political strategies in order to control competition. Without a doubt, states build markets by providing conditions for exchange or regulating governance structures. What is more, in this context political intervention into markets can be one way to produce stable markets. Firms will thus try to affect how these interventions look like. From a different perspective, but mostly with a similar outcome, economists have used the terms *rent seeking* and *regulatory capture* in order to theorize the movement of firms from the economic to the political or regulatory arena (Krueger 1974; Olson 2001; Tullock 1967).

Stakes in politics are especially high for those firms and industries that do business in strongly regulated markets. Welfare markets fall into this category. Private providers of social policy are active in strongly regulated

markets often facing social regulations that follow the principles of traditional social policy institutions (Köppe 2015; Leisering 2011; Willert 2013). Furthermore, their income is highly dependent on political decisions as, for instance, in the case of contracting out of public services or in private pensions where public subsidies stimulate demand for pension products. Following from the interdependence of state and business on welfare markets, we can assume that private providers have strong incentives to engage in the political arena.

Why Do They Become Powerful?

If welfare industries have a stake in politics, as argued above, this does not necessarily imply that they become powerful. I argue they do for three reasons: they are a special type of interest group, the issues they address are not highly salient, and policymakers are committed to private provision due to prior decisions.

Business is a special type of interest group because of both structural and instrumental power (Lindblom 1977). As to the former, business is in a privileged position because the production of wealth strongly depends on decisions that firms take on markets. This results in a structurally powerful position of business that becomes manifest when decision makers automatically account for business needs without any agency of the respective business actors.[1] Note that the role of welfare industries differs substantially from those business actors that are usually described as structurally powerful. Typically, business is conceptualized as employers who can use the threat of disinvestment if labour costs become too high. This is the core of the globalization thesis according to which there will be a race to the bottom in welfare states (Scharpf 2000). This threat of business comes in a different form in the case of welfare industries and the focus on product markets. Welfare industries, for example, financial industry actors, have structural power in that their decisions on capital markets can promote or hamper economic growth. Other than the threat of disinvestment in the case of globalization pressure and labour costs, this version of structural power often works through an incentive, namely, the potential for investment and economic growth due to capital market development. Other types of welfare industries, for example, hospital companies, cannot use the threat of any kind of investment strike. Nevertheless, they employ a comparably large number of employees and are active in areas in which states have often shown to be financially overwhelmed.

How does structural power become manifest in welfare state politics? Generally speaking, empirical observation of structural power is a difficult task because it by definition involves non-action of interested actors.[2] I will approach the study of power in three steps: description of power resources, analysis of determinants of privatizing reforms, and the conduction of case studies for detecting mechanisms of reform processes. The first step includes the development of a composite indicator of power resources of welfare industries and draws upon the distinction of structural and instrumental power. This distinction is reflected in differences between the economic and political indicators of power. Economic characteristics such as size or structure of an industry can contribute to the structural power of an industry as they increase the economic relevance. Using the composite indicator for the analysis of determinants of privatization, I also address structural power in the second step. Case studies, finally, solely focus on instrumental power.

As to instrumental power, private providers, first of all, can be expected to become powerful thanks to financial resources. While money certainly does not buy politics, it is favourable for all types of lobbying, from party donations to expertise to press campaigns. In short, money increases the resources for exerting instrumental power. Resources are also important when it comes to address the third face of power (Lukes 1974). Establishing and spreading ideas of new social policy arrangements, for instance, the introduction of a third-pillar pension model (Leimgruber 2012) or New Public Management reforms in public services (Pollitt and Bouckaert 2011), depends on an array of factors of which financial capacities are certainly a very important one (Bönker 2005). Next to financial resources, networks between political and economic elites increase chances that business interests are rather heard than other voices (Domhoff 2006; Domhoff and Webber 2011). Expertise is finally one of the very important resources of interest groups. Knowledge about the technicalities of certain businesses is easily available for business groups but a scarce resource among policymakers (Bernhagen 2011; Bernhagen and Bräuninger 2005).

What are the potential mechanisms of the instrumental power of welfare industries? All three steps of the empirical strategy of this book cover instrumental power. The power resources index (see Chap. 4) and the analysis of determinants of privatizing reforms draw on links between industries and politics such as personal networks, party donations, or contacts via business associations. These indicators directly represent the political dimension of power. Additionally, case studies in the latter part of this book will

rely on instrumental power. How do these factors translate into influence? First of all, they increase the visibility of private providers. This can be relevant, for instance, if policymakers are looking for an alternative to public provision. Visibility in networks can send signals that private providers are ready to take over provision. Furthermore, memberships in networks can help in affecting the agenda setting. Policy ideas are easier to spread the better the access to relevant actors in the policy network. Finally, close links between industries and politics bring business actors into better strategic positions vis-à-vis less connected actors as these links provide access to not-yet-public information that can be used strategically.

Also, the characteristics of policies that strengthen private provision affect the potential for business power. These policies that introduce or strengthen private social policy provision are more prone to special interest group influence than other welfare state policies. Unlike the redistributive aspect involved in reforming the financing mode of social policies, reforms of welfare provision first of all address organizational questions. We can expect voters to mainly care about whether they personally have to pay for a service or not. They care less about the type of provider. As an effect, privatization of social policy provision is characterized by lower topic salience than redistributive reforms (Jensen 2014, p. 28).

Finally, privatization creates lock-in effects for policymakers. Introducing or strengthening private provision, they commit themselves to these new social policy schemes. Political commitment, in turn, improves the position of welfare industries vis-à-vis policymakers in cases of conflicts about regulations or subsidies because it increases the political costs of reversing privatization. For instance, negative economic projections for newly created welfare markets can be a source of provider power as policymakers look for a successful development of their market initiatives (how economic downturns increase business power: Vogel 1989, pp. 8–10). This argument departs from the mechanism of positive feedback effects of institutions (Pierson 2000). I do not argue that privatizing reforms are initial junctures that create path dependencies through positive feedback effects of institutions. This would imply a more or less linear upward movement of privatization of social policy provision. Instead, I expect to observe a pendulum movement of reforms with waves of privatization and other waves that bring the state back in. Instead of institutional feedback effects, this rather seems to be a case of *politics follows policies.* As Lowi (1964) has argued, 'there is likely to be a distinctive type of political relationship' (688) for every type of policy. In other words, social policy reforms create their own kind of welfare state politics (Schelkle 2012, p. 31).

Conditions of Private Provider Power

I now turn to the conditions of private provider power by discussing temporal constraints as well as the interaction of welfare industries with other actors, structural conditions, institutional settings, and topic salience. The main expectation, namely, that private providers become increasingly powerful in welfare state politics, implies that time structures power. I propose to look into different periods of welfare market development arguing that welfare industry power, first of all, increases as a result of the privatization of social policy provision. This implies that welfare industry power is not necessarily a causal factor for explaining privatizing reforms. By definition, the power of some welfare industries cannot account for the introduction of markets as they were only created through privatization. Instead, I argue that providers gain political power in parallel and as a consequence of the development and consolidation of welfare markets. The more entrenched business is as a provider of social policies, the more powerful it will become in the political arena. The book will therefore make a case for a more fine-grained analysis that distinguishes different phases of the privatization of social policy provision. Consequently, we will find a positive effect of welfare industry power on privatizing reforms for later periods but not for early years. As a consequence of this argument about time, older welfare industries will be more powerful than younger industries.

The argument does not hold that welfare industry power alone will be sufficient for privatizing reforms. Rather, they will need political allies to build coalitions. These can come as class alliances in line with power resource theory. Just like labour unions have coalesced with left-wing parties for the expansion of social policies (Korpi 1983), welfare industries can be expected to build coalitions with right-wing parties. The common aim of such coalitions will be the reduction of state provision and strengthening of private actors. Middle and high income classes, typically the core electorate of right-wing parties, will favour the promotion of a private welfare sector as it offers additional services on top of standard welfare provision. This coalition would be in line with findings from previous privatization research that shows that right-wing parties rather tend to privatize than left-wing parties (Boix 1997; Obinger et al. 2014; Zohlnhöfer et al. 2008). According to Gingrich's (2011) theory of marketization we may, however, keep a second type of coalition in mind. Welfare industries may also build strategic coalitions with left-wing parties if the latter face electoral incentives to introduce markets in social policy

provision. Left-wing parties can benefit from welfare industries if they act as competitors for incumbents, be it professions such as in the case of hospitals or trade unions as with pensions. Next to coalitions other political actors can also constrain the power of welfare industries. In this context, the most obvious candidates are trade unions that may fear layoffs and work intensification in the case of hospital privatizations or cuts in entitlements of their members and less administrational power in the case of pension privatizations.

Assuming that business power is not constant but varies according to different environmental factors (Farnsworth 2004; Vogel 1989), structural conditions such as the level of problem pressure, institutional constraints, and the level of public attention condition the power of welfare industries. Research on privatization of publicly owned companies has shown that financial pressure is a main driver of political decisions to privatize. The more negative the economic development as measured by gross domestic product growth, budget deficit, or financial liabilities of government, the more likely there is privatization (Boix 1997; Obinger et al. 2014; Zohlnhöfer et al. 2008). Most probably, problem pressure will also be relevant for privatization of social policy provision. Public debt, increasing social expenditure, or rising numbers of pensioners in relation to the working-age population are translated into public debates about the financial sustainability of existing social policy provision and create pressure for policymakers to conduct reforms. Welfare industry power and problem pressure can work together: Taking into account the problem pressure that policymakers face with regard to the (projected) financial situation of hospitals or pension schemes, the possibility that for-profit providers will take over the production may open a window of opportunity for politicians to reduce expensive social policy responsibilities. In this context, the main effect of increasing power resources of welfare industries will be the visibility of an actor that offers a policy solution (Plotke 1992).

Privatization efforts can be impeded by institutional constraints. Institutions work as constraints in that they channel political behaviour and reduce the options that are politically available. Highly institutionalized policy areas are less vulnerable for individual interests than emerging policy areas. Put differently, the more formal and informal rules exist, the less leeway there is for interest groups to get what they want. A constitutional court, state level responsibility in federal systems, and opposition to government in the second chamber are institutional factors that likely decrease the chances that private providers become powerful. One might ask why exactly

fragmented institutional systems decrease the power of private sector providers. Could not the exact opposite hold true, namely, that fragmented political systems create more venues for the influence of interest groups? The literature on welfare state resilience has shown that fragmented systems enhance chances of interest groups to use strategies such as blame avoidance or obfuscation. They thereby reduce the possibility of welfare state retrenchment (Pierson 1996, 1998). I would, however, suggest that the study of policy change and institutional resilience be distinguished. Interest group influence might be bigger in fragmented systems when they favour the status quo because of the many potential venues of interest representation. Yet, if we study policy change, highly institutionalized settings work as a restriction on single interest group influence as informal and formal rules create more barriers and potential opposition to privatizing reforms.

Finally, topic salience is relevant because it affects the behaviour of policymakers. In highly politicized debates, when media regularly cover a topic and ideological lines across parties are strengthened, voters will hold politicians more accountable than in a less heated atmosphere. As a consequence politicians face strong incentives to react to voter preferences and to ignore interest group voices (Culpepper 2010; Smith 2000).

Hypotheses

Following from what I presented above as the main argument, the first hypothesis is that *welfare industry power will increase over time* (H1). As privatization of social policy provision triggers the emergence of private, for-profit providers, these actors become politically more active and powerful. What is more, this expectation speaks to the temporal constraints of welfare industry power that have been discussed above: In early phases of privatization, some segments of private providers, for instance, private hospital companies, were hardly established or could not access policy networks. Private actors could only enter the political arena as a result of privatization and the erosion of public provision (Blomqvist 2004). We will find support for this hypothesis, if we observe an increase of power resources over time (Chap. 4) as well as a prominent role of welfare industries in the politics of welfare reforms in later periods but not in earlier ones (Chaps. 5 and 6).

As to the differences across policies, the second hypothesis is that *pension industries will be more powerful than hospital industries* (H2). This is mainly due to the different ages of both industries. While pension industries consist of firms that were well-established economic and political actors

even before they entered the welfare state as social policy providers, for-profit hospitals only became a relevant economic actor since the mid-1990s. In the empirical analysis, when comparing power resources over time, we should observe that younger welfare industries might catch up but will not overtake the old ones. Consequently, power resources of pension industries should be higher than of hospital industries (Chap. 4). Additionally, power of pension actors should figure more prominently in the analysis of privatizing reforms (Chaps. 5 and 6).

I argued above that welfare industries are likely to build coalitions in order to pursue their interests in welfare state politics. Along the lines of power resource theory, we would expect that right parties are likely allies of welfare industries because they are genuinely interested in market provision of social policies for ideological reasons (as it reduces the role of the state) and for strategic reasons (as private provision favours the middle to high income voters of right-wing parties) (Jensen 2014). The effectiveness of this coalition, however, depends on the institutional setting. Combining an actor-centred argument with an institutionalist perspective, the third hypothesis holds that *right-wing parties together with powerful welfare industries will foster private provision if institutional constraints are low* (H3a). If there is support for this hypothesis, we should find the combination of institutional leeway, right-wing government and strong welfare industries as an explanation for privatizing reforms in both qualitative comparative analysis (QCA) (Chap. 5) and case studies (Chap. 6).

Contesting the classical partisan theory, Gingrich (2011) has argued that left-wing parties also face incentives to introduce markets for social policy provision. Although she links producer-driven markets to right-wing parties, the general idea of her argument lets us also expect coalitions of left-wing parties and welfare industries: Faced with problem pressure to reform welfare provision, welfare industries can work as a signal to policymakers that there is a private alternative that reduces the burden of public provision. The alternative to the third hypothesis therefore states that *left-wing parties will foster privatization if they face problem pressure and welfare industry lobbying provides a window of opportunity for policymakers to get rid of expensive social policy provision* (H3b).

Conclusion

This chapter started from the observation that previous research is divided over the question whether private providers of social policy are a driving force behind the privatization of social policy provision. I argue that parts

of the contrary expectations can be combined by looking into different periods of welfare market development. Welfare industry power will become relevant for explaining the development of welfare markets in later periods but does not account for early phases of marketization. I additionally specified conditions under which welfare industries will become powerful, considering potential allies, problem pressure, institutional settings, and topic salience. The argument aims to make an addition to the recent literature on the political economy of reforms. While it has increasingly focused on interest groups in recent years, I argue that one relevant actor is neglected in most of these analyses: private, for-profit providers of social policies.

Notes

1. Dowding (1996, p. 71) has described this type of power as systematic luck: Business gets what it wants without having to act because of the structure of society.
2. See Culpepper and Reinke (2014) for tackling this problem by case selection.

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CHAPTER 3

Mapping Private Sector Providers

This book examines the yet undiscovered side of a recent trend in welfare state development: private firms that supply social services and transfers in welfare markets. Taking the lack of research in this area into account, this chapter follows two aims. First, I reconstruct the history of the four welfare markets under study. The focus is on the introduction of markets and their development in subsequent years. I additionally present information on the volume and the structure of these markets. Second, turning the focus to providers in these markets, I map the new landscape of welfare industries. What types of companies are most relevant for social policy provision in the four sectors? Who are the market leaders? I finally present information about the relevance of welfare market business for these industries. Overall, the aim is to explore industry characteristics and to comparatively analyse the patterns found across countries and policy area.

History of Welfare Markets

Resulting from the welfare state transformations discussed in previous chapters, markets have become increasingly important in almost all areas of the welfare state. They produce or allocate benefits in kind such as

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active labour market services, education, elderly care, and healthcare as well as benefits in cash such as pensions. The degree of marketization in the specific areas varies across countries. Public–private mixes differ and so does the traditional role of markets for social policy (Esping-Andersen 1990). However, there is not only variation in the broader characteristics of national public–private mixes but welfare markets also vary within countries over time. Applying this insight to the purpose of this book, it seems likely that the way markets are organized will also have an effect on the characteristics and relations of private firms as providers in these markets. Delving into the histories of market creation and development in the two policy areas and two countries, the following paragraphs present the paths that have led to today's welfare markets.

Social Democratic Island in a Liberal Welfare State: The NHS and Private Providers

English hospitals—like pensions in Germany—are an unlikely case of privatization if we consider that they are integrated into the National Health Service (NHS). The NHS is regarded as the prototype of a national health system in which finances stem from taxes, access is free at the point of delivery, and services are provided by public organizations. Surprisingly, however, the NHS is also an example of early healthcare marketization. From an international perspective, the introduction of the internal market with the NHS and Community Care Act of 1990 was one of the first cases of quasi-markets in public service provision (Le Grand 1991). While the Conservatives in the 1980s had abandoned ideas of increasing the share of private funding of healthcare, for example, through the introduction of out-of-pocket payments or strengthening of private health insurance, due to public protest, its reform of healthcare provision was more successful (Jensen 2014). The internal market, first formulated in the White Paper Working for Patients, created competition among NHS units for provision contracts, thereby increasing state control over costs.

Throughout the 2000s the Labour government aimed at increasing the choice of patients. While the internal market of the 1990s was state-driven in that efficiency was the main aim of the reform, Labour's approach put more focus on consumer-driven markets by introducing competition among hospitals for patients (Gingrich 2011, pp. 86–101). After the election in 1997, the Labour government shifted the focus to patient choice when introducing *payment by results* schemes (Gingrich 2011, pp. 79–130).

Choice was increased incrementally. From 2006 patients could choose from at least four hospitals. Later that year, choice was expanded to any Independent Sector Treatment Sector (ISTC). Since 2008 NHS patients are free to choose between private and public hospitals if they meet quality standards and their prices do not exceed the maximum tariff (Laing & Buisson 2013, pp. 99–100; Davies 2010, pp. 30–34).

Apart from this (quasi-)marketization the Labour government also strengthened the integration of private providers into the NHS. In the 1997 election campaign, Labour had announced that it would not let commercial providers run the NHS. The initial measures after the election took up the traditional NHS style of top-down organization and continued a cost containment policy. With waiting times remaining long and in light of a shortage of hospital beds in winter 1999/2000, Labour announced to increase spending for healthcare from 6.7 to 8 per cent of gross domestic product (GDP), aiming to reach the average expenditure level in the EU (Olesen 2010, p. 157). In effect, NHS spending almost doubled in real terms between 2000/01 and 2010/11 when growing from 60 billion to 102 billion pounds sterling, reaching a share of 8.2 per cent of GDP in 2009 (Burton 2013, p. 129). Spending expansion was part of the NHS Plan that was meant to create, amongst others, 100 new hospitals, 7000 new hospital beds, and thousands of jobs for consultants, general practitioners, nurses, and therapists (Pollock 2005, pp. 62–63).

As to the private sector, the NHS Plan contained the announcement that the NHS would become more open to provider plurality. The so-called concordat, signed in autumn 2001, was meant to create a new relationship between private sector and NHS, leaving behind '[i]deological boundaries or institutional barriers' (Department of Health 2000, p. 96). According to the plan, private providers should engage in elective care, critical care, and intermediate care. While the concordat was by no means a revolution, it was widely interpreted as a door opener for provider pluralism (Timmins 2001, p. 598).

After the 2001 election, the government continued with the new approach concerning the private sector by establishing ISTCs. This was a main step towards a mixed economy of healthcare provision as for-profit and non-profit providers would do elective surgeries and diagnostic tests within the NHS (Timmins 2005). In May 2002, health minister Alan Milburn underlined the new stance towards the private sector announcing that private provision would 'become a permanent feature

of the new NHS landscape' (Carvel 2002, p. 8). The NHS would therefore need to change its task and instead of being a single organization provider now also oversee external provision. ISTCs came with expectations among policymakers that private sector companies would be able to deliver 15 per cent of NHS services. This turned out not to be realistic due to a lack in capacities, low value for money, and reluctant patients that did not use private hospitals as much as expected. Consequently, Gordon Brown, after becoming prime minister in 2008, announced the stoppage of the ISTC programme. On the side of providers, however, the programme had an effect. It led to 'a series of mergers and acquisitions as new entrants to the market challenged the position of these providers' (Ham 2009, p. 292).

Accurate numbers on the volume of the private market are difficult to access. Two kinds of information are generally available: NHS spending on private hospitals and the number of private beds and hospitals in relation to all NHS hospitals. As to the first indicator, spending on non-NHS providers (including non-profit actors) indicates the growing relevance: between 1997/98 and 2008/09 it increased by about 600 per cent (Table 3.1).[1] In 2012, the NHS purchased services from the private sector for 5.22 billion pounds sterling which amounted to around 5 per cent of NHS budget and an increase of 150 per cent in five years (Klein 2013, p. 299).

As to the public–private share in terms of facilities and beds, the official NHS statistics do not report the extent of private involvement in the healthcare system. A second-best solution is to combine information on absolute bed numbers in the NHS with data from Laing & Buisson that provides market analysis of the private healthcare market. Table 3.2 shows that the share of private hospital beds is on a low level but has increased

Table 3.1 NHS spending on non-NHS providers, 1997–2009

	Spending in £m
1997/98	1108
2000/01	1793
2005/06	4416
2008/09	6661

Includes private and third sector and social enterprises

Source: Davies (2010, pp. 30–34)

since the early 1990s. Two phases of rising shares can be identified: the early 1990s after the market reforms of the Conservatives and the years after 2001 when Labour strengthened private sector involvement. Overall, private sector provision has not yet reached levels that support expectations of a dismantling of the NHS. However, private providers have steadily become more relevant over the last two and a half decades (Ham 2009, p. 294).

Shifting Welfare Mixes: German Hospitals Becoming Private

As opposed to the English case, the German hospital market has a long tradition of public *and* private provision. Due to the principle of subsidiarity, voluntary hospitals especially have played a central role in the sector. Since the 1990s, however, the public–private mix is rapidly changing with private firms increasingly buying public hospitals. Two factors are usually said to account for this development. First, the deficits of public budgets have led to pressure on municipalities to either change the legal status of public companies or sell them to private investors. Federal states are responsible for investments into hospital infrastructure. However, between 1998 and 2008 public subsidies decreased by 35 per cent (Klenk 2011, p. 263). As a result of this investment backlog, hospital loans from private sources have become more prominent. While they represented only 3.6 per cent of all hospital loans in 2004, this share increased to 10 per cent in 2009 (Klenk and Reiter 2015, pp. 116–117). One reason for the success of private hospitals is that they have better access to capital markets and

Table 3.2 Private beds, England, 1991–2010

	Share of private beds
1991/92	4.2
1995/96	5.0
2001/02	4.9
2005/06	5.2
2009/10	5.8

Source: Department of Health (2015), Laing & Buisson (2013 and other issues)

Number of beds in private for-profit hospitals/NHS general and acute care beds

Number of for-profit beds refers to mid-year, except for 1996 where data are from January

private equity. While public owners try to tap the sources of capital markets through changes in the legal form of public hospitals, they are not as successful as private providers in attracting investors.

A second reason for the privatization trend is the fact that the income of hospitals is increasingly bound to processes of rationalization and economies of scale. This was especially strengthened through the introduction of diagnosis related groups (DRGs) as a type of flat-rate payment per case. The new modes of reimbursement create fiscal stress especially for smaller facilities, thereby increasing the willingness of local authorities to privatize these hospitals (Klenk and Reiter 2015, p. 116).

The case of hospitals in Germany differs from the other fields with regard to the role of federal politics. Privatization is not a direct result of a centralized political decision but often rather a functional response to the pressure of public deficits on the local level. Decisions take place on different levels. While owners of hospitals—usually local authorities or non-profit organizations—decide on privatizations, their influence on hospital policies is weak (Mosebach 2009, p. 80). Nevertheless, federal political decisions have promoted developments in the German hospital sector. While individual decisions to privatize a hospital have been taken under very different circumstances at the local level, federal reforms have set the regulatory framework that facilitated the increasing share of private hospitals in the sector. In this respect, two reforms stand out. At the beginning of the 1990s, the German health system had been described as incapable of being reformed because of the power of organized interests, coalition governments at the federal level, and federalism that gave the Länder a possibility to block hospital reforms (Gerlinger 2009). The 1993 Reform Act (*Gesundheitsstrukturgesetz*) marked a big change. Most importantly for this book, on the side of hospitals, it increased competition by replacing retrospective full compensation with prospective budgeting on the basis of all-inclusive prices instead. By departing from the traditional cost coverage principle, the reform was a first step towards flat-rate payments via DRGs that were eventually introduced in 2002, shifting more risks to hospital providers (Gerlinger 2009; Klenk 2011, p. 267).

Data on the public–private share in the German hospital sector show a clear privatization trend since the early 1990s. Starting with a share of 15 per cent in 1991, private hospitals have steadily increased their market share in terms of facilities, overtaking public hospitals in 2009. While the

number of voluntary hospitals—mostly run by churches or charities—has been rather stable, public provision of hospital services has declined (Fig. 3.1). The share of private hospitals is smaller when we measure it by the number of beds. In 2013, public hospitals still provided almost half of all hospital beds. Yet, the trend looks very similar, although less dynamic, to the one observed for hospital facilities (Fig. 3.2).

Taking into account absolute numbers, the rising share of private hospitals in recent years is mainly due to the decline of total hospital numbers. The German hospital sector as a whole is shrinking. While there are constantly less public and voluntary hospitals in absolute numbers, private hospital numbers grow. However, this growth is less dramatic than the share of private hospitals suggests. Additionally, the years between 2010 and 2013 have seen growth rates of private hospitals that were below the average of the whole period since 1991. In 2011 and 2013 the number of private hospitals even went down for the first time since 1996. This might indicate that private hospital growth in Germany has come to an end.

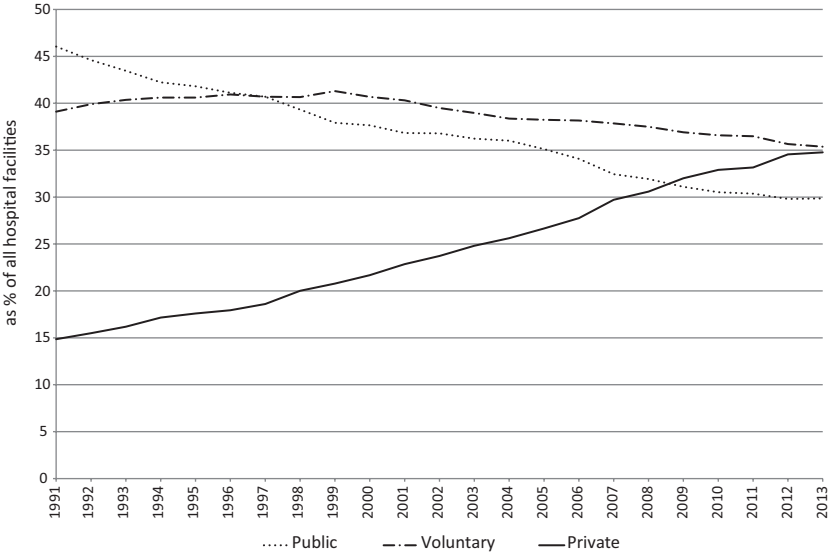

Fig. 3.1 Public–private share of hospital facilities, Germany, 1991–2013
Source: Statistisches Bundesamt 2014

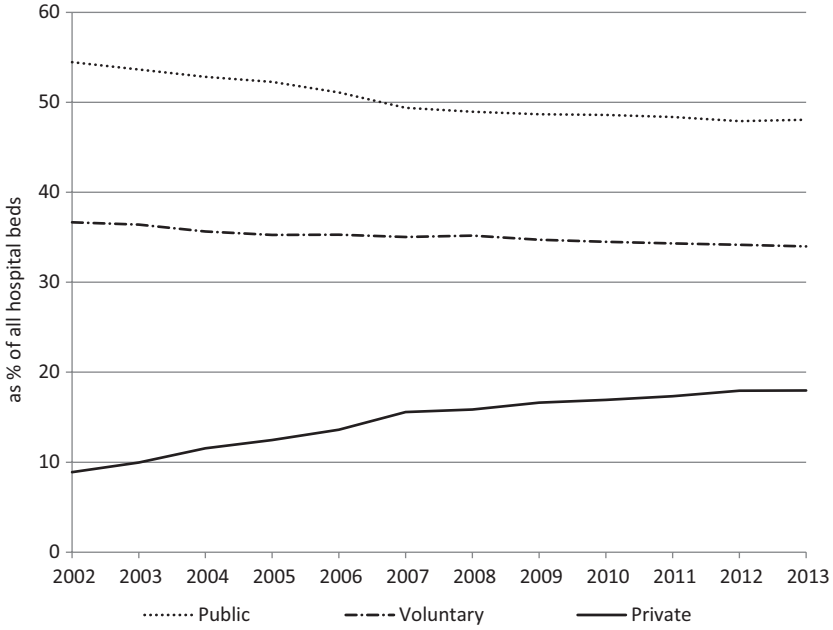

Fig. 3.2 Public–private share of hospital beds, Germany, 1991–2013
Source: Statistisches Bundesamt 2014

Just like hospitals, the number of total hospital beds also went down, decreasing from 665,565 in 1991 to 500,671 in 2013. The decline has become less dynamic in recent years. Since 2008 there has only been a small decrease of hospital bed numbers. This general pattern also holds for public hospitals where we can especially observe a decline between 2002 and 2007, while numbers have only been going down slowly since then. Voluntary hospitals, on the contrary, have a clear downward trend for the whole period. Beds in private hospitals constantly went up from 48,615 in 2002 to 89,953 in 2013 (Statistisches Bundesamt 2014).

Overall, we can observe a pronounced picture of privatization in the German hospital sector where private for-profit hospitals expand market share at the expense of public providers. Not-for-profit providers keep their market share constant at a high level. The dynamics of privatization differ from the other three cases in that a combination of federal legislation and independent local decisions are responsible for the privatization trend (Schmid and Wendt 2010, p. 61).

Big Bang: Liberalization of Financial Markets and Pensions in the UK

The constitution of a welfare market in British pension provision dates back to the 1980s when the conservative government under Margaret Thatcher reduced state pensions while promoting private personal schemes. Parallel to the 'big bang' of financial deregulation through the Financial Service Act of 1986, the government introduced private pension plans as an opportunity to opt out of the second state pensions State Earnings-Related Pension Scheme (SERPS), which was financed by contributions to the National Insurance. SERPS was made less attractive for employees as the reference period for pension income was changed from the 20 best years to lifetime career income. At the same time replacement rates for future pensions fell from 25 to 20 per cent (Schulze and Moran 2007, p. 68). Incentivizing occupational schemes and personal pensions, the government decided to reward a rebate in contributions to National Insurance of 5 per cent for the first two years for those who would take up new private schemes (Schulze and Moran 2007, p. 73). In the area of occupational pensions, the reform created new opportunities for employers by allowing defined-contribution schemes. In the Green Paper, published in June 1985, the government had formulated the aim to abolish SERPS. This plan, however, provoked protest from a broad number of interest groups. Both labour unions and business actors criticized this plan. While the Trade Union Congress saw a minus for persons with atypical career paths, a group that benefited from SERPS, employers as well as the pension industry expressed their concern about a fragmented pension system, high costs for small and medium enterprises, and high transition costs (Schulze and Moran 2007, pp. 72–73). By and large, life insurers joined the protest of other business actors trying to avoid responsibility for low-income earners. Pensions for this group were regarded as a state responsibility. Although it was calculated that around 20 million new customers could result from abolishing SERPS, life insurers regarded contributions of 4 per cent of income as too low (Willert 2013, pp. 165–194).

Overall, the Social Security Act of 1986 marks a relevant change in the British pension system, resulting in a pioneer role of the country in pension privatization. From the perspective of international comparison, the UK is one of the countries with the highest share of private pension expenditure. Also, in comparison with other areas of the British welfare state, pensions were most affected by privatization with regard to both shifting

financing to private households and increasing private sector involvement (Walker 2001). As to the politics of reform, the Social Security Act revealed a victory of employers and pension industry. While labour unions lost power over the 1980s, business benefited from pension politics since then. Especially the Confederation of British Industry and the National Association of Pension Funds were powerful during this period (Schulze and Moran 2007, p. 86; Willert 2013, pp. 165–194).

Starting in July 1988, the first years of personal pensions were an economic success. In 1989, already 4.25 million contracts had been sold. The number of pension insurance contracts rose from 5.7 million in 1987 to 17.4 million in 1992 (Willert 2013, pp. 181–182). For life insurers, income from occupational pensions rose only slightly. Instead, the industry had put its focus on selling personal pensions (Willert 2013, p. 183). Figure 3.3 shows the development of the insurer-administered welfare market business since 1990. In total, pension business of insurers increased strongly, only decreasing around the years of the IT bubble crisis and in 2007 and 2008. The upward movement over time is also reflected in increasing contributions to private pensions (Office for National Statistics 2011a, pp. 14–15).

However, there were also crises in the market for personal pensions, for instance, when in 1992 the Equal Opportunity Commission reported that 250,000 women would have been better off by staying with the second state pension SERPS instead of opting out into personal pension plans. This circumstance turned into what is known as the 'mis-selling scandal' when it became public that insurers and their sales agencies as well as—to a lesser extent—banks and building societies systematically had badly advised employees (Willert 2013, pp. 185–192). Apart from personal pensions there was also a crisis in the realm of occupational pensions in the early 1990s after companies had used pension fund assets to finance their business including the prominent case of Robert Maxwell (Taylor-Gooby et al. 2004, p. 584). The Pension Act 1995 was an answer to these crises. Generally continuing along the line of the 1986 reform with giving private solutions priority over public pensions, the legislation strengthened regulations of private pensions. This resulted in rising costs for insurers and stagnating pension markets between 1994 and 1996 (Willert 2013, pp. 212–213).

The pension politics of the Labour government from 1997 to 2010 can be divided into two phases. In the first years the government focused

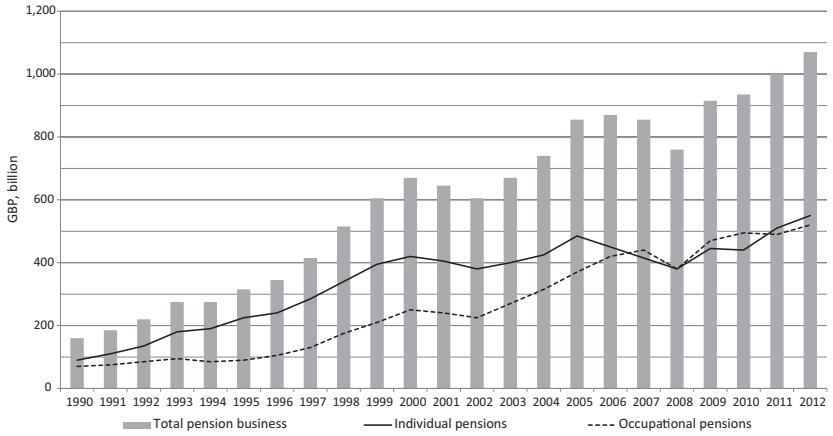

Fig. 3.3 Funds held by insurers in pension business, UK, 1990–2012
*Data deflated; Source: Association of British Insurers 2013

on cost containment, while social aims became more relevant from 2006 to 2010. However, already reforms in 1999 and 2000 had put an emphasis on low- and middle-income earners by introducing the Savings Credit and Stakeholder Pensions. Whereas the legislation contained new incentives for employees to establish pension funds, providers of the new Stakeholder Pensions had difficulties to market their products. The number of contracts remained very low between 2001 and 2009 (Willert 2013, p. 246). Especially the life insurance industry had expressed their concerns before the introduction of the scheme, being afraid that market volume would not be big enough. Figure A1.1 (see Online Appendix) shows the development of the private pension market since 2001. The total number of contracts decreased slightly, while the average contribution went up.

In 2008, the Labour government introduced an auto-enrolment mechanism for occupational pensions, aiming at more employer involvement. As a consequence, insurers increasingly had to deal with low and middle incomes, confronting the market with new customers apart from the old 'buoyant middle-class market on top of this relatively ungenerous framework of state managed pensions' (Taylor-Gooby and Mitton 2008, p. 164). In summary, the British private pension market since the late 1980s has been characterized by a growth dynamic in the early period, a

drop in take-up rates due to public scandals, and social regulations under the Labour government from 1997 to 2010 that, nonetheless, did not depart from the private pension path of the British regime.

Unfreezing Landscapes: Introduction of Welfare Markets in the German Pension System

For decades, the German pension system has been an unlikely case of strong involvement of private companies in the provision of pensions. Up until its partial privatization in 2001 it was classified as a one-pillar system where the majority of old-age income stemmed from the pay-as-you-go (PAYG) statutory pension fund. Although there were some political attempts to strengthen occupational pensions, both collective and individual forms of private pensions did not play a big role for pension politics. The marginal role of private pensions is reflected in a low share of private pension expenditure. While the UK had a strong private pension focus already in the 1980s, the majority of German pension expenditure went to the public statutory scheme. Also in comparison to other OECD countries, the German pension system is characterized by very low private pension expenditure.

Some things, however, changed with the pension reform of 2001. While the share of private pension expenditure still reflects the traditional public dominance (see low level in Fig. 1.1), the reform changed the institutions of the German pension system structurally, putting it on a new track towards a system of mixed pension incomes. In a process of institutional layering (Streeck and Thelen 2005), the government of the Social Democratic Party of Germany (SPD) and Greens introduced what is now known as *Riester-Rente*. Named after Minister for Labour Walter Riester, a personal pension scheme was introduced that was voluntary and publicly subsidized through tax breaks. Employees would need to save at least 4 per cent of their income (with lower shares before 2008) in order to be eligible to tax breaks. Institutionally, the rationale behind the new scheme departed from the principle of equal financing by employees and employers that had shaped the German pension system for decades.

In addition to personal pensions, the reform also strengthened occupational pensions. It established a right for employees to ask their employer to convert part of their wages into pension entitlements (*Entgeltumwandlung*). Creating more opportunities for occupational

pensions, the reform also allowed a new type of organization: The introduction of *Pensionsfonds* should allow for more risk-oriented investment strategies in comparison to the traditional organization of occupational pensions. The idea was that future pensioners should benefit from capital market yields, while German providers could catch up with their European competitors on the occupational pension market (BT-Drs. 14/5150: 44).

The introduction of a private pension scheme and the strengthening of occupational pensions came together with a retrenchment of public pensions. Aiming at a stabilization of contributions to the statutory scheme, the government reduced the wage replacement rate of future public pensions. It should gradually fall from 70 to 64 per cent (Schulze and Jochem 2007). The government clearly communicated that occupational and individual private pensions should compensate these cuts, thereby contributing to the maintenance of living standards in old age (see also Chap. 6 for an account of the politics of reform).

Figure 3.4 displays the development of Riester contracts since 2001. The market developed slowly until 2004 and then experienced strong growth until 2011. The selling of Riester contracts was scheduled for 1 January 2002, including the certification of providers and entitlements to tax subsidies. Already in June 2001, however, shortly after the legislation had passed, insurers started to market Riester products (Willert 2013, p. 305). This was due to the strong optimism among financial industry actors about market potentials of Riester products. *Gesamtverband der Deutschen Versicherungswirtschaft*, the interest group of German insurers, expected that 60 per cent of the 33 million eligible persons would conclude a contract in 2002 (Willert 2013, p. 301). Compared to the optimistic expectations the establishing phase between 2001 and 2003 disappointed providers and politicians alike. Market leading life insurer Allianz, for instance, expected 1.3 million contracts in 2002. At the end of the year, it had realized 553,000 contracts only (Willert 2013, p. 310). Figure 3.5 shows that earned premiums of insurers were very low in the first years of the market for individual pension products. Similarly, in occupational pensions, the first years were characterized by only a small increase in business (Fig. 3.6). While direct insurances had existed before, explaining the solid numbers for this type of organization, Pensionskassen and Pensionsfonds grew weakly between 2002 and 2003.

The period from 2004 to 2010 was characterized by market consolidation and expansion of public subsidies. The pension reform of 2004 introduced a new private scheme offering incentives especially for the self-employed and employees with high incomes. It also increased the retirement age for public pensions and streamlined Riester product certification (Schulze and Jochem 2007). While sales of Riester products were still low in 2004, the numbers went up in 2006 and the following years (Fig. 3.4). This was due to changes in pension industry strategy as well as in regulatory settings. The decline in life insurances that became financially less attractive for customers let insurers put more focus on Riester products. They increased commissions for insurance brokers to sell these products. Additionally, increasing public subsidies affected the incentives of employees positively (Willert 2013, pp. 341–342). In occupational pensions, too, there was an expansion of the welfare market after 2004. The involvement of insurers in the provision of occupational pensions var-

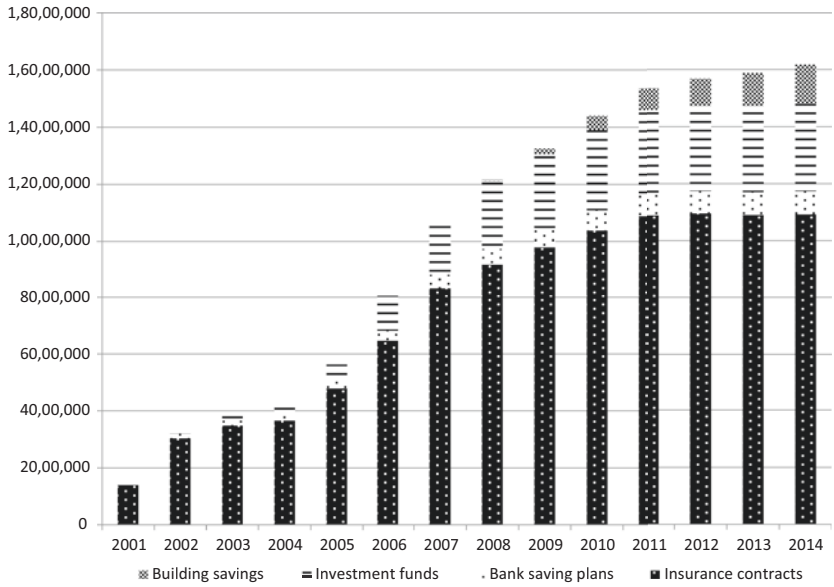

Fig. 3.4 Number of Riester contracts, Germany, 2001–2014
Source: Bundesministerium für Arbeit und Soziales (2015); Figure A3.13 (see Online Appendix) additionally displays the number of Basisrente contracts

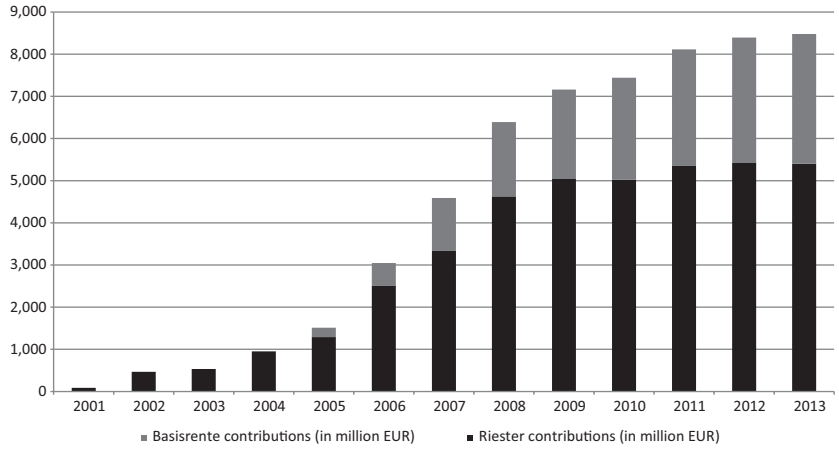

Fig. 3.5 Contributions to insurance products, Germany, 2001–2013
Yearly regular premiums in million EUR, data deflated; Source: Gesamtverband der Deutschen Versicherungswirtschaft 2014, pp. 38–39

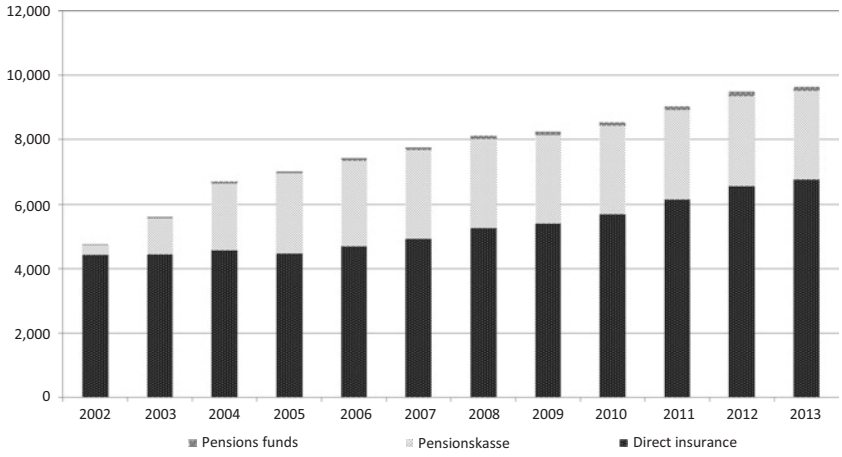

Fig. 3.6 Insurance business in occupational pensions, Germany, 2002–2013
Contributions in million EUR, data deflated; Source: Gesamtverband der Deutschen Versicherungswirtschaft 2014, pp. 30–31; 2008, pp. 30–31

ies across the different types of organizations that exist in Germany. Employer-based organizations (direct commitments of employers known as *Direktzusage* or support funds, *Unterstützungskassen*) often reinsure their commitments. Insurance products (*Direktversicherung*) and pension funds (*Pensionskasse* or *Pensionsfonds*) are usually directly run or provided by life insurers. As an effect of the 2001 reform, *Pensionskassen* especially saw an expansion after 2004, while the newly established and more risk-oriented *Pensionsfonds* grew only weakly (Fig. 3.6). Overall, in the second phase of the welfare market of pension provision in Germany, the market has expanded, while competition among providers increased and new regulations were introduced (Willert 2013, p. 339).

Who Are the New Ones? The Private Sector Provider Landscape

This section shifts the focus to the actors on the supply side of welfare markets. How does the landscape of private for-profit actors providing services on hospital and pension markets look like? The sections are organized along three questions: Who are welfare industry providers? Which are the largest providers? And how relevant is welfare market business for them?

Hospitals in England

The overall public–private mix of hospital provision in England is dominated by the public healthcare system. Consequently, demand for private healthcare is low in international comparison. However, there is private provision within the NHS as the previous sections have shown. As to these non-NHS hospital providers, the term 'independent hospitals' has been established to describe both for-profit and non-profit providers. While in the 1990s voluntary organizations dominated the market of non-NHS provision, for-profit actors have become more important since then. In mid-2011, for-profit hospitals represented around three quarters of all non-NHS hospitals, considering either facilities (77 per cent) or beds (74 per cent) (Laing & Buisson 2013, p. 71; Olesen 2010, pp. 172–176). Table 3.3 displays the largest providers of private hospital services in 2011.

The hospital industry in England is characterized by volatility of ownership and strong involvement of international investors. Most of the largest

Table 3.3 Largest private hospitals, England, 2011

Company	*Beds*
General Healthcare Group	2643
Spire Health	1642
Nuffield Health	1378
Ramsay Health Care	985
HCA	815

Note that Nuffield Health is a non-profit provider

Source: Laing & Buisson (2013, p. 64)

private hospital companies have seen several ownership changes over the past 25 years, often involving international hospital companies or private equity investors. Market leader General Healthcare Group, for instance, was founded by US owners in the 1970s, sold to French Generale des Eaux in 1990 and later to private equity investors Cinven and BC Partners. Since 2006, it is owned by Australian healthcare company Netcare. Internationalization of the market was also promoted by government which especially in the early 2000s invited international providers as it suspected domestic companies to provide at high costs.

More generally, one major source of restructuring and volatility has certainly been the changing political and regulatory situation. Contracting out NHS services has been a stop-and-go process over decades with private hospitals constantly having to adapt their strategy to the new environment. The introduction of ISTCs, a large programme of private sector involvement, was consequently assessed to have a bigger impact on private hospitals providers than on the NHS. The prospect of tapping into new sources of income led to 'a series of mergers and acquisitions as new entrants to the market challenged the position of these providers' (Ham 2009, p. 292). An indicator of the unstable development of the sector is the up and down of collective organization. The Independent Healthcare Association started to collapse when General Healthcare Group quit the association in November 2003. Only in December 2010 did the five biggest hospital providers re-enter the political arena with a new interest group called H5, which was first renamed into Private Hospital Alliance and then into the Association of Independent Healthcare Organisations.

Another source of change in the industry has been the behaviour of health insurers. AXA and BUPA, two major health insurance companies,

in 1996 and 1997 tried to channel patients into selected hospitals by offering so-called network insurance products. Accordingly, pressure increased for hospitals to become part of insurer networks. As a consequence, especially voluntary and small private hospitals closed, while bigger private hospital companies reacted with a number of mergers and acquisitions (Laing & Buisson 2001, p. 75).

How relevant is welfare market business for private hospitals? In the case of hospitals in the NHS, welfare markets are defined by contracting out services to for-profit providers. We therefore need to know how much income private hospitals generate from contracting with the NHS. On the one hand, private hospitals contract *with the NHS* as policymakers try to give NHS patients more choice. Additionally, private providers compensate for limited capacities in public facilities. On the other hand, the major part of the income of private firms comes from *non-NHS* sources, that is, from private health insurances and, to a lesser extent, from individual out-of-pocket payment of patients. The most important source of income is private medical insurance. Since health insurance is typically organized as work-based schemes, the number of those insured fluctuates with business cycles. In times of economic downturns, decreases of individual income and unemployment also create uncertainty about income for private hospitals. The sector has therefore been interested to tap into other sources of income. Consequently, the share of income from health insurance has declined between 1990 and 2010 (Fig. 3.7). Self-pay, typical for cosmetics, eye-care, and fertility treatment, has fluctuated between 13 and 23 per cent during this period. Payments of overseas patients represented 10 per cent of all private hospital business in 1990 but have become marginal since then. Finally, income from NHS sources has constantly increased since 1990 (Laing & Buisson 2013, p. 45). Welfare market business has clearly become more relevant over time, reaching a quarter of total income in 2010.

Hospitals in Germany

There are three types of hospitals providers in the German market. Public hospitals are owned by municipalities or federal states. Voluntary hospitals are private hospitals that do not aim for profits and are owned by charities. Private hospitals are run by companies on a for-profit basis. In contrast to England, private for-profit hospitals operate in a more open and lucrative market. Once licensed as a provider, they have access to reimbursement by

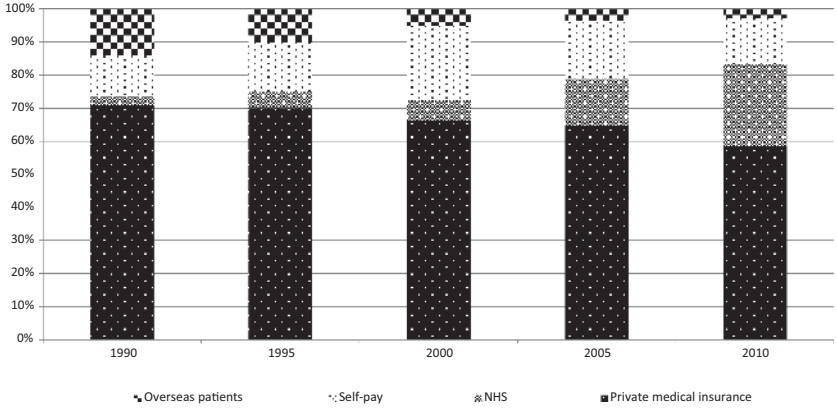

Fig. 3.7 Sources of income of private hospitals, England
2000: Source states 5–7.5 per cent for NHS, 65–67.5 per cent for private medical insurance; Source: Laing & Buisson 1993, pp. 73–74; 1997, p. A69; 2001, p. 54; 2013, p. 43

Table 3.4 Largest hospital companies, Germany, 2000–2010

	2000		*2005*		*2010*	
	Beds	*Revenue*	*Beds*	*Revenue*	*Beds*	*Revenue*
Asklepios	12,000[a]	818	16,650	1174	18,501	2305
Rhön	4901	669	12,217	1415	15,900	2550
Helios	4482	421	9260	1200	15,097	2520
Sana	4200	485	6700	758	8516	485

Revenue in million EUR

Source: Annual reports; Hoppenstedt

[a]Estimated

health insurance funds. In this context they are treated equally to public and voluntary hospitals as patients are free to choose regardless of the type of hospital provider.

Table 3.4 displays the four largest companies in the German market in 2000, 2005, and 2010. We can see that companies constantly grew and that the group of the largest four companies remained very stable over time. We did not observe dropouts due to bankruptcies nor could other competitors catch up and enter the top group.[2] This finding also holds

true for the 1990s where exact data on company sizes are not available systematically.

Three of the top four companies were managed by their owners for most of the period. Asklepios, for instance, was founded in 1984 by Bernard Broermann and Lutz Helmig. After controversies between the two, Helmig founded Helios, which even today is the main competitor of Asklepios, though since 2005 it is owned by healthcare group Fresenius. Rhön-Klinikum, the third big player in the market, was founded by Eugen Münch, who started as an individual owner, later becoming chairman of the supervisory board of the then publicly traded company.

Traditionally, private hospital companies have owned small facilities. However, flagship projects have started to indicate that larger hospitals have also become a target of privatization. Rhön, for instance, in 2006 bought a 95 per cent majority of university hospital Gießen-Marburg. Similarly, Asklepios acquired a 75 per cent majority of the public hospitals in the city of Hamburg in 2007. The size of acquired hospitals has changed, and there is also a new dynamic in the group of market leaders. Until 2010, stability and almost parallel growth of private hospital companies was reflected in takeovers of only smaller companies. Since then, however, the industry has fundamentally changed. In 2014, Rhön-Klinikum sold 43 hospitals plus 15 medical care centres to Helios/Fresenius. First announced in 2012, the deal initially failed because Asklepios and Braun Melsungen, producer of medical devices, each bought slightly more than 5 per cent of Rhön shares, which hindered Helios to buy the necessary 90 per cent of shares. After a long-lasting takeover battle, Rhön and Helios in 2013 announced to reduce the deal to 43 hospitals. Consequently, Helios is the market leader since 2014, providing a dense network of hospitals all over Germany. In 2014, Helios provided 29,068 beds, Asklepios 26,508, Sana 10,293, and Rhön 5227.

The German hospital industry is characterized by low participation of international companies. Swedish provider Capio took the first steps into the market when it bought seven hospitals of Deutsche Klinik in 2004, announcing plans to become a pan-European provider of private hospital services. Prior to its engagement in the German market, Capio had already become active in several European countries, among them Sweden, the UK, Spain, and France. Yet, while Capio is fairly established in the German market, it has not become a large player.

Collective action of private hospitals was established soon after the Second World War when the interest group *Bundesverband Deutscher*

Privatkliniken (BDPK) was founded. Additionally and more importantly, private hospitals are highly integrated into the encompassing *Deutsche Krankenhausgesellschaft* (DKG) that represents the interests of all types of hospitals in Germany. The increasing relevance of private hospitals was also reflected in the changing role within DKG. In 2004, a CEO of a private for-profit hospital for the first time became president of DKG.

Finally, how relevant is welfare market business for the private hospital sector in Germany? As mentioned earlier, private hospitals do not depend on contracting out. Once they have become part of a public hospital plan, their business activity is fully reimbursed by statutory and private health insurance funds. Since only 3 per cent of all hospitals in Germany are not part of hospital plans, signifying that they cannot draw on money from dual funding (Klenk 2011, p. 272), almost all the income of private hospitals in Germany comes from the public healthcare system including private health insurance.

Pensions in the UK

What type of firms act as providers on welfare markets for pensions? In the UK, we can divide provision into two modes of organization. In occupational pensions, both employers and insurance companies play a role in administering occupational pensions. Personal pensions, on the other hand, are available from financial service providers only, including banks, building societies, or life insurers. In 2009, occupational schemes had 8.7 million members compared to 6.4 million personal pension contracts (Office for National Statistics 2011b, p. 3).

Here, the main focus will be on life insurers as they are the main providers of services on welfare markets. The UK has the biggest insurance market in Europe and the third biggest in the world (Association of British Insurers 2010b). In the worldwide comparison, only the USA and Japan have larger life insurance markets. Employing 275,000 people in 2009, life insurers represented a third of all financial service jobs in the UK (Association of British Insurers 2010b, p. 3). In the same year, the industry held 13.4 per cent of investments in the London Stock markets, compared to 12.8 per cent by pension funds and 3.5 per cent by banks (Association of British Insurers 2010b, p. 4). Table 3.5 displays the ten largest providers of individual and occupational pensions from the insurance industry in 2010. Nine of the ten largest life insurers (first column) are also among the top ten providers of either or both types of pensions.

Table 3.5 Largest pension providers from life insurance industry, UK, 2010

Life	*Individual pension*	*Occupational pensions*
Aviva plc	Aviva plc	Standard Life plc
Lloyds Banking Group	Lloyds Banking Group	Aegon NV
Zurich Financial Services	Standard Life plc	Prudential
Legal & General	Aegon NV	Resolution Ltd
Prudential	Old Mutual plc	Lloyds Banking Group
AIG	Royal London Mutual	Zurich Financial Services
Just Retirement Ltd	Legal & General	Pension Insurance Corporation
Old Mutual plc	AXA	Threadneedle Pensions Ltd
Royal London Mutual	Resolution Ltd	Metlife Inc
Standard Life plc	Prudential	Rothesay Life Limited

Measured by total UK gross premiums

Source: Association of British Insurers (2010a)

We can assume that the more welfare industries invest into political activity, the more their business model depends on welfare markets. Thus, we want to know how relevant welfare markets are for their business strategy. The life insurance business has steadily increased in relevance for British insurers since the mid-1980s. In 1985, the life insurance share, measured as gross life premiums in relation to total premiums, was 46 per cent. Since 1993 more than half of all insurer business is related to this segment, having reached 72 per cent in 2013 (OECD 2015). This indicates that insurance companies indeed have high stakes in the life business. Does this also hold for welfare markets? We can calculate the relevance of welfare markets for insurance companies by relating individual and occupational pensions to life and other business (Fig. 3.8). Individual pensions mainly include personal pensions and Stakeholder Pensions, whereas occupational pension numbers include pension schemes that are funded or founded by employers but managed by insurers. Non-welfare market business comprises life insurance policies and other business in the UK. The share of personal and occupational pension business has steadily increased since 1990. Starting with 42 per cent in 1990, it reached 50 per cent in 1997 and further increased up to 76 per cent in 2012. Comparing occupational and personal pensions, we observe that both elements of the welfare market have increased at almost the same overall rate. However, while personal pensions have seen a strong increase in the first ten years of our observation (1990–2000) and some severe drops since then (2002 and 2008), funds in occupational pensions have risen more constantly.

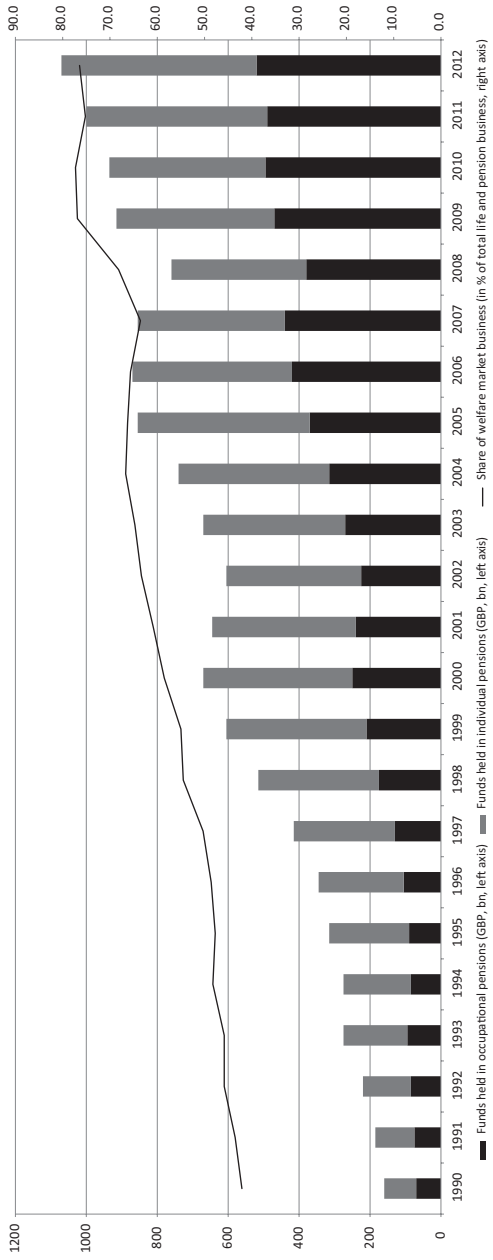

Fig. 3.8 Size and share of welfare market business in pensions, UK, 1991–2012
Source: Association of British Insurers 2013

Pensions in Germany

In Germany, like in the UK, the distinction between employer-based and insurance-administered pensions is relevant. Riester pensions, representing the majority of publicly subsidized private pensions, amounted to more than 16 million contracts in 2014 (Fig. 3.4). Investment funds accounted for less than a fifth of all Riester products, with bank saving plans and building loan contracts playing an even more marginal role. Accounting for almost two-thirds of all Riester contracts, life insurers are the main providers while investment funds, banks, and other financial service companies play a minor role.

In the field of occupational pensions, employers have traditionally self-administered most pension funds as they used them to reduce their taxable income. Since the pension reform in 2001 the financial industry has gained in importance through the rise of pension funds that are independent from employers (*Pensionskassen*, less important: *Pensionsfonds*). Although still a large share of occupational pensions is administered by employers and employees, the role of life insurers has increased (Fig. 3.6).

Table 3.6 lists the ten largest life insurance companies in Germany in 2010. It shows that Allianz is by far the market leader. The life insur-

Table 3.6 Largest life insurers, Germany, 2010

Companies (top 10)	*Gross contributions earned (million EUR)*		*Number of insured persons (million)*	
	Total	*Market share (%)*	*Total*	*Market share (%)*
Allianz Leben	15,398	17.7	277,167	10.8
Zurich Deutscher Herold	4571	5.3	108,070	4.2
AachenMünchener Leben	4473	5.2	136,432	5.3
R+V Lebensversicherung	4457	5.1	98,828	3.8
Generali Leben	4178	4.8	135,045	5.3
Ergo Leben	3561	4.1	87,058	3.4
Debeka Leben	3221	3.7	98,896	3.8
Bayern-Versicherung	2776	3.2	43,546	1.7
Axa Leben	2294	2.6	62,378	2.4
Württembergische Leben	2279	2.6	69,108	2.7
Nürnberger Leben	2248	2.6	115,170	4.5

Source: Bundesanstalt für Finanzdienstleistungen (2012)

ance market consists of a large number of companies but is, nonetheless, highly coordinated. Since 1990 the market share of the ten largest companies has grown constantly, reaching 61 per cent in 2006 (Monopolkommission 2008, p. 129). Already by 2002 Allianz had also become leader in the new Riester market. Apart from private pensions, occupational pensions also increased in importance for Allianz. Among others it managed the pension fund of the large and influential metal and electrical engineering industry (*MetallRente*). Allianz can be seen as characteristic for the industry in several respects. After euphoric months in the aftermath of the pension reforms, hopes of the insurance industry benefiting from private pensions vanished more and more. In the light of both the slow growth of take-up rates and the capital market crisis, insurers announced that there would be a stronger focus on the non-life insurance market (Fromme 2003). However, after some political adjustments of the certification rules, growth in Riester pensions in 2004 and 2005 accelerated again reaching a first level of market saturation in 2008.

How relevant are welfare markets for insurance companies? The size of life business provides a first answer to this question. In international comparison, the life insurance share in Germany has been lower than in the OECD for all years since 1983. It moved from 36 per cent in 1992 to 46 per cent in 2011, dramatically dropping in the following two years (OECD 2015). Consequently, the life insurance business is not as relevant for German insurers as it is for their British counterparts. Still, it represents a large share of business.

We are, however, especially interested in the share of welfare market business for life insurers. We can measure the relevance of the welfare market by the share of certified and subsidized Riester and Basisrente contracts in relation to all life insurance products. Figure 3.9 shows that the welfare market business has constantly increased as a share of all life business. While in 2002, it resulted in only 3.2 per cent of all life business, this share has increased to 14.4 per cent in 2013.[3] When considering only pension contracts, more than 40 per cent can be related to the new pension policies since 2001. While occupational pensions have a share of 10 per cent of all pension contracts, every third contract is an individual Riester contract (Gesamtverband der Deutschen Versicherungswirtschaft 2012).

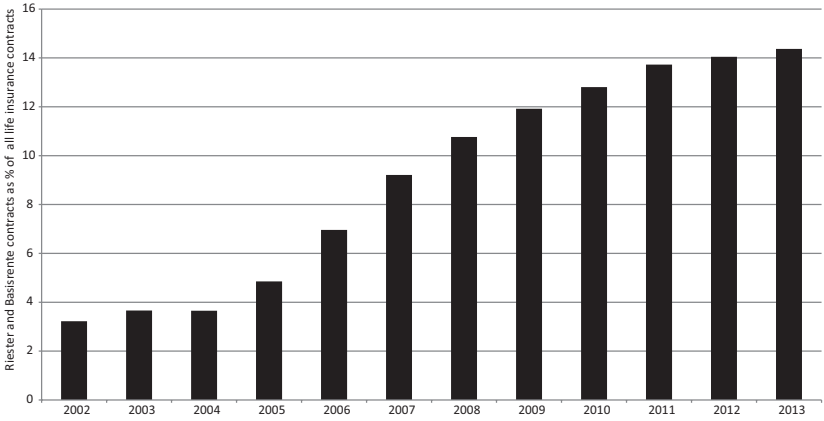

Fig. 3.9 Share of welfare market business in pensions, Germany, 2002–2013
Source: GDV (2012), plus other issues

Conclusion

This chapter has presented how welfare markets have emerged and who the main providers are. In summary, we find both differences and similarities in the development of welfare markets and welfare industries. Existing differences are hardly a surprise in light of the diverse institutional settings. More interestingly, there are also common patterns across the different cases.

First of all, we observe existing welfare markets in all four cases. The share of private provision is highest in pensions in the UK (44 to 51 per cent over time), followed by the hospital sector in Germany (15 to 35 per cent). While private actor involvement is clearly less relevant in English hospital and German pension sectors (ranging between 4 and 8 per cent), welfare markets, nonetheless, have established there too. Looking at changes over time, we see that private provision has increased in all four cases with growth rates ranging from around 15 per cent in both pension sectors to 50 per cent in the English hospital sector to more than 130 per cent in the case of German hospitals.

Both for-profit and non-profit private actors have emerged as an alternative to public providers. However, for-profit firms are typically larger and have grown more strongly over past decades. In all cases, we observe

a large group of social policy providing firms that we can call an industry. Finally, welfare market business is economically relevant for the main providers on these markets. The share of income that welfare industries generate from doing business in the welfare state has strongly increased in all cases, being lowest for the German pension industry (14 per cent), followed by private hospitals in England (25 per cent), the British pension industry (76 per cent), and private hospitals in Germany (close to 100 per cent). We can assume that the increasing share of welfare market business leads to an interest in the political regulation of welfare markets. Welfare industries are likely to prefer welfare markets to prosper and to maintain or increase their business on these markets.

Notes

1. In 2008, 77 per cent of hospitals, 76 per cent of beds, and 75 per cent of revenues in the independent sector were related to for-profit providers (Olesen 2010, p. 171).
2. Other hospital providers that played or still play a role in the industry are MediClin (majority owner: Asklepios; insurers ERGO and DKV also own a significant share), Paracelsus (sole ownership of individual founder), and Marseille-Kliniken (family ownership; now especially in elderly care).
3. The numbers are very similar if we consider yearly contributions. Taking the insured sum as an indicator, we end up with a lower share of 6.8 per cent in 2013.

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CHAPTER 4

Power Resources of Private Sector Providers

This chapter shifts the focus to the political role of welfare industries by mapping the resources they can use in politics. After describing the emergence and establishment of welfare markets and welfare industries in the previous chapter, I now take a first step in approaching the question of welfare industry power. Adapting the power resource approach to for-profit providers, I present a novel measure of provider power that conceptually draws on the distinction of structural and instrumental power, combining economic and political indicators. I will proceed in five steps. The first section deals with the different concepts and measures of power that are discussed in the literature. Following this discussion, I will present the conceptualization of the welfare industry power resources index. The third section presents the operationalization of the power resources index and data collection. Results of the individual indicators and the index will be presented in the fourth section. The chapter closes with a discussion of the results.

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Studying Power: A Resource-Based Approach

For decades, political science debate about power has been divided between two camps: Pluralists stated that politics is a game of many actors in which hardly any single interest group will be successful. Elitists, on the contrary, argued that there is no level playing field in politics but that certain interests are more likely to be heard. At the heart of this debate was the question whether power is dispersed or concentrated in capitalist democracies. Beyond this substantive controversy there has also been a dispute around methodological questions. Bachrach and Baratz (1962) argue that both camps share a common idea of how to empirically study power, namely, that power would be observable in political decision-making processes. While elitists put the focus on a broader definition of political processes than pluralists who focus mainly on narrow political processes like parliamentary debates, both camps agree that power can be observed in political conflicts. Against this narrow conceptualization, the authors stress a second face of power. They argue that we should not only analyse final decision-making but rather start with studying the mobilization of interests. Analyses of the second face of power, defined as a person's or group's ability to prevent the public articulation of policy conflicts, therefore focus on the agenda-setting and include the study of non-decisions (Bachrach and Baratz 1962, p. 949).

In welfare state research, these conceptual thoughts have found an echo in a controversy between Hacker and Pierson (2002, 2004) and Swenson (2004a, 2004b) that centred around the question of whether a shift in power or changing interests of employers explain the origins of the American welfare state. Apart from an interesting substantive discussion, the debate revealed different positions of the authors with regard to the study of power. Hacker and Pierson stress that studies should include longer timeframes than is usual in policy analyses in order to be able to analytically distinguish ideal and strategic preferences (see also Mares 2003). As to the methods of analysis, Hacker and Pierson suggest to use a direct measure of power. Direct measures assess the actual effect of interest groups on political decisions, for example, by discovering the mechanism through which it was able to alter the voting of parliamentarians, and can only be assessed through in-depth case studies of political processes. Scholars typically test whether formulated interests of certain actors are reflected in the final decision and whether these actors' activities hint at a mechanism of influence (Culpepper 2010; Hacker and Pierson 2002;

Wehlau 2009). However, while Hacker and Pierson's suggestions provide guidelines for policy analyses, they are less helpful for more abstract and comparative analyses of changing actor constellations in politics. Thus, we may turn to more indirect measures that display the potential of an interest group to exert influence

A priori power indices meet the conditions of abstractness and comparability. They are common in the analyses of political decision-making bodies. These indices comprise resources (e.g. allocation of votes) and institutions (e.g. voting rules) and understand powerful actors as pivotal actors in collective decisions (Holler and Owen 2001; Holzinger et al. 2005, pp. 111–119). They are used especially in research on intergovernmental decisions, for instance, when studying the European Council. However, since these power indices are built for decision-making bodies, they do not suit the purpose of this study. This is because voting in welfare state politics takes place in parliaments or self-administration bodies. Business, just like other interest groups, exerts its influence in welfare state politics not mainly through representation in decision-making bodies but through influencing politicians, bureaucrats, or public opinion.

Thus, for this chapter, I draw upon the measurement of power resources. Measuring power resources has become prominent in welfare state research with the rise of class-based analyses in which power resources of labour unions were used as an explanation for the size of welfare states. Studying power resources rests on the assumption that actions in political processes are interdependent and that actors try to foresee the actions of other actors (Korpi 1985). Consequently, resources are crucial to take action in these games. Power resources are 'attributes (capacities or means) of actors (individuals or collectivities) which enable them to reward or to punish other actors' (Korpi 1983, p. 33).

I adapt the concept of power resources for studying private providers as an interest group, by developing a composite indicator of the power resources of welfare industries. This indicator combines the strengths of the aforementioned approaches. Like the study of power in policy analyses, it is applicable to legislative or regulatory processes that are broader than the voting in small decision-making bodies. Going beyond single-case analyses of influence, however, the index of welfare industry power aims to provide a more abstract measure that is comparable across countries and fields. The power index starts from a twofold assumption. First, the power of a welfare industry is defined as its ability to enforce its interests in welfare state politics. Second, actors are more likely to get what

they want the greater their power resources are. Welfare state politics will be defined as the process of aligning diverse and conflicting interests to collectively binding decisions. In the specific context of this work, welfare state politics takes place in legislative, regulative, or administrative arenas and is about policies that, for instance, alter the welfare mix in hospital or pension sectors.

To be sure, measuring power resources does not provide us with information on whether actors can translate these resources into influence in political processes. They are rather a description of the characteristics of political actors, reflecting their potential to get what they want in politics. In the context of this study, I use power resources to describe welfare industry characteristics. Additionally, they serve as a basis for further analyses in Chap. 5.

Conceptualization of Power Resources Index

In what follows in this section, I will present the conceptualization of the welfare industries power resources index, explaining the different elements of the index and what sort of power resources they cover. The index is organized along four theoretical dimensions (Table 4.1). It starts with economic characteristics that measure the structural power of welfare industries, moves on to relations among welfare industry firms, then covers collective action, and finally includes relations between welfare industries and politics. While one half of the indicators covers the structural dimension of power, the other half contains information about instrumental power (Hacker and Pierson 2002; Lindblom 1977).

One of the most important characteristics of business that might translate into power is economic relevance. Referring to the structural dimension of power (Lindblom 1977, pp. 170–213), according to which politicians will anticipate business interests because their political success usually depends on economic indicators, we would expect that the influence of an industry increases with its size. The more central an industry for employment or investment decisions, the more important its interests will be for politicians even if the firm is not lobbying. I thus include the number of employees and the annual turnover as measures of economic relevance.

The structure of an industry contributes more indirectly to its power but is still important. First, research on corporate interlocks has shown that these networks can have many functions. They can help to control competition, exert influence in other markets, or improve the flow of information among firms (David and Westerhuis 2014). Additionally,

Table 4.1 Conceptualization of welfare industry power resource index

Dimension	*Variable*	*Measurement*	*Data sources*
Industry characteristics	Turnover	Growth of industry turnover Hospitals: Revenues Pensions: Gross written premiums of life insurers	Hospitals EN: Laing & Buisson Hospitals DE: Statistisches Bundesamt Pensions UK: ABI; CEA Pensions DE: GDV
Industry characteristics	Employees	Employees of private hospitals; employees in life insurance business	Hospitals EN: Laing's Healthcare Market Review Hospitals DE: Statistisches Bundesamt Pensions UK: CEA Pensions DE: GDV
Inter-firm relations	Interlocks	Number of board memberships of CEOs and chairmen of top 3 companies in other companies	Munzinger; LexisNexis; annual reports
Inter-firm relations	Concentration	CR3 (cumulated market share of largest three companies) Hospitals: Beds Pensions DE: Gross written premiums Pensions UK: Net written premiums	Hospitals EN: Laing & Buisson Hospitals DE: Statistisches Bundesamt; annual reports Pensions UK: ABI; Bank of England Pensions DE: GDV; BaFin
Collective action	Collective action of industry	Existence of trade association; type of trade association	Association websites; academic literature
Firm-politics relations	Party donations	Donations to political parties	Germany: statement of accounts of political parties UK: Electoral Commission; Labour Research Department; annual reports
Firm-politics relations	Political networks	Number of previous political positions of CEOs and chairmen of top 3 companies Number of politicians on supervisory board / board of directors	Munzinger; LexisNexis; annual reports Annual reports

members of dense business networks are more likely to be heard by politicians than are more atomized firms. This is because a central position in a network increases the structural power of firms. For those actors, decisions to disinvest might not just affect one firm but are potentially relevant for subsidiaries too (Domhoff 2006). I use the number of personal interlocks with other firms as a measure. Second, since influence is likely to depend on the industry structure as well, I consider the degree of concentration assuming that firms in concentrated industries have better access to politics than their counterparts in fragmented industries.

The ability of individuals or organizations to formulate common interests and to represent these interests collectively is a precondition for power (Olson 2001). Thus, I add information about collective action to the index. Although firms, especially large ones, increasingly tend to represent their interests on their own by creating individual lobbying offices and public affairs departments, representation through associations is in most cases still the most effective way to get a say. The creation and maintenance of associations, however, requires the solution of collective action problems. Industries that are more successful in overcoming these problems are more likely to get what they want in politics than those industries that have difficulties to find and represent common positions towards political ideas.

One of the most visible translations of economic strength into political influence is the ability of firms to contribute to party finances (Hart 2001; McMenamin 2012; Nassmacher 2009). While party donations certainly do not directly translate into influence, they can be understood as an attempt of business to fundamentally improve their relations with political parties. Looking at patterns of party donations, scholars have detected two strategies: specific donations that follow the cycles of political debates and can be linked to specific political decisions as well as general and regular donations that can be interpreted as an attempt to improve business–politics relations more generally (Goerres and Höpner 2014). Party donations can be classified as devices of instrumental lobbying. As opposed to structural power, instrumental power is characterized by efforts to influence a specific political decision through lobbying. Party donations will thus be used as an indicator for lobbying efforts.[1]

Finally, direct links to politicians are crucial power resources for firms of welfare industries. Thus, two measures of welfare industry–politics networks will be elements of the index. Politicians or other relevant actors of the policy network that are members of company boards of welfare

industry firms increase the chances to get a say in welfare state politics. Additionally, previous political positions of company leaders make it easier for welfare industries to establish links to the policy network.

Operationalization and Data

This section presents the operationalization of the concepts that have been presented above as well as data sources and data collection. The period of analysis starts in 1990 and ends in 2010. I collect data on firms and industries in five-year steps. The index consists of power resources at both the industry and the firm level. Industry-level information is available for the economic indicators (turnover, employees) and collective action. Interlocks, concentration, and political–corporate networks are measured at the firm level and aggregated to the industry level by taking the cumulated numbers of the top three firms. Data on party donations are available on industry level (via associations) as well as for individual firms. Collecting firm-level data, I choose the largest three companies per industry for each observation year (Table 4.2, see Online Appendix 2 for details).

Indicators

Turnover

The main reason to include turnover is that previous studies in the field of business lobbying have found that larger firms are politically more active than smaller ones (Hansen and Mitchell 2000; Hillman et al. 2004; Masters and Keim 1985; Meznar and Nigh 1995; Schuler et al. 2002). From a theoretical perspective, turnover represents the dimension of structural power according to which politicians will adapt policies to business interests in a sort of pre-emptive obedience (Lindblom 1977).

Empirically, the problem for comparisons between life insurance companies and hospitals is that turnover is measured differently for both industries. While turnover of hospitals is measured as the annual revenue coming from patient treatments, gross written premiums are the standard measure for insurance companies. In order to make industry size comparable I calculate the growth of turnover since the first data observation. Turnover growth indicates the relevance of an industry in political perception. It might, however, neglect that mature industries grow less than young industries. However, this strategy is superior to two alternatives.

Table 4.2 Largest welfare industry firms, 1990–2010

	TOP1	*TOP2*	*TOP3*
Hospitals DE			
2010	Asklepios	Rhön	Helios
2005	Asklepios	Rhön	Helios
2000	Asklepios	Rhön	Helios
1995	No systematic data[a]		
1990			
Hospitals EN			
2010	General Healthcare	Spire	Ramsay
2005	General Healthcare	BUPA	Capio
2000	General Healthcare	BUPA	Community hospitals
1995	BUPA	General Healthcare	Amicus
1990	BUPA	CGS	Compass
Pensions DE			
2010	Allianz	Zürich Deutscher Herold	AachenMünchener
2005	Allianz	AachenMünchener	R+V
2000	Allianz	Hamburg Mannheimer	R+V
1996[b]	Allianz	Hamburg Mannheimer	R+V
1990	Allianz	Hamburg Mannheimer	Deutsche Volksfürsorge
Pensions UK			
2010	Aviva Plc	Standard Life	Lloyds banking
2005	Prudential	Lloyds TSB	Aviva
2000	Barclays	Legal & General	Aviva[c]
1995	Prudential	Legal & General	Standard Life
1990	Prudential	Standard Life	Norwich Union

Measures: Hospitals: Beds; Pensions DE: Gross written premiums; Pensions UK: Net written premiums

Sources: Annual reports and accounts; Laing's Healthcare Market Review (several issues); BaFin; Bank of England; Association of British Insurers

[a]The selection of German hospital groups is complicated for the time prior to 2000 because there is no systematic information available on beds, hospitals, or turnover of individual firms. Assuming that the three largest groups of the period 2000–2010 were among the top players in the market already in 1995 and 1990, I select firms for the 1990s on the basis of data from 2000. While this is definitely a second-best option, there is reason to believe that the selection is not strongly biasing the results. Apart from Sana Kliniken, which was among the three largest firms for some years between 2000 and 2010 when measured by revenues or the number of hospitals, the three selected companies represent the main actors in a rather stable private hospital market. According to my research, there is no indication that another firm was among the top providers in 1990 or 1995

[b]No data available for 1995

[c]The official name in 2000 was CGNU. In 2002 there was rebranding; since then it is called Aviva

One could also take profits of an industry as a measure. This, however, would rather display instrumental power because it shows how much an industry can invest in political activity. A second option would be to count the number of firms of an industry among the top 100 firms in the country. This is problematic because of data restrictions for the UK. While the German monopoly commission publishes a list of how much value large firms added to the economy, which makes insurance companies and hospitals comparable, there is no such list for the UK.

Turnover data for the private hospital sector in England come from several editions of Laing's Healthcare Market Review. Gross written premiums of life insurers in Germany are published by the German Insurance Association (GDV) (Gesamtverband der Deutschen Versicherungswirtschaft 2013, p. 19). Data for the British life insurance industry come from the yearbooks of the Association of British Insurers (ABI) and Insurance Europe (formerly CEA). Turnover data for the private hospital industry in Germany are not available. As a second-best solution, I use total hospital expenditure as proxy for turnover and calculate the share of private hospital expenditure based on the number of cases treated as published by Statistisches Bundesamt (see Online Appendix 2 for more information) (Table 4.3).

Employees

Data on employees cover the structural dimension of power, too. This indicator is especially relevant for structural power because it is directly linked to the possibility of layoffs. Data for hospitals in Germany come from Statistisches Bundesamt. Data for hospitals in England are from Laing's Healthcare Market Review. Since there are no data available for 1990 and 1995, I choose the turnover/beds ratio to estimate the number of employees in this year. Data for German life insurers come from GDV.

Table 4.3 Indicators of power resources index: turnover growth

	1990	*1995*	*2000*	*2005*	*2010*
Pensions DE	100	165	223	265	318
Hospitals DE	100	155	227	420	687
Pensions UK	100	101	363	357	268
Hospitals EN	100	149	213	356	507

In relation to 1990 turnover

Table 4.4 Indicators of power resources index: employees

	1990	*1995*	*2000*	*2005*	*2010*
Pensions DE	77,400	64,800	72,800	68,900	46,600
Hospitals DE	26,500	37,977	47,492	84,733	118,737
Pensions UK	96,518	85,885	123,329	86,780	55,785
Hospitals EN	11,827	17,584	28,349	41,286	53,661

For the British life insurance industry, data on employees of all sectors are available only from Insurance Europe. I therefore calculate the share of life business of total business as measured by written premiums and use this ratio to estimate the number of life employees (Table 4.4).

Interlocks

Counting interlocks between firms adds a measure of industry structure to the index. The idea behind this component is that firms that have larger networks are more powerful. Generally, we can distinguish between financial and personal interlocks. Since data on financial interlocks are not available for both countries for the whole period (see Online Appendix 2 for details), I stick to personal networks, namely, board memberships in other firms. As a measure for these links between firms I count the number of board membership of the two leading persons in any other firm in each observation year. I restrict the analysis to the largest three firms per welfare industry. For Germany, I analyse positions of the chairman of the supervisory board (*Aufsichtsratsvorsitzender*) and the CEO (*Vorstandsvorsitzender*). For the UK, I analyse the positions of the chairman of the board of directors and the CEO. Data sources are annual reports of companies and two databases that contain biographical information, Munzinger and LexisNexis (Table 4.5).

Table 4.5 Indicators of power resources index: interlocks

	1990	*1995*	*2000*	*2005*	*2010*
Pensions DE	8	4	15	9	0
Hospitals DE	0	0	2	3	1
Pensions UK	4	8	15	9	7
Hospitals EN	1	4	9	5	8

Absolute number, top three companies

Concentration

Just like interlocking board memberships, accounting for concentration aims at measuring the structure of an industry. How can different degrees of concentration in a market affect the power resource of an industry in the political arena? The answer is straightforward and draws upon Olson's theory of collective action (Olson 2001): The more concentrated a market is, the easier it is for companies to coordinate their political strategies.

Cumulative market share CR3 is the most suitable concentration measure for this study. It is the sum of the market share of the three largest firms in the market. Data for both market size and market share of individual firms are available from Laing's Healthcare Market Review (private beds EN, several issues), Statistisches Bundesamt and annual reports and annual accounts (private beds DE), ABI and Bank of England (net written premiums, life insurers UK), GDV and *Bundesanstalt für Finanzdienstleistungsaufsicht* (gross written premiums, life insurers DE) (Table 4.6).

Associations

Assuming that industries will be more powerful if there is a collective representation of their interests, the existence or non-existence of a trade association in each industry is part of the index. I additionally include information on the types of interests that are represented. Associations that represent narrow interests, that is, hospitals or life insurers only, are rated higher than associations that represent a broader group of companies. I assign a '0' for industries that do not have an industry association, a '1' for industries that are able to build a sector-specific association, and a '0.75' for industries that have their interests represented by an overarching association.

The body of the German insurance industry, *Gesamtverband der Deutschen Versicherungswirtschaft*, represents insurers of all types of

Table 4.6 Indicators of power resources index: concentration (CR3)

	1990	*1995*	*2000*	*2005*	*2010*
Pensions DE	25.0	23.4	22.6	25.6	28.0
Hospitals DE	27.6	36.2	54.9	64.3	66.2
Pensions UK	26.4	27.0	37.6	29.2	33.0
Hospitals EN	57.3	54.8	72.3	71.1	74.7

Table 4.7 Indicators of power resources index: collective action

	1990	*1995*	*2000*	*2005*	*2010*
Pensions DE	1	1	0.75	0.75	0.75
Hospitals DE	1	1	1	1	1
Pensions UK	0.75	0.75	0.75	0.75	0.75
Hospitals EN	1	1	1	0	1

business with life insurers being the largest group. It was founded in 1948 but became the encompassing representative organization of the insurance industry only after merging with an association of life insurers and another smaller association of non-life insurers in 1996. The ABI was formed in 1985 when several specialized associations merged, among them previous organizations of the life insurance industry, Life Offices Association, and Industrial Life Offices Association. *Bundesverband Deutscher Privatkliniken* (BDPK) represents the interests of its members in wage negotiations with labour unions and in political decision-making processes and is involved in the self-administration of the German healthcare system. It was founded already in 1950. As a federal organization, BDPK's main members are associations of private hospitals on the Länder level. Individual firms and individuals can become passive members that advise the association and support it financially. As to hospitals in England, there have been phases with and without collective political representation. In the 1990s, there was the Independent Healthcare Association which collapsed at the end of 2003 (Laing and Buisson 2013, p. 133). Only in 2010 did the largest five hospital groups form the Private Healthcare Alliance, which is now running under the name Association of Independent Healthcare Organisations (Table 4.7).

Party Donations

Donations to political parties add the lobbying dimension to the power resources index. I count donations from every firm of the respective industry as well as from associations. For donations of insurers that additionally offer other products than life insurances, I take the life/non-life ratio to estimate donations. This holds only for Germany as there are life insurer-specific data available for the UK. In Germany, data are available from annual accounts of political parties. I analysed these documents for all

Table 4.8 Indicators of power resources index: party donations

	1986–1990	*1991–1995*	*1996–2000*	*2001–2005*	*2006–2010*
Pensions DE	33,555	105,460	161,522	1,118,847	1,788,128
Hospitals DE	0	20,452	251,044	189,178	184,100
Pensions UK	1,507,112	713,015	280,112	0	44,341
Hospitals EN	0	0	0	0	15,417

in EUR

political parties that were represented in the Bundestag, cumulating numbers of the four years before each observation point. Using periods instead of single years avoids skewing of numbers due to elections as donations peak in election years.

Data on donations to political parties are more difficult to access for the UK. The Electoral Commission provides comprehensive information for the years after 2001. For dates prior to this, I rely on data from annual reports of companies for which it is mandatory to publish party donations since 1967. Additionally, the Labour Research Department provides donation data for earlier years. Again, I use periods instead of single years (see Online Appendix 2 for further information) (Table 4.8).

Corporate–Political Networks

The political network data consist of, first, biographical information about the two leading persons of each company, mostly chairman of the board of directors or the supervisory board and CEO and, second, the number of politicians that are members of company boards.

Since there is no comprehensive source for both countries under study, I collected biographical data of managers from three sources: annual reports, Munzinger (for German managers), and LexisNexis' biographical meta search that uses several 'who is who' databases. Of a total of 120 positions, I identified 115 names and collected biographical information for 91 of these 115 persons. I coded each person according to whether he or she had a political position before working in the welfare industry or not. As for political position, I counted memberships in parliament, ministries, positions in political parties, and advisor positions for government. The number of politicians on company boards is counted according to information in annual reports. There were no data available for 15 out of 60 boards (Table 4.9).

Table 4.9 Indicators of power resources index: political networks

	1990	*1995*	*2000*	*2005*	*2010*
Pensions DE	2	1	1	1	1
Hospitals DE	1	0	1	1	3
Pensions UK	0	0	0	2	2
Hospitals EN	1	1	0	1	0

Top managers, top three companies

Data Structure, Aggregation, and Robustness Test

Before aggregating data, we might want to know whether we can reduce the number of indicators. Typically, we would want to run a factor analysis, examining if the seven manifest variables can be reduced to fewer latent variables. As a first step, however, we can look at the correlation of variables. Table A2.1 (see Online Appendix) displays low or negative correlation coefficients for most of the variables. Only turnover and concentration show a correlation coefficient larger than 0.5. Since one of the preconditions of factor analysis is that variables are highly correlated, the low or negative coefficients between indicators discourage us from conducting factor analysis.

I use the MinMax method for normalizing values by subtracting the value from the minimum and dividing it through the range. This results in index scores between 0 and 1. I choose this method because this makes interpretation of the index easier than in the case of other methods, for example, z-transformation. The resulting index scores of MinMax and z-transformation are very similar with regard to the order among welfare industries. I use equal weighting of all variables when aggregating the data.

How robust are the results? Varying the composition of the index in order to check for robustness, I generally observe a stable pattern when single indicators are deleted. This holds only to a limited extent for the concentration variable. After its deletion, the index shows a bigger range of values with, however, almost the same ordinal structure. Additionally, there is a strong effect of the association variable. If deleted, the decline of the power resources of the British hospital industry in 2005 is less pronounced. In addition, I grouped the indicators, separating economic and political dimensions in order to test if one dimension especially affects the final score of the index. Figures A2.1 and A2.2 (see Online Appendix)

display the separate analyses. While both differ from the original index, the general results discussed below hold for both of these versions. In a second step, I checked whether extreme values of the index or its components give reasons to doubt the reliability of the data source. First, there is outstanding turnover growth of the German hospital industry between 2005 and 2010. This seems plausible if we take a look at the similarly strong growth of employees. Second, there is a steep decline of cross-board memberships in the German pension industry since 2000. This observation reflects the unbundling of the former *Deutschland AG* (Beyer 2003; Höpner 2003; Streeck and Höpner 2003). Third, party donations of the German pension industry are skyrocketing since 2000 while its British counterpart saw a steep decline from a very high level since 1990. We can interpret this result as a reaction to the different timing of central pension reforms in both countries.

Results: Increasing Power Resources of Welfare Industries

Figure 4.1 displays the index scores of the four welfare industries that are the subject of this book: pension and hospital industries in Germany and UK. Summarizing all four industries, we observe a moderate increase in power resources over time. The average score of all four industries especially increase from 1995 to 2000 and from 2005 to 2010. This finding is very stable in that all indicators but associations increase as well. At first glance, this is what we have expected: As welfare state reforms since the 1990s create welfare markets which for-profit providers can enter, these providers also become stronger with regard to their power resources.

Taking a closer look at different industries, however, the picture becomes more nuanced. First of all, the observation of increasing power resources also holds true for three of the four welfare industries individually. Over the whole period from 1990 to 2010, power resources of welfare industries in both hospital sectors strongly increased. Also, the score of the British pension industry increased over time, although to a much smaller extent. Contrary to this observation, power resources of life insurers in Germany overall decreased slightly. Note, however, that there has been an up and down movement. Decreasing in the first half of the 1990s, power resources went up between 1995 and 2005. The latter period reflects the main phase of pension privatization in Germany. The score decreases again for the years since 2005.

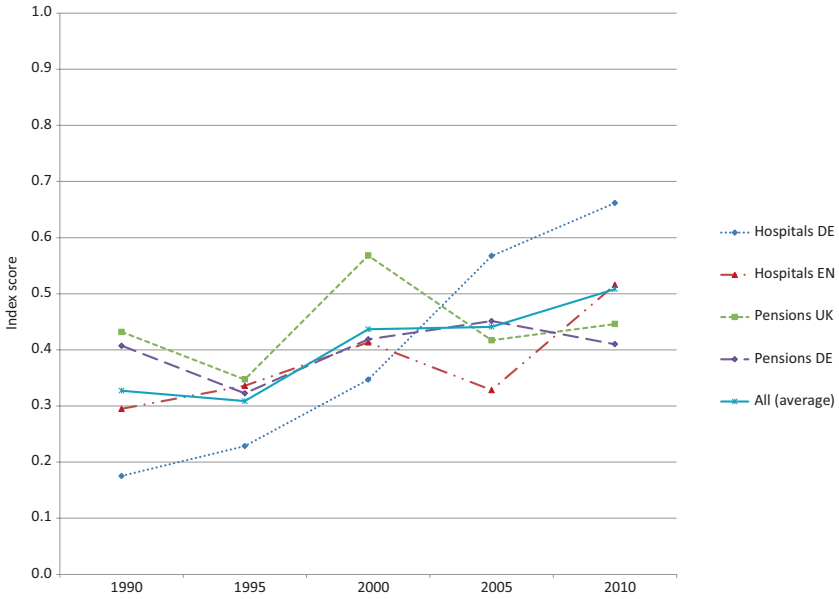

Fig. 4.1 Welfare industry power resources index, 1990–2010

Cumulating scores over time, we observe that pension industries can generally use more power resources than hospital industries. Given the status of life insurers in national political economies, this is what we have expected. Pension industries are bigger, have denser corporate networks, and are more closely connected with policymakers. The picture looks different when we take into account how power resources have developed. Pension industries, in 2010, display scores that resemble their starting level in 1990, with the German industry ending slightly below its scores 20 years ago. As to the British case, the result is somewhat surprising against the background of peaking power resources in 2000. The years around 2000, however, marked high times of capital market development. After the stock market downturn in 2002, power resources of life insurers—around 2000 driven by the number of employees and corporate interlocks—declined as well.

While pension industries experienced fluctuating power resources that eventually reached levels of 1990, power resources of hospital industries

showed a clear upward trend. In fact, growth in overall power resources is mainly driven by private hospital industries, especially by its German variant. The private hospital industry in the UK would have seen an almost linear increase in power resources, were it not for a dramatic decline in 2005. This was mainly due to problems of collective action. The collapse of the private hospital association (Independent Healthcare Association) in 2003 and the lack of a successor organization for many years marked a severe decline in the political power resources of the sector. Additionally, but to a minor extent, a decline in corporate interlocks accounts for the dropping scores. Overall, however, we can observe a clear increase in power resources for the period under study. The most impressive dynamic, however, can be seen in the case of the German hospital industry. Starting in 1990 as the industry with the fewest power resources, it experienced a steep growth. By 2010 it was the industry with most power resources by far. What is behind this outstanding growth? In 2010, every single indicator but the one measuring collective action was higher than in 1990 for the German hospital industry. Still, much of the dynamic is due to the economic rise which is indicated by the strongest increase in turnover and employees. However, the growth of political networks also contributed to the rising score, whereas interlocks and donations did not contribute much to the increase in power resources.

Putting it in more general terms, the remarkable growth of power resources of hospital industries can certainly be described as a catch-up effect, taking into account the rather low levels from which both industries started. Apparently, the varying dynamics reflect the different ages of these industries. Private hospital providers, while individually existing already in the 1980s and some even earlier, began to expand only in the 1990s and gained relevance for social policy provision much later since the beginning of the 2000s. Private hospital industries emerged as a direct result of political decisions to strengthen markets in social policy provision. The story is different for welfare industries in the pension sector. While welfare markets were also created by political reforms, the providers that entered these new types of pensions markets were established economic and political actors for decades.

Comparing across countries, we do not find mentionable differences in levels of power resources. Although a glance at Fig. 4.1 suggests that British welfare industries were more vulnerable to change, given that the

two big changes happened to the British pension industry in 2000 and the hospital industry in 2005, respectively, the dynamic is not fundamentally different from German welfare industries where private hospitals also showed an impressive dynamic.

Conclusion

Overall, this chapter makes three main contributions. From a theoretical perspective, it newly interprets power resource theory by conceptualizing business as actors on product markets, not as employers. Power resources reflect the potential of actors to get what they want in politics. In this sense, they are a relevant indicator for the study of power. What is more, in the context of this book, they are used to describe welfare industry characteristics. Methodologically, the chapter introduces a measure of power resources of welfare providers. Going beyond single-case analyses of influence, the index provides a more abstract measure of power that is comparable across countries and policy areas. From an empirical perspective, finally, the chapter explores the characteristics of new actors in welfare state politics and shows that their power has steadily, although not tremendously, increased since 1990. A comparison of sectors reveals that resources of pension industries are generally higher, but hospital industries have caught up in recent years, showing an impressive dynamic.

What can we learn from the results for the debate about welfare state change? For a long time, research struggled with finding explanations for welfare state change. Since institutionalists had put a focus on stability, change was first described in its different types and pathways (Bonoli and Palier 2007; Palier and Martin 2007). But what were the drivers behind such changes? Institutionalist research implicitly assumed that problem pressure was a sufficient driver for change. Consequently, students of welfare state reforms analysed how institutional barriers could be overcome. These inherently apolitical explanations have been complemented by reviving a focus on voters and interest groups as drivers for reforms (Gingrich 2011; Häusermann 2010). In this research, middle-class preferences, the emergence of new professions in services, and increased work participation of women caused a demand for more flexible social policy provision that triggered, amongst others, the introduction of markets.

The results of this chapter suggest that we should take the research on new interest groups in the welfare state a step further, considering private providers of social policy as actors in the politics of welfare reform. Chapter 3 has shown that welfare industries are increasingly involved in doing business within the welfare state. Combining it with the observations of this chapter, we can assume that welfare industries will try to use their power resources for their economic interests. The power resource index serves as a descriptive tool to quantify and compare welfare industries across different fields and countries. We can use it as a relative measure of welfare industry power, that is, we can compare whether some welfare industries are potentially more successful in enforcing their interests than others. Whether this potential is realized depends on many different factors. As the index provides no information on whether welfare industries become powerful political actors in absolute terms, subsequent chapters will apply different methods to study their role in political processes. In Chap. 5, I analyse the determinants of privatizing reforms, especially asking about the role of welfare industries. Drawing upon the results of this analysis, I then select four welfare reforms and study the political processes in-depth (Chap. 6). A special focus will be on the mechanisms and constraints of welfare industry power.

Notes

1. Two other potential measures of lobbying could be the size of the public affairs office or general spending on lobbying efforts. However, it is extremely difficult to get data for either of these indicators.

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CHAPTER 5

Private Sector Providers and Patterns of Privatization

Having described in previous chapters both the emergence of welfare industries and their power resources, I now turn to their role in politics by asking whether welfare industry power can explain welfare reforms. The previous chapter showed that power resources of welfare industries vary over time and between sectors but generally increase over time. In a next step, I want to find out whether there is a relation between powerful welfare industries and political reforms that are beneficial for private providers. When do governments introduce social policy reforms that expand the market for private providers? Does the presence of welfare industries make a difference for the output of reforms?

This chapter is the first of two that analyses whether increasing power resources of welfare industries translate into influence in welfare state politics. It deals with explanations of welfare reforms that have strengthened private provision of social policies. Applying Qualitative Comparative Analysis (QCA), I analyse welfare state reforms in pension and hospital sectors in Germany and the UK between 1990 and 2010. I especially look into different periods of the privatization of social policy provision in order to account for the main hypothesis that welfare industry power increased over time. Additionally, I account for combinations of actor-based as well as institutional and structural factors.

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Method: Applying Fuzzy-Set QCA

Privatization of social policy provision can have many causes of which business power may be one. However, no single factor but combinations of factors will explain why privatizing reforms are introduced. What is more, we can expect that different paths to privatization are possible. These two characteristics—technically speaking, conjunctural causation and equifinality—speak in favour of using QCA for studying patterns of factors that lead to privatization of social policy provision. Furthermore, QCA is well suited for asymmetric causation. For instance, if we find that the presence of a right-wing government is a sufficient condition for privatization of social policy provision, the absence of a right-wing party government does not automatically imply that public provision of social policy will be strengthened.

Since QCA is a set-theoretic method concepts have to be translated into sets. For example, analysing whether welfare industry power can partially explain privatization of social policy provision, we need to formulate what the concepts *welfare industry power* and *privatization of social policy provision* mean in set-theoretic terms. *Privatizing reform* will be the outcome set that needs to be explained. Each case is either a member or a non-member of this set. As I apply fuzzy-set instead of crisp-set QCA in order to account for more fine-grained analyses, cases can also have partial (non-)membership. Note that fuzzy sets differ from interval scale variables in that there is always a qualitative crossover point which tells us whether a case is a member of the set or not. The same set-theoretic logic applies to conditions that are tested as explanations for the outcome, for example, the set *powerful welfare industry*.

Calibration and Data

Cases of the QCA are major welfare state reforms in the fields of pensions and hospitals in Germany and the UK between 1990 and 2010. I define major reforms as policies that have either introduced new instruments while goals remained stable or formulated new goals. This definition follows Peter Hall's (1993) distinction of types of policy change and includes second-order and third-order change (Hall 1993). I qualitatively assessed the type of change for every reform that took place in the respective period and countries, studying academic literature, parliamentary proposals, and legislations. Table A3.1 (see Online Appendix) summarizes the final sample of 18 cases.

The outcome is a fuzzy set called *privatizing reform* (PR). A privatizing reform is a health or pension reform that aims to expand private provision. I focus on the policy output for calibrating the outcome. While policy outcomes, for instance, changes in the public–private mix of welfare provision, would generally be an interesting research subject, they are ill-suited for this analysis because there is not necessarily a direct link between political decisions and privatization levels. A large number of factors affect public–private mixes, ranging from economic strategies of companies to the behaviour of individuals on the demand side. Instead of focusing on policy outcomes, I therefore study political intentions as they become manifest in policy outputs. I calibrate reforms along four dimensions.

1. Public provision: Does the reform strengthen or weaken public provision? We can expect that demand for private pensions increases when the generosity of public pensions decreases. Cuts in public pensions should therefore favour private providers, while expansion of public pensions is a disadvantage. A similar mechanism is at work in the hospital sector. When funding for public hospitals goes down, this opens new room for private providers. Note, however, that there are different mechanisms in the two countries: In England, underfunding of the National Health Service (NHS) leads to lower quality of services and/or longer waiting lists. It therefore directly translates into new market opportunities of private providers. The link between public underfunding and an increasing private market share is less direct in Germany. All types of publicly authorized hospitals are funded through reimbursement from health insurance funds, no matter if they are public, voluntary, or private. Additionally, the Länder are responsible for financing the hospital infrastructure. Thus, the potential effect of federal legislation on the financial situation of hospitals is limited. However, reforms of finances like the abolishment of the cost coverage principle or the introduction of Diagnosis Related Groups (DRGs) disproportionally favours private hospital providers because it especially puts pressure on public hospital finances and thereby increases the chances of privatizations.
2. Private provision: Does the reform strengthen or weaken private provision? For pensions, this general question can be translated into a more specific one, namely, whether the reform contains measures that introduce or expand second or third pillar provision of pensions? For hospitals, again, there is a difference between the two

countries. While there is mainly functional privatization taking place in the NHS, often happening without legislation but through executive decisions of the Department of Health, federal legislation in Germany sets the framework for facilitating or hampering the material privatization of hospitals at the local level. Individual decisions for privatization, however, are not taken on the federal level.

3. Competition: Is competition between public and private providers strengthened or weakened? Tax subsidies for private pensions, for instance, increase the relevance of private pensions in relation to public pensions and improve the market opportunities of private pension providers. Enhancing competition between types of providers in the hospital sector can come as a transformation into a consumer-based market, like, for instance, in the NHS where patient flows decide upon the allocation of resources both within the NHS and between private and public hospitals. Another political strategy to increase competition is to change the modes of financing, for instance, by introducing DRGs that are more favourable for private hospitals. This would be a typical strategy in social insurance systems.
4. Regulation of private provision: Does the reform regulate or deregulate private provision of welfare? Since regulation can have a big impact on market potentials for welfare industries and many reforms contain a regulatory element, we should include this dimension into the assessment of reforms.

Summing up, fuzzy values are assigned by assessing reforms according to their content in four dimensions: public provision, private provision, competition, regulation. For each dimension I assign a 1 for reforms that went into the private direction, a −1 for reforms that strengthened public provision, and a 0 for neutral or missing reform elements. Adding up the numbers, I get a score between −4 and 4. Table 5.1 presents how this score translates into fuzzy-set membership scores. Imagine a pension reform that lowers benefit levels of public pensions and introduces a new private scheme which is subsidized by tax breaks and which is strongly regulated. We would assign three times a 1 (dimension: public provision, private provision, competition) and a −1 (dimension: regulation) which results in a score of 2. With a fuzzy-set membership of .87, the reform would be almost fully in the set *privatizing reform*. Table A3.1 (see Online Appendix) displays the information for all reforms. Online Appendix 2

Table 5.1 Calibration scheme PR

Additive score[a]	*Fuzzy-set membership*	*Verbal*
3 or 4	1	Fully in
2	.87	Mostly in
1	.67	More in than out
−1	.33	More out than in
−2	.17	Mostly out
−3 or −4	0	Fully out

[a]Theoretically, there could be reforms with an additive score of 0. If this happened, case-specific information would be needed to assess whether a case is rather in or out of the set privatizing reform. As Table A3.2 (see Online Appendix) shows, this case does not occur for this analysis

also lists an overview of all reforms including a summary of the content and an assessment of the four dimensions.

Four causal conditions are tested as potential explanations for the outcome: powerful welfare industry (PWI), problem pressure (PP), right-wing government (RPG), and institutional leeway (IL). The fuzzy-set *powerful welfare industry* is based on the values of the power resources index developed in Chap. 4. The index combines information about the economic and political power resources of life insurance industry firms and private hospital companies. It covers the structural dimension of power as well as its instrumental aspects by including turnover growth, employees, interlocks among firms, concentration of the industry, collective action, party donations, and corporate–political networks.

Translating the index into set membership scores, I take the distribution of the index values and external information as a guideline (Schneider and Wagemann 2012, pp. 33–35). An industry is a full member in the set when its index score is equal to or larger than 4.06. This decision is due to both a prominent gap in the distribution and external knowledge of the cases; 4.06 is the score of the British pension industry in 2000, which can be taken as a benchmark of business power taking into account that this was the heyday of the British financial industry both economically and politically if we think of how much the political economy of the UK depended on the success of the sector as well as the political convictions that the boom of financial markets would endure. The crossover point is set at −0.82, which is the middle of a larger gap in the distribution. A welfare industry is fully out of the set if its index score is equal to or smaller than −4.2. This decision is justified by another prominent gap in the distribution and by external knowledge. It is the score of the German

hospital industry in 1995, a time when the industry was only emerging with the private hospital market not yet really established (Tables A3.2 and A3.3, see Online Appendix).

The fuzzy-set *problem pressure* is calibrated by combining information on budget deficits in the last 5 years (OECD 2000, p. 272, 2013a, p. 255), public social expenditure in the last 5 years (OECD 2013b, see also Figures A3.27 and A3.28 in Online Appendix 3), and demographic projections for the next 30 years (OECD 2013c). For the set *right-wing government*, I use cabinet composition data (Armingeon et al. 2013). A government is fully in the set if it consists only of right-wing parties. Left-wing parties are social democratic and socialist parties as well as green parties. Right-wing parties are conservative and liberal parties, while Christian democratic parties are counted as centre parties which are 'parties of moderate social amelioration in a location to the left of conservative or conservative-neoliberal parties' (Schmidt 1996, p. 160). Following this classification, we can count Christian democratic parties as standing in between right-wing and left-wing parties: In combination with right-wing parties, they are more in than out of the set of a right-wing government, while they are more out than in when they build coalitions with left-wing parties.[1] This approach is also in line with Korpi and Palme (2003, p. 441), who find that confessional parties are in between left-wing and right-wing parties in retrenchment issues. *Institutional leeway* measures the degree of institutional constraints by combining three elements: constitutional court (present: y/n), state level responsibility in policy area (y/n), and opposition to government in second chamber (y/n, if present). Table 5.2 displays the fuzzy-set scores of all conditions and the outcome (see Online Appendix 3 for more details on calibration decisions).

Analysis and Results

What are the drivers behind welfare state reforms that promote private provision of social policies? This question guides the empirical analysis of this section. A special focus will be on the role of welfare industry power that I expect to feature prominently in the explanation of privatization. Since QCA is especially suited for analysing the effect of combinations of factors (conjunctural causation), we should not only focus on welfare industry power but keep the interplay of actors, institutions, and socio-economic context in mind. For this purpose, I have formulated hypotheses about the interaction of these factors in Chap. 2. I will present how they translate into QCA terms in each part of the subsequent section. It is structured along four steps of the analysis. First, I will briefly present the analysis of necessary

Table 5.2 Fuzzy-set scores

Reform	*Privatizing reform*	*Powerful welfare industry*	*Problem pressure*	*Right-wing government*	*Institutional leeway*
	PR	*PWI*	*PP*	*RPG*	*IL*
HO_DE92	0.67	0.00	0.6	0.60	0.33
HO_DE99	0.87	0.00	0.6	0.00	0.33
HO_DE07	0.67	1.00	0.6	0.40	0.33
HO_DE09	0.33	1.00	0.6	0.40	0.33
HO_EN90	0.67	0.17	0.0	1.00	1.00
HO_EN01	0.67	0.67	0.2	0.00	1.00
HO_EN03	0.87	0.67	0.4	0.00	1.00
HO_EN08	0.67	0.17	0.9	0.00	1.00
PE_DE97	0.67	0.33	0.8	0.60	0.66
PE_DE01	1.00	0.67	0.6	0.00	0.66
PE_DE04	1.00	0.67	0.6	0.00	0.66
PE_DE07	0.67	0.67	0.6	0.40	0.66
PE_DE09	0.33	0.67	0.6	0.40	0.66
PE_UK95	0.33	0.33	0.8	1.00	1.00
PE_UK99	0.87	0.33	0.4	0.00	1.00
PE_UK00	0.87	1.00	0.4	0.00	1.00
PE_UK04	0.33	1.00	0.4	0.00	1.00
PE_UK07	0.67	0.67	0.8	0.00	1.00

conditions. Turning to sufficiency, I first of all analyse a model with pooled data. Including all cases is the default option and gives us a first idea about general trends. It is especially relevant for Hypotheses 3a and 3b, which formulated competing expectations about the interaction of welfare industries with left-wing and right-wing parties. I then present an analysis that differentiates an early and a late phase of privatization. Looking into different periods speaks to the expectation that welfare industry power might differ across periods and increase over time (Hypothesis 1). The final part deals with differences between hospital and pension sectors and collects evidence for or against Hypothesis 2, which stated that pension industries will be more powerful than hospital industries.[2]

Analysis of Necessity

Following from the formulation of the hypotheses, the main aim of the analysis is to identify sufficient conditions for privatizing reforms. I, nevertheless, report results for the analysis of necessity for reasons of

completeness. In short, no single condition or its negation is a necessary condition for privatizing reforms. Table A3.8 (see Online Appendix) displays that no condition reaches the consistency level of 0.9 that is conventionally taken as a threshold (Schneider and Wagemann 2012, p. 143). This result does not come as a surprise if we take into account that most conditions strongly vary over time and across countries and sectors.

Usually, some combinations of conditions reach the threshold. However, plausible interpretations for these combinations are often difficult to find when there is no theoretical expectation about the relationship of condition and outcome. As to this study, for instance, we find that the presence of institutional leeway or problem pressure (IL+PP) is a necessary condition for PR (consistency: .91, coverage: .74, see Table A3.8 in Online Appendix). In other words, if privatizing reforms take place we observe that *either* institutional leeway *or* problem pressure is present. Institutional leeway is, by definition, rather a necessary than a sufficient condition. The absence of institutional constraints enables policymakers to enforce their aims but institutional leeway alone will not push any agenda. Put differently, while institutional structures may enable or disable the enforcement of a policy proposal, they cannot be the engine of political initiatives. Problem pressure, on the other hand, can be such a driving force if one takes a functionalist perspective on politics. Privatizing reforms would then be understood as the reaction of policymakers to increasing financial pressure coming from public budget deficits, social expenditure growth, and projected demographic change. Nonetheless, it is difficult to find a theoretical explanation why the conjunction of *either* problem pressure *or* institutional leeway could be a necessary condition for privatizing reforms.

Analysis of Sufficiency: Pooled Version

Starting with the analysis of sufficiency, we want to know if any condition (or combination of conditions) is sufficient for the outcome *privatizing reform*. Table 5.3 displays the truth table for the four conditions and the outcome. A '1' in column 'OUT' indicates that a truth table row is sufficient for the outcome, while a '0' indicates that it is not sufficient. Whether a path is sufficient or not is decided on the basis of the consistency value of each path. Rows that have a consistency score higher than 0.9 are deemed as sufficient (Schneider and Wagemann 2012, pp. 123–129).

Table 5.3 Truth table, outcome: PR, pooled data

PWI	*PP*	*RPG*	*IL*	*OUT*	*n*	*Cons.*	*Cases*
0	1	1	0	1	1	1	HO_DE1992
0	1	0	0	1	1	1	HO_DE1999
0	0	1	1	1	1	0.928	HO_EN1990
0	1	0	1	1	1	0.964	HO_EN2008
0	1	1	1	0	2	0.853	PE_DE1997, PE_UK1995
0	0	0	1	1	1	1	PE_UK1999
0	0	0	0	?	0	1	
0	0	1	0	?	0	1	
1	1	0	0	1	3	0.911	HO_DE2007, HO_DE2009, PE_DE2004
1	0	0	1	1	4	0.938	HO_EN2001, HO_EN2003, PE_UK2000, PE_UK2004
1	1	0	1	1	4	0.940	PE_DE2001, PE_DE2007, PE_DE2009, PE_UK2007
1	0	0	0	?	0	0.967	
1	0	1	0	?	0	1	
1	0	1	1	?	0	1	
1	1	1	0	?	0	1	
1	1	1	1	?	0	1	

Table 5.4 Analysis of sufficiency, pooled data, conservative solution

	Consistency	*Raw coverage*	*Unique coverage*	*Typical cases*
PP*rpg	0.89	0.62	0.05	HO_DE1999, HO_DE2007, PE_DE2001, PE_DE2004, PE_DE2007
rpg*IL	0.78	0.71	0.13	PE_DE2001, PE_DE2007
pwi*pp.*IL	0.97	0.39	0.07	PE_UK1999
pwi*PP*il	1	0.24	0.02	HO_DE1999, HO_DE1992
Solution	0.78	0.87		

The minimization process, using the Quine–McCluskey algorithm, produces the following solution (conservative version): PP*rpg + rpg*IL + pwi*pp*IL + pwi*PP*il⟹PR. Table 5.4 presents the four paths, including parameters and typical cases for each path.[3] The first finding is that right-wing governments are not sufficient for privatizing reforms, neither alone nor in combination with other factors. On the contrary, the absence of a right-wing party government is an insufficient but necessary part of an unnecessary but sufficient (INUS) condition, that is, a necessary

part of a sufficient condition,[4] for privatizing reforms. Interestingly, this finding holds for many other variants of the analysis. This finding contradicts Hypothesis 3a that was derived from the classical partisan theory of welfare state research. Combining actor-centred and institutional arguments, I formulated that right-wing governments will introduce privatizing reforms if they face only little or no institutional constraints as well as strong welfare industries. Right-wing parties then build coalitions with welfare industries as they are genuinely interested in market provision of social policies because it reduces the role of the state (Jensen 2014). They will, however, only be able to introduce such reforms if the institutional setting allows doing so. In QCA terms, the conjunction of right-wing government *and* institutional leeway *and* powerful welfare industries was expected to be sufficient for privatizing reforms (RPG*PWI*IL⟹PR). Instead of supporting this hypothesis, the first two terms, most powerful with regard to the parameters of fit,[5] rather hint to the fact that left-wing governments together with either strong problem pressure or institutional leeway lead to privatizing reforms. Institutional leeway and problem pressure appear as functionally equivalent conditions with the former mainly accounting for reforms in the UK (but see pension reforms in Germany in the 2000s) and the latter mainly explaining reforms in Germany (but see some UK reforms in the second half of the 2000s). In other words, left-wing parties introduce privatizing reforms *if they have to* because of socio-economic pressure or *if they can* because there are no institutional constraints.

The presence of left-wing parties provides some support to Gingrich's (2011) argument according to which left-wing parties' strategic calculus includes the creation of markets. The results, however, do not fully support alternative Hypothesis 3b either. Derived from recent studies of marketization, the expected alternative path consists of left-wing party governments that face high problem pressure and strong welfare industries. Compared to the former path, I hypothesized that left-wing party governments need to face problem pressure as an additional push factor to introduce privatization. The rationale is that increasing problem pressure pushes left-wing parties to think of policy solutions that contradict their traditional convictions. Accordingly, left-wing parties will introduce privatizing reforms, if socio-economic conditions put pressure on the government and welfare industry lobbying provides a window of opportunity for policymakers to get rid of expensive social policy provision. In QCA terms, the conjunction of left-wing government *and* problem pressure leeway

and powerful welfare industries should be a sufficient condition for privatizing reforms (rpg*PP*PWI⟹PR).

While the presence of left-wing governments and problem pressure are part of the explanation, the results especially contradict the expectation with regard to welfare industries. On the contrary, the *absence* of powerful welfare industries is an INUS condition for privatizing reforms. Reforms in the 1990s in both countries and sectors represent these paths. We should, however, take into account their low coverage values. Yet, even if opting for a conservative interpretation of the solution, we notice that powerful welfare industries are neither a sufficient condition for privatizing reforms nor are they part of such a condition.

Analysis of Sufficiency: Different Periods

Summarizing the analysis of pooled data, the results contradict the idea that welfare industry power is *generally* a driving force behind privatization of social policy provision. However, looking at typical cases for those paths that include the absence of powerful welfare industries, we see that these are reforms that took place in the early 1990s. This pattern becomes even more pronounced when we examine the truth table more closely (Table 5.3): Every reform before 2000 happened in the absence of a powerful welfare industry. On the contrary, reforms since 2000 have happened with the presence of powerful welfare industries (except for the introduction of the NHS free choice policy in 2008). This observation speaks to Hypothesis 1 according to which welfare industry power increases over time. Before delving deeper into the analysis of this hypothesis, we have to reformulate it in QCA terms. We will find support for the hypothesis, if powerful welfare industries become part of the explanation of privatizing reforms for later periods but not for earlier periods. Comparing early and late reforms, we should find that powerful welfare industries are an INUS condition for later reforms, but have no explanatory power for earlier reforms. Where do we draw the line between early and late reforms? The choice is driven by the results of the truth table and the distribution of the power resources index. First, examining the truth table suggests that reforms until 2000 followed a different pattern with regard to the role of welfare industries than reforms after this year. Privatizing reforms that happened without the presence of powerful welfare industries are clustered in the 1990s, with only the 2008 free choice policy of the NHS being an exception. What is more, all privatizing reforms with powerful

welfare industries being present took place after 2001. The only exception is the Child Support, Pensions and Social Security Act of 2000 in the UK. Second, the score of the welfare industry power resources index that is underlying the set PWI exceeds the average value for the first time in 2000. Due to both truth table and index values I will therefore define late reforms as reforms after 2000.[6]

We may now turn to the analysis of different periods, early reforms until 2000, and late ones since 2001. Is there support for the expectation that powerful private providers are a relevant part of the explanation of privatizing reforms for the period since 2000, while they have no explanatory power for earlier reforms? Table 5.5 displays the conservative solution for both periods separately. It shows that PWI is not an INUS condition for early reforms. On the contrary, and in line with the findings of the pooled model, the absence of powerful business is an INUS condition. An example for this term is the German healthcare reform of 1993 (*Gesundheitsstrukturgesetz*, decided upon in 1992). It affected the hospital sector mainly financially because it limited the room for manoeuvre by abolishing the principle of full cost coverage for treatments. While this measure aimed at all types of hospitals, its effects were strongest for the incumbents on the market, public and—to a lesser extent—voluntary hospitals, putting their private competitors in a better position. The private hospital market in Germany of the early 1990s, however, consisted of only a few small hospitals with a very low degree of integration. The industry therefore was very far from being able to raise a voice in politics. Obviously,

Table 5.5 Analysis of sufficiency, periods compared, conservative solution

	Consistency	*Raw coverage*	*Unique coverage*	*Typical cases*
			Early reforms	
pp*rpg*IL	1	0.43	0.25	PE_UK2000, PE_UK1999
pwi*PP*il	1	0.32	0.14	HO_DE1992, HO_DE1999
Solution	1	0.57		
			Late reforms	
PWI*PP*rpg	0.89	0.67	0.08	PE_DE2001, PE_DE2004, HO_DE2007, PE_DE2007, PE_UK2007
PWI*rpg*IL	0.84	0.72	0.12	HO_EN2001, PE_DE2001, HO_EN2003, PE_DE2007, PE_UK2007
PP*rpg*IL	0.87	0.67	0.07	PE_DE2001, PE_DE2007
Solution	0.79	0.86		

reforms that would in the midterm become beneficial for private providers happened without their support.[7]

Coming to the analysis of the late period, we can see that two of the three terms include PWI as an INUS condition. Institutional leeway and the absence of a right-wing government in conjunction with either problem pressure or powerful welfare industries led to privatizing reforms. Cases for both paths cut across the lines of country and sector. An example of the first term—the combination of powerful welfare industry, strong problem pressure, and left-wing government—is the 2007 pension reform in the UK. The reform is more in than out of the set *privatizing reform* (membership score of 0.67) as it, on the one hand, strengthened public pensions by rising benefit levels but, on the other hand, introduced auto-enrolment for workplace pensions as well as deregulated defined-benefit pension schemes in order to cut costs for providers. The reform was introduced by Labour against the background of strong problem pressure stemming from budget deficits and projected population ageing and a welfare industry that was rather powerful.

Comparing early and late phases of reforms, we find support for Hypothesis 1. Welfare industry power has increased over time. While the solution for early reforms comes without PWI as INUS condition, PWI figures prominently for the solution of late reforms. In less technical words, privatization of social policy provision until 2000 happened without powerful providers being a push factor for reforms, but they became essential for reforms between 2001 and 2010.

Next to the time dimension, the analysis of different periods also tells us something about the combination of conditions. Generally speaking, it confirms what we could find in the pooled model. Again, coalitions of right-wing parties and welfare industries cannot explain the reforms (H3a). The alternative hypothesis featuring left-wing governments finds partial support. Instead of the theorized term rpg*PWI*PP$\Longrightarrow$PR, we find that the conjunction of left-wing governments, welfare industry power, and institutional leeway *or* problem pressure explain privatizing reforms.

Analysis of Sufficiency: Sectors Compared

As stated in Chap. 2, we can expect that the role of welfare industries differs between hospital and pension politics. This is mainly due to the different ages of these industries. While the financial industry has been an important political actor already before the creation of welfare markets, although their role in pension politics certainly changed over time, large hospital chains evolved only in parallel to privatizing reforms, if not as a

Table 5.6 Analysis of sufficiency, sectors compared, conservative solution

	Consistency	*Raw coverage*	*Unique coverage*	*Typical cases*
			Pension reforms	
PWI*PP*rpg	0.93	0.63	0.2	PE_DE2001, PE_DE2004, PE_DE2007, PE_UK2007
pp*rpg*IL	0.91	0.51	0.07	PE_UK1999, PE_UK2000
Solution	0.9	0.7		
			Hospital reforms	
PWI*pp.*rpg*IL	1	0.38	0.26	HO_EN2001, HO_EN2003
pwi*PP*il	1	0.23	0.05	HO_DE1992, HO_DE1999
pwi*PP*rpg	0.93	0.4	0.11	HO_DE1999
Solution	0.96	0.71		

consequence of these. If the age of a welfare industry matters for the patterns of reforms, and according to previous knowledge it should, we will observe different patterns for each subsample: The presence of powerful pension industries should explain privatizing reforms, while the evidence for hospital industries should be mixed.

Table 5.6 displays the solutions for separate analyses of pension and hospital reforms. Powerful welfare industries are INUS conditions in both sectors. However, the picture is less clear for hospitals than for pensions. While some reforms can be partially explained by the presence of powerful welfare industries, other reforms are explained by their absence. This is mainly due to the different periods. Privatization of hospital provision in the 1990s happened without welfare industry power. For the later period, however, we see that the combination of left-wing government, strong private providers, institutional leeway and—unexpectedly—low or absent problem pressure can explain the strengthening of private provision of hospital services. While the absence of problem pressure is puzzling at first glance, we may find an explanation for this result when seeing that hospital reforms in the NHS in 2001 and 2003 are typical cases of this term. In these cases, the strengthening of private provision within the NHS was part of an expansionary health policy of the early years of the Labour government. Investing more money in the NHS in order to bring down waiting lists was accompanied by contracting out services to the private sector (Greener 2009; Olesen 2010; Talbot-Smith and Pollock 2006).

Pension reforms in the 2000s in both countries can be explained by the combination of powerful welfare industry, strong socio-economic prob-

lem pressure, and left-wing government. The 2001 reform in Germany is a typical case of this term. It introduced a new private pension scheme, strengthened occupational pensions, and reduced the share of public pensions in the income mix of future pensioners. The responsible government of Social Democrats and Greens justified the reform as a reaction to increasing problem pressure stemming from an ageing population and as an attempt to strengthen the financial sector in Germany (Ebbinghaus et al. 2011, p. 129) firms, and associations of the financial industry invested many resources into lobbying activities and were successful in shaping some of the reform elements during the political process (Wehlau 2009, see also case study in Chapter 6).

Again, the results of the separate analyses also speak to other hypotheses. Like in other models, we do not find support for the classical partisan hypothesis. As to the left-wing party hypothesis (H3b), the results are partially in line with expectation. They support the general idea that left-wing governments introduce privatizing reforms if they can rely on support of strong private providers and—this might be a modification of Hypothesis 3b—*either* face problem pressure (pensions) *or* have no institutional constraints (hospitals).[8]

Additional Factors

Are there other factors that could explain the privatization of social policy provision? I have included actor-based, institutional, and structural conditions. On the side of actors, however, two groups are missing among the conditions that are considered in many theories, namely, trade unions and voters. Organized labour may affect social policy privatization in two ways. First, employees of public service providers are directly affected from privatization decisions. They thus oppose privatization as labour market actors. Second, apart from their role as social partners, unions typically play a role as political actors and try to mobilize against certain political developments. Privatization certainly belongs to the category of issues that trade unions typically oppose and mobilize against as one can see in the case of hospital privatizations where they try to integrate citizens as potential patients into their protest (Böhlke et al. 2009). We might therefore want to test if weak trade unions are a condition for privatizing reforms. Unfortunately, union density rate, the usual measure of union strength, has the downside that it is not available on the sector level for a sufficiently long period. This is problematic because the relevance of organized labour is likely to differ between sectors.

Doctors and nurses are crucial actors in hospital privatizations and can be expected to constrain privatization in spite of cleavages along professional lines. On the contrary, since pension privatization does not include material privatization, employees of public pension schemes will not be the strongest opponents against privatization. Rather, unions mobilize across sector borders. For pension privatization, thus, union density rates on the national level seem to be a better measure. However, general union density clearly underestimates the role unions play in the hospital sector. Comparing total union density with density of unions in human, health, and social activities between 1995 and 2010 in the UK, we find that union density in the latter sectors is on average 15 per cent higher. As a consequence of missing sector level data, I excluded union strength from the main analysis. Nonetheless, I report results of an analysis with national level union density in Online Appendix 3 as a light robustness check (Table A3.30, see Online Appendix). In addition to this robustness check, I will discuss the role of unions in some of the case studies presented in Chap. 6. While we should be cautious with interpreting the results substantively for reasons outlined above, we can compare them with the models presented in this chapter. In short, the main findings remain stable, whereas sometimes the absence or presence of weak union is added to the path. Especially the differences between early and late period (H1) and between pension and hospital reforms (H2) turn up again.

The second group of actors we would like to know more about are voters. From the resilience thesis according to which voters constrain policymakers' leeway to more recent theories of new voter coalitions that enable welfare state change, voter preferences feature prominently in many theories of the political economy of the welfare state. While I have not included public opinion polls into the analysis, voter preferences are still indirectly represented. Voting decisions are reflected in cabinet compositions which I use as a basis for calibrating the set right-wing government. For instance, if a left-wing party came into office with an agenda that stressed the idea of introducing private provision of social policies, we can assume that their voters subscribed to this idea.

For reasons of completeness, I have additionally checked polls about preferences towards privatization of social policy provision. To my best knowledge, there is no survey data available that systematically covers both countries from 1990 to 2010 and that explicitly addresses the specific issues of private pensions and private hospitals. Collecting poll data from different sources, however, provides us with an idea on whether and how preferences vary over time and across Germany and the UK with regard to pension and

hospital privatization. Note, however, that we should be cautious with comparing exact levels as both survey methodologies and formulation of items are likely to differ strongly between different sources.

Strikingly, differences are not as strong as one would have expected given the different degrees of privatization, for example, between British pensions and the NHS. In both sectors and countries there seems to be a constant majority between around 60 per cent and 77 per cent against privatization of social policy provision. As far as we can tell from the limited sources, this stability also holds over time.

In Germany, between 2007 and 2010, 70–77 per cent of respondents said that the services of the statutory pension insurance should remain a public responsibility. In the same period, around 60 per cent formulated this position towards hospitals. In 2010, 32 per cent said that hospitals could also well be run by private companies. In comparison with other public services, hospitals are thereby ranked in the middle of a list of privatization preferences. While more than 95 per cent opposed privatization of police and courts between 2007 and 2010, just slightly more than a third opposed privatization of theatres, museums, and local public transport (dbb 2007, p. 37, 2010, p. 39, 2014, p. 36). The NHS is usually described as the sacred cow of the British welfare state. Compared with the other cases, however, we do not find higher opposition against privatization. In 1989, 60 per cent of Britons expected that expanding the private sector role in the NHS would worsen the condition in the NHS (Blendon and Donelan 1989, p. 56). Accordingly, a majority disapproved the marketization of the NHS with the internal market reform. About 61 per cent were against private beds in the NHS (Blendon and Donelan 1989, p. 59). In 2001, 62 per cent of Labour voters supported expansion of NHS expenditure even if this included increasing taxes; 54 per cent, however, were against such increases if healthcare was provided by private companies (Ipsos Mori 2001). Surprisingly, in another poll in 2012, only 38 per cent of Britons said NHS services will get worse if healthcare is provided by private companies and charities, while 33 per cent expected services to get better (Ipsos Mori 2012, p. 36). Either there is increasing support for privatization of the NHS or the inclusion of charities into the item formulation resulted in less opposition. As to pensions in the UK, 63 per cent of respondents in a poll in 2000 answered that the state pension should be enough to have a disposable income and almost the same share would pay more taxes or pension contributions in order to increase state pensions; 26 per cent answered it should only cover basic living, while 10 per cent thought it should only contribute to basic living (Ipsos Mori 2000).

While systematic and comparable data is unfortunately not available, the reported poll data suggest that voter demand was not a driving force for privatization as support for privatization seems to be weak for all cases under study.

Conclusion

This chapter started from the question whether private providers are a driving force behind the privatization of social policy provision. I expected that a distinction of different periods of privatization can explain some of the ambiguities of findings in previous research. While welfare industry power is unlikely to lead to privatizing reforms in early years (1990–2000), we can see an effect of these actors for the later period (2001–2010). In sum, the main findings support this hypothesis: For the whole period, powerful welfare industries are not relevant for explaining privatizing reforms. However, welfare industry power contributes to the explanation of privatizing reforms for the later period since 2001.

With regard to conjunctions, we find partial support for H3b in that powerful welfare industries and left-wing governments together with either problem pressure or institutional leeway are a powerful explanation of privatizing reforms. In this sense, H3b needs to be modified: While in some situations problem pressure seems to push left-wing parties towards privatizing reforms when also powerful welfare industries are ready to take over service provision, in other cases it is institutional leeway that in combination with left-wing parties and powerful welfare industries leads to such reforms. Surprisingly, problem pressure is not always an INUS condition, that is, privatizing reforms happen in the absence of problem pressure. This, again, gives credit to theories that formulate a genuine interest of left-wing parties to introduce markets in the welfare state (Gingrich 2011). It even takes the argument a step further in that not only specific types of markets are introduced by left-wing parties–according to Gingrich those markets that keep up collective financing and some redistribution and that are regulated by either citizens or the state–but that private provision of social policies in general is part of the portfolio and action of left-wing parties. While we can observe evidence for H3b, there is no support for H3a. We do not see a pattern in line with the classical partisan hypothesis according to which right-wing governments should strengthen private provision *if they can*, that is, if there are no or little institutional constraints, and they can build alliances with strong private providers. This is a very

robust finding we can observe across different models. Finally, the comparison of sectors shows that welfare industry power is more relevant for explaining pension than hospital reforms.

Further research is needed to exclude the possibility that the relation between the presence of powerful welfare industries and privatizing reforms is spurious. Asked counterfactually: Would the privatizing reforms since 2001 have happened even without the presence of powerful welfare industries? QCA starts from the idea that the systematic presence of a condition is empirically relevant if there is theoretical support for this finding. Additionally, we can also check unique coverage which shows how unique the explanatory power of each term is compared to the other terms. Both strategies, theoretical considerations and unique coverage parameters, lend support to the relevance of powerful welfare industries as a necessary part of a sufficient explanation. In addition to the theoretical argument presented in Chap. 2, the empirical results show that terms including powerful welfare industries have higher unique coverage values than other terms. However, further empirical strategies should be applied to increase our confidence regarding the role of private providers in political processes. This chapter especially leaves open what the exact mechanisms of welfare industry power might be. In the next chapter, I will therefore present results of four case studies that focus on the mechanisms of welfare reform.

Notes

1. Table A3.6 (see Online Appendix) provides more details about the exact operationalization. It also presents two alternative measures—counting Christian Democratic parties as left or right parties—that are used for robustness tests (Table A3.27, see Online Appendix).
2. Analyses for both countries separately are presented in Online Appendix 3.
3. XY plots of all paths as well as parsimonious and intermediate solutions are presented in Online Appendix 3.
4. An INUS condition is formally defined as an 'insufficient but necessary part of a condition that itself is unnecessary but sufficient' (Schneider and Wagemann 2012, p. 79).
5. I report consistency, raw coverage, and unique coverage. Consistency is the central parameter of fit. It shows how many cases deviate from the set relation and how strongly they deviate. Values range between 0 and 1. High consistency values indicate that there is little evidence against the statement of sufficiency. Coverage tells us how much of an outcome is covered by the solution. Raw coverage relates to the general coverage of a path, while

unique coverage expresses the exclusive coverage of a path. Again, values range between 0 and 1. High coverage values indicate that much of the outcome is explained by a solution.

6. I tested different periodizations in order to check how robust the findings are. The results remain stable when we shift the boundary by one year. More tests with different periods are presented in Online Appendix 3.
7. Again, as in the analysis for the whole period, we see either the presence of institutional leeway or problem pressure to matter for reforms. The first path is represented by pension reforms in the UK, while reforms in the German hospital sector are typical cases for the second path (problem pressure and the absence of both powerful welfare industries and institutional leeway). Note, however, that coverage values indicate that these paths only explain a medium share of the outcome (see also XY plots in Online Appendix 3).
8. The last two terms of the hospital reform solution lead us to Hypothesis 1. They include the absence of powerful welfare industries as an INUS condition. What first might look like a puzzling result, if we think of the discussion above, turns out to be explained by the expectation formulated in H1. The terms including pwi are represented by hospital reforms in the 1990s, especially in Germany, when private hospital chains were only evolving. The hospital results thus clearly show that PWI is part of a term that is represented by reforms after 2000, while the absence of powerful private hospitals is part of the explanation of earlier reforms.

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CHAPTER 6

Private Sector Providers in Political Processes

Having learned from the previous chapter about patterns of factors that lead to privatizing reforms, we now turn to more in-depth case studies. They supplement the previous Qualitative Comparative Analysis (QCA) by adding information on reform processes, mechanisms, and constraints of welfare industry power and potential alternative explanations that were not tested in the QCA. By choosing four reforms according to their membership scores in the analysis of late reforms, namely, the term *PWI*rpg*IL* according to which the conjunction of powerful welfare industries *and* left-wing government *and* institutional leeway is a sufficient condition for privatizing reforms, I select cases that allow connecting case study and QCA results (Schneider and Rohlfing 2013). The 2001 pension reform in Germany and the National Health Service (NHS) reform of 2001 are typical cases of this term because they are members of the path as well as the outcome privatizing reform (Table 5.5; see also XY plots in Online Appendix 3). Comparing these similar cases helps us to identify causal mechanisms of reform: *How* does the combination of powerful welfare industries, left-wing governments, and institutional leeway lead to privatizing reforms? Additionally, I study the British pension reform of 2004 as a case where membership in the term did not lead to a privatizing reform. Comparing this contradictory case to the typical cases aims at detecting omitted conditions: Why did the conjunction of factors not lead to a privatizing reform in this case? I finally study the German healthcare

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reform of 2007 as it represents a case where privatization happened without membership in the term.[1]

I use existing research about reform processes as well as newspaper articles and government documents as sources for the case studies. Each section contains a brief presentation of what the reform was generally about. This is followed by a description of the reform process, which traces the chronological development from first reform ideas to the final legislation. Tracing the reform process will blend into the analytical step of identifying main drivers of the reform. The analysis will especially consider the role of welfare industries in the reform process. Have welfare industries been able to promote their interests during the reform debate? If so, what were the mechanisms of influence? If not, what factors constrained their power?

German Pension Reform 2001

Reform Content

The pension reform of 2001 is usually described as one of the most important changes in the history of the German pension system. It is often classified as a paradigmatic change transforming the existing pension system that relied on a pay-as-you-go funding of the statutory pension scheme into a system where income of pensioners would come from different sources: public pensions, occupational pensions, and individual pension contracts with financial industry firms. As an effect of the reform, the importance of occupational and personal private pensions for old-age income grew as they served as instruments to secure the living standard of the working life (Dünn and Fasshauer 2001). Tax breaks, especially targeted at families, were used as incentives for citizens to take up personal pension contracts. At the same time future public pensions were cut. Social security was no longer the only aim of the public pension scheme, but it also focused on the stability of social insurance contributions, thereby lowering or stabilizing payroll taxes and increasing the prospects of job creation (Dünn and Fasshauer 2001).

Reform Process

The reform process has been characterized as lengthy. Although intense work had started in February 1999, it was not finished before May 2001 (Schulze and Jochem 2007, pp. 686–693). Consequently, deadline

pressure that had accompanied the government from the start became even more intense towards the end. When coming into power, the government had suspended but not abolished the so-called demographic factor which had been introduced by the preceding centre-right government of Christian Democrats (CDU/CSU) and Liberals (Free Democratic Party [FDP]) in order to control social insurance contributions. Suspending this instrument created pressure for the government to find a long-term solution and to finish the reform process (Hinrichs 2004).

Two reasons stand out for explaining why the process took so long. First, the government tried to keep up with the tradition of broad pension coalitions that span across political parties and interest groups. However, in the political party arena, the government failed to coalesce with CDU/CSU as biggest opposition parties. Although the policy distance between Social Democrats (SPD) and CDU/CSU was rather small and the SPD moved even closer to CDU/CSU by, amongst others, dropping the idea of making private pensions obligatory, CDU/CSU decided against a thematic coalition and instead pushed the pension issue into the electoral arena (Schludi 2005, pp. 145–163; 2008). The SPD then tried to close ranks within the own party and additionally sought support from labour unions. As an effect, labour unions became more dominant in the administration of both occupational and private personal pensions (Schludi 2005, pp. 145–163; Willert 2013, pp. 141–159). While unions were successful in changing some parts of the reform in later stages, they could not prevent the general direction of the reform, namely, the strengthening of the second and third pillars (Wiß 2011, p. 166).

The second reason for the lengthy process was that the first draft of the legislation saw many changes over the following months of policymaking. As the initial reform plans by Minister of Labour and Social Affairs Walter Riester were heavily criticized and faced strong opposition, they changed in almost all respects (Schludi 2005, pp. 145–163). One central element of the first reform proposal was an obligatory private pension scheme. However, only employers signalled support for this plan, while other actors formed a large opposition against it including a much-noticed campaign by tabloid Bild. In light of a large opposition against these plans and when polls signalled weakening support, the government dropped this idea and proposed a voluntary, tax-subsidized personal pension pillar (Clasen 2005; Schludi 2005, pp. 145–163; Schulze and Jochem 2007, pp. 686–693). Similarly, other ideas did not end up in the final legislation

such as a guaranteed minimum pension within the public pension system which was prevented by the association of statutory pension schemes (Lamping and Rüb 2006, p. 172).

We may interpret the many publicly debated changes as the result of the erosion of the old pension network that had guided political actors through previous reforms. Some authors, however, argue that they were part of a policymaking strategy. The government applied a stop-and-go style of policymaking as it tested ideas for reform in the public, observed reactions, and then continued (Lamping and Rüb 2004, pp. 181–182). Aiming to avoid long-enduring processes of consultations in the political network and consensus building, the government applied a rather unprepared, ad hoc style of 'experimental law making' (Lamping and Rüb 2004, p. 181).

Finally, the political process was characterized by the appearance of new actors involved and interested in the politics of old-age security. Most prominent among them were business actors from the financial industry that in previous pension reforms had not entered the stage but now had a stake in the introduction of private pensions. Additionally, the Ministry of Finance was also increasingly involved in pension politics and developed an interest because it saw a potential for promoting financial market development through the pension reform (Hinrichs 2004).

Drivers

From what we have seen in the previous section, the old pension network could not be revived for the 2001 reform. As a consequence, the path to the reform departs from the traditional one in German pension politics. The existence of a well-established policy network that guarantees a large coalition cannot be part of the explanation. Also the classical partisan argument does not hold for this case if we take into account that a centre-left government introduced the reform. Finally, we cannot explain the reform with external developments such as globalization or European integration that theoretically are considered push factors. Instead, the following paragraphs will show that a combination of three factors explains how and why the 2001 pension reform came into existence: problem pressure as push factor for *any* reform, ideational change as driver for the *direction and content*, and institutional change as an *enabling factor* for new actor constellations which especially allowed financial industry actors to access pension politics.

Problem pressure was the engine of the reform process in that the continuation of the existing pension policy was not perceived as an option. Instead, public opinion in the late 1990s and early 2000s called for a structural reform of the pension system. The necessity for reform was justified by projections of increasing social insurance contributions. The integration of German Democratic Republic and Federal Republic of Germany as well as mass unemployment in the 1990s had put pressure on social insurances. Reducing or stopping the projected increase in contributions to public pension funds was understood as a means to lower payroll taxes. Additionally, demographic change was more and more discussed as a threat for the future stability of the statutory pension scheme (Clasen 2005; Ebbinghaus et al. 2011; Willert 2013, pp. 141–159).

Some accounts of the reform process suggest that the introduction of a three-pillar pension system was an inevitable path for the upcoming reform. The general idea of a funded, publicly subsidized, private individual pension scheme as such was hardly debated during the reform process which becomes apparent when contrasting it with the heated discussions about whether it should become obligatory for individuals to have a private pension contract. Wiß (2011, p. 156) cites an employer representative from Bundesvereinigung der Deutschen Arbeitgeberverbände who stated that some kind of funded, privately financed pension scheme was 'somehow foreseeable' [translation JP[2]].

One explanation of this allegedly inevitable reform direction refers to value changes of voters and political parties with individualistic ideas being prominent in the SPD and mirroring a certain zeitgeist that underlined individualized social security (Hinrichs 2004). Häusermann (2010) continues along these lines of thought by arguing that the 2001 reform is mainly the result of an electoral game that reacts to changing voter preferences. A relevant proportion of voters of SPD and especially Greens, so her argument goes, did not benefit from the male breadwinner welfare state and therefore favoured reforms that recalibrate instruments and adapt them to new social needs. One of these instruments was the new private pension scheme that offered more flexibility than public pensions. In showing how reform packages split actors and generate new political coalitions, Häusermann's study convincingly shows how the politics of reform worked once the process started. As to the motives of political parties, however, two things remain unclear. First, the socio-cultural explanation especially refers to the Greens whose electorate typically is female, highly skilled, favours flexibility and works in socio-cultural professions.

The Greens, however, according to most if not all accounts of the reform, did not play an important role in the political process. Neither were Green ministers involved in the preparation of the legislation, nor did they have a strong stance towards pension politics as other topics such as environmental and foreign politics were high on their agenda. Second, the study does not fully examine the link between problem diagnosis and political answer. If voters care for more flexible pension policies that depart from the old male breadwinner model, why would politicians necessarily come up with the idea of capitalization? While it is certainly one way to make pension systems more flexible, it is not the only instrument. In other words, the problem diagnosis is a necessary condition for the reform but not a sufficient explanation of its direction.

The institutionalist literature has brought forward an alternative explanation by comparatively studying the reform of Bismarckian welfare states and especially pensions. Palier and Martin (2007) have described four reform stages that continental welfare states ran through since the 1980s, ending in radical reforms of previously *frozen landscapes.* Bonoli and Palier (2007) have applied the same argument to pension reforms and added specific characteristics of reform trajectories in this area. According to them, radical reforms of Bismarckian pension systems were enabled by phasing in reforms and incrementally implementing them. Describing typical paths towards structural reforms, this literature focuses on enabling factors for change but does not explicitly discuss drivers. It implies, however, that problem pressure was a push factor for reform. The need for reform is derived from an immense problem load, while the direction of reform remains neglected. The main interest of this literature is in describing how reforms became possible against all institutional constraints.

Two observations stand out with regard to the literature that takes problem pressure as granted as a driver of the reform. First, problem pressure is not an objective truth that directly translates from numbers but interpretations and assessments of the severity of certain developments are central. For example, when in the mid-1990s contribution rates were projected at 26–28 per cent this was perceived as problem, while it would not have been discussed as such in the late 1980s. One reason for the changing perception was a transnational diffusion of a policy discourse that portrayed social insurances as a problem for economic competitiveness and employment (Hinrichs 2004, p. 275). As will be shown on the following pages, financial industry actors were central in promoting these ideas in the German debate. The change of how increasing insurance contributions

were perceived was a necessary condition for the realization of the 2001 pension reform.

Second, studies that stress the importance of problem pressure for welfare state reforms often assume that political parties, when trying to solve a problem, naturally come up with the idea that is finally formulated in the legislation. From this perspective, the only analytical step is to explain how this idea was translated into legislation (e.g. Bonoli and Palier 2007; Natali and Rhodes 2008). These approaches thereby forget to ask why and how these ideas came up in the first place. Was it party ideology, voter preferences, public opinion, or interest group influence? Studies too often start with the final legislation and thereby neglect that alternative ideas might have been around but failed to become powerful. In more general words, a weakness of the institutional approach to continental welfare reforms stems from its previous focus on welfare state resilience. While scholars were, for a long time, busy with identifying the reasons for welfare state stability, they have turned to, from this perspective surprising, reforms in order to explain how they could happen. However, they do not study the causes of reforms more in-depth. From this perspective, both the causes and the direction of reforms therefore seem to be naturally given.

Explaining the German pension reform of 2001, one will necessarily have to answer the question why the idea of a third pillar pension system became so prominent in Germany in the 1990s? The literature offers two explanations, one referring to conflicts within SPD and between SPD and labour unions, the other putting into focus how ideas became successful in policy networks. Analyses of within-party negotiations show that the reform ideas were spread from a small group within the SPD. Prior to federal elections in 1998, so-called modernizers in the SPD had formulated a position paper (*Dresdener Thesen*) that strategically marked the differences between Gerhard Schröder and his internal competitor Oskar Lafontaine (Clasen 2005, p. 114; Lamping and Rüb 2006). The conflict between traditionalists and modernizers translated into the field of pension politics and became most visible when Walter Riester instead of the more traditional Social Democrat Rudolf Dreßler became Minister of Labour and Social Affairs (Schludi 2005, pp. 145–163). Walter Riester then, according to the analysis of Lamping and Rüb (2006), came up with the idea of personal private pensions in order not to depend on social partners that would have been necessary if the government had followed the initial idea of strengthening occupational pensions via so-called Tariffonds.

The analyses of Lamping and Rüb and others stress the processes within the SPD. Yet, they neglect how uncontroversial the introduction of private pensions and the reduction of public benefit levels were. Why could the idea become so popular in the pension policy network? Addressing this question, scholars have related the ideational change to the establishment of a new advocacy coalition that could emerge after the old pension network eroded (Bönker 2005; Leifeld 2013). Analysing discourse networks, that is, networks of political actors that share positions on pension policy issues, Leifeld (2013) finds that a formerly stable and hegemonic pension coalition of the major political parties, labour unions, and employer associations in the mid-1990s more and more eroded as a 'variety of financial organizations (DB, BVI, GDV, AGV, Dresdener Bank, etc.) challenge[d] the traditional policy paradigm' (Leifeld 2013, p. 183). After 1998, a new hegemonic coalition established that aligned around the support for privatization and consisted of actors from the financial sector, industry, and parts of the government such as the Ministry for Finance and the Ministry for Economic Affairs. Financial interests, while not united in 1997, became more consistent in 1998. Additionally, relevant actors supported the privatization network including Chancellor Gerhard Schröder. Overall, there was a change in political discourse after 1997 that was promoted by the emergence of a new advocacy coalition and led to the establishment of a privatization paradigm after 2000. Although driven by financial industry actors, the reform was only successful after critical actors from the government joined the coalition (Leifeld 2013).

Leifeld's results find support in a study by Bönker (2005) who takes a broader view when studying the success of the multi-pillar paradigm in Germany. Among a large number of factors that promoted the diffusion of the paradigm, he identifies employers and financial sector actors as powerful advocates. Although labour unions and pensioner groups supported the social insurance paradigm, they could draw on fewer resources than the privatization supporters from the business camp. Bönker writes (2005, p. 353; translation JP):

> Employer organisations and the financial sector have supported the diffusion of the three-pillar paradigm through lobbying activities and media campaigns. They also supported proponents of the three-pillar paradigm with resources such as the German Institute for Old-Age Provision (Deutsches Institut für Altersvorsorge) or the Initiative New Social Market Economy (Initiative Neue Soziale Marktwirtschaft).

After we have seen that problem pressure was the engine for *any* reform, we can know describe ideas as the drivers that decided about the direction. In this context, financial industry actors were central ideational agents. Let us now turn to the role of institutions. Institutional change worked as enabling factor for the reform as long-lasting institutions of policy making were no longer at work during the reform process. Starting in 1957 and ending in the 1990s, for much of the post-war period, there was a coalition of social policymakers in CDU and SPD, pension experts, and public administration that was committed to the social insurance paradigm (Hinrichs 2004; Nullmeier and Rüb 1993). This rather small and coherent network was the centre of policymaking in pension politics. Not least due to its presence, there was hardly a chance for financial sector actors or other interests to influence pension policymaking.

The old structures opened up and gave way for a new network to establish only with the erosion of this network in the 1990s, the emergence of the Ministry of Finance as an actor in pension politics, personal changes in the SPD and on the scientific advisory board of the Ministry for Labour and Social Affairs. Especially the presence of the Ministry of Finance created new opportunities for financial market interests as they had better links to this ministry than to the Ministry of Labour and Social Affairs. What is more, since the late 1990s, the Ministry of Finance was a central actor for the government's agenda to strengthen financial markets in Germany in order to compete with European financial centres (Wehlau 2009, pp. 150–158).

Changes in the network helped financial industry actors to gain access. But what were the interests of these actors? And how did they organize? In the reform process, differences between insurers, banks, and investment companies became visible. Life insurers appeared as incumbents that aimed to defend favourable tax benefits as well as their market share. Naturally, therefore, they tried to avoid an extension of tax breaks to other financial products like investment funds. Banks and investment companies, on the other hand, aimed at exactly these tax breaks which they argued would level the playing field of competition with life insurers. Their main task therefore was to establish investment products as appropriate for old-age pensions (Wehlau 2009, pp. 197–191). Both groups of providers had varying degrees of success in organizing collectively. Banks and investment companies had some trouble to organize and to be heard in the public debate. Banks only started to cooperate with investment companies and other business groups when the reform process had

already started (Wehlau 2009, pp. 197–191). Life insurers, on the contrary, were much more successful as they could rely on a tradition of united political action (Willert 2013, p. 159). Overall, however, commonalities prevailed. There was a common preference for a partial pension privatization which was due to a business interest in expanding private pensions in Germany. Strengthening the second and third pillar implied business and growth potential for both sectors. Financial industry actors therefore used the whole array of lobbying instruments. In the institutionalized arenas, mainly in parliamentary consultations, the financial industry for the first time took part in the process of pension policy-making. It was successful in that the application process for tax subsidies was simplified (Wehlau 2009, pp. 192–218). Insurers and banks were active in other dimensions of lobbying as well; 71 of 660 members of parliament had ties to financial industry firms or associations either through previous jobs in this industry or through side jobs. The number of interlocks was even higher in parliamentary committees that dealt with the pension reform: Labour and Social Affairs (12.8 per cent), Finance (17.9), Budget (11.9) (Wehlau 2009, pp. 218–233). Overall, financial sector actors gained access to the policy network at the end of the 1990s and were no longer confronted with a dominant paradigm that consisted of a commitment to the social insurance model. For the first time, they met openness for systematic changes.

Lamping and Rüb (2004, p. 182) predicted that the 2001 reform would have consequences for welfare state politics:

> [It] opened the door for a new dimension of lobbyism. In future it will not only be the traditional interest groups like the unions, employers' associations and the self-administrative bodies who are involved. Additional interest groups such as banks, life insurance companies, investment funds, building societies and the housing industry will now step in to try to influence the decision-making process in order to profit from and/or expand the politically created private pensions.

From what we have seen on the previous pages, the authors have been partially right. Against their expectations, however, there is evidence that financial industry actors had already affected the process before 2001. They were especially successful in promoting the perception of problem pressure for the social insurance, while supporting a partial privatization as solution. The privatization idea could become so successful not just

because financial industry actors could draw on more resources than other actors but because the idea fit well with a liberalization-friendly zeitgeist and resonated among policymakers that had run out of options. The way the reform process evolved thereby worked as a facilitating factor for privatization ideas to become successful. Reacting to the erosion of the old pension network, the Ministry for Labour and Social Affairs determined parts of the reform with stakeholders bilaterally in a stop-and-go process that finally would add up to the whole legislation. As a consequence of this stepwise process, actor constellations changed over the months and offered different actors influence in different periods of the reform (Wehlau 2009, pp. 135–137). Overall, institutional changes facilitated the emergence of a privatization coalition of employers, financial industry, and parts of the government (Leifeld 2013; Willert 2013, p. 146). It thereby was an enabling factor for the role of financial industry actors as ideational agents.

NHS Reform 2001

Reform Content

The NHS Plan, published in July 2000 and formalized by the Health and Social Care Act 2001, initiated the first major healthcare reform of the 1997 elected Labour government. It contained three main elements: investment in NHS infrastructure and personnel including more and better paid staff, measures to strengthen patient choice, and instruments to increase value for money and cutting waiting lists.

For the focus of this book, the most relevant element was Chap. 11 of the plan which announced that the NHS would change its relationship to the private sector. It formulated the aim of provider plurality of provision which also served as a role model for later reforms. In the NHS Plan, the government writes (Department of Health 2000, p. 96):

> For decades there has been a stand-off between the NHS and the private sector providers of healthcare. This has to end. Ideological boundaries or institutional barriers should not stand in the way of better care for NHS patients. Public funding for the NHS will increase substantially over the next four years. The private and voluntary sectors have a role to play in ensuring that NHS patients get the full benefit from this extra investment. By constructing the right partnerships the NHS can harness the capacity of private and voluntary providers to treat more NHS patients.

This new approach was implemented by an agreement between the NHS and the private sector to integrate more private and voluntary provision into the NHS. In this so-called concordat, three areas of healthcare should especially be open for the involvement of the private sector: elective care, critical care, and intermediate care (Department of Health 2000, p. 97).

While the Labour government stressed its commitment to the principles of the NHS, that is tax-financed public healthcare which is free at the point of access, it subscribed to the ideas that were popular in the New Public Management movement, namely, the assumption that private actors could improve the efficiency of public service provision. While the NHS had bought services from the private sector already before the NHS Plan, this cooperation now became more formalized. Yet, in the years that followed this first approximation, it turned out that the growth of private provision was lower than expected. In 2005, spending for private sector provision was only 1 per cent of the total NHS budget. The growth of private sector treatment was limited because, first, a large share of doctors in private clinics also worked as consultants in the NHS. The expansion was therefore limited by the number of available doctors. Second, the NHS paid more than a 40 per cent premium to the private sector compared with costs for producing these services in public hospitals, 'effectively subsidizing non-public entrants into the health marketplace in order to make sure that competitive forces become more widespread' (Greener 2009, p. 227). While the private sector argued that these higher costs were justified by the investment costs its hospitals had, the government reacted by especially inviting companies from overseas from 2003 onwards (Klein 2013).

Reform Process

The political process leading to the NHS Plan can be characterized as consensus-oriented. In March 2000 so-called modernization action teams were established. They consisted of NHS staff (doctors, nurses, and managers), patients, professional organizations, and researchers (Ham 2009, p. 59; Klein 2013). The final publication of the NHS Plan listed two pages of organizations that supported the plan: among them were several Royal Colleges, labour unions such as Unison, NHS providers, associations such as NHS Confederation and NHS Alliance, as well as think tanks. Private providers were not included. The process has been described as trendsetting

for British politics in that consultations were no longer organized via standing advisory groups but in a more ad hoc manner. The NHS Plan consultations 'involved seeking views from many hundreds of individuals, comprising health care professionals, managers, patients and the public' (Ham 2009, p. 189).

As to the concordat, announcing a new relationship with private sector providers was hardly publicly discussed when the plan was published which was also due to the fact that it did not have to pass parliament (Olesen 2010, pp. 132–133). A key factor for the reform process was a change in leadership in the Department of Health which turned the scepticism in the department towards private healthcare providers into more openness. Succeeding Frank Dobson as Secretary of State, Alan Milburn since October 1999 had a more positive attitude towards the private sector, not least due to his background in the Treasury where he had dealt with the Private Finance Initiative and was therefore familiar with the public–private partnership approach of the government (Timmins 2001). Not surprisingly, thus, it was Alan Milburn who, after an intervention by Tony Blair (see below), started to negotiate the concordat with the Independent Healthcare Association (Olesen 2010, p. 159).

Drivers

We could learn from the description of the policymaking process that the NHS Plan as a whole was supported by a broad coalition. In the context of this book, however, I am especially interested in the part of the plan that announced a new role of the private sector in the NHS. How can we explain that policymakers relied on private providers of healthcare against the background that privatization is a hotly debated topic in the politics of the NHS? Even more surprisingly, from the perspective of the classical partisan hypothesis, it was a left-wing government that strengthened private provision. I will argue on the following pages that a combination of three factors explains why the Labour government invited private sector actors to provide more NHS services than they ever did before in history. *Problem pressure* played a crucial role as waiting lists, one of the publicly most discussed indicators of NHS services, had increased in the first years of Labour government. Facing limited NHS capacities especially during the winter, the government decided to buy services from private providers to meet the demand. A second reason was the predominance and *power of doctors* in the NHS. *Private sector lobbying*, finally, served as a signal for

policymakers that there indeed was a private alternative that could supplement public NHS provision.

NHS Plan and concordat were a reaction to the crisis of the NHS in the winter of 1999/2000 when there was a shortage of beds causing waiting lists to become a highly salient topic. Labour reacted with both an expansive policy aiming to reach average European levels of healthcare spending and a new approach towards the private sector. 'Having these [private] facilities available will help the NHS with winter planning and the drive to reduce waiting times' (Department of Health 2000, p. 97). Partially, we can thus explain the new role of the private sector with government attempts to increase capacity and to meet the standards the government had formulated with the expansion of NHS spending (Brown 2001; Laing and Buisson 2013, p. 97; Shaw 2008).

In addition to this functional approach of solving the capacity crisis of the NHS, however, the government also had a more strategic aim in mind. Traditionally, doctors are better heard in British health politics than patients. An indicator for this is the good access that the British Medical Association and medical royal colleges have to policymakers (Ham 2009, pp. 131–153+183). The government hoped that more private sector provision in the NHS would increase competition between different types of providers. With the introduction of the NHS in 1948, doctors had established their right to run private practices additionally to their work for the public health system. Doctors thus had few incentives to contribute to implementing NHS reforms because higher quality of NHS services decreased the demand for private healthcare. Like earlier market reforms, Labour's integration of private sector provision was meant to break this 'private practice cartel' (government policy adviser as quoted in Klein 2013, p. 109).

We can draw a line from the first market reforms following the Griffith Report of 1988 that led to the introduction of the internal market to the NHS Plan. Reforms since then have attempted to strengthen the role of managers in the NHS over that of doctors. As Ham (2009, p. 279) writes:

> Health policy in Britain has been characterised by more active government, increased lobbying by groups presenting patients and the public, and a medical profession that has retained a position of considerable power and influence in the face of unprecedented questioning. Also important has been the enhanced role taken on by managers, often acting as agents of government, and expected to challenge doctors in implementing government policies.

While, however, the early market reforms only served as an instrument for managers to exert influence over doctors, the NHS Plan introduced mixed provision as an instrument to additionally increase patient choice and responsiveness to health consumers (Greener and Powell 2008, p. 624). Referring to the international competition that Labour aimed at when inviting international healthcare companies to tendering, Tony Blair's health adviser Simon Stevens said that if NHS consultants did not perform the operations, there was now 'a bunch of Germans coming round the corner who would' (Timmins 2005, p. 1194).

Against the background of these strategic aims of the NHS Plan, the medical profession was surprisingly silent during the reform process, especially compared to the protests against the internal market reform. Why was that? Klein (2013, pp. 235–236) argues that the profession had learned from the Thatcher reforms that protest could not stop such reforms. What was more, the internal market reforms had turned out to have less of a negative impact than expected. Also, the process of gradually introducing private providers did not offer many possibilities to centralize conflict and protest. Finally, the combination of private provider integration and expansion of healthcare spending helped to ease the pain for the profession. However, the potential threat of protests by doctors explains the rather atypical style of policymaking that was described above. The main stakeholders and especially doctors were integrated into the process and signed the document as a message of consent (Giaimo 2002, p. 83).

What role did political parties play in this process? Gingrich (2011) argues that left-wing parties have been a driving force behind the introduction of markets for social policy provision. Starting from the observation of different types of markets, she argues that left-wing parties support those types that allocate responsibility for access to the collective, while the production is controlled either by the state which follows efficiency aims or by users who aim at quality (Gingrich 2011, p. 12). The NHS Plan, according to her interpretation and in line with the argument presented above, was Labour's answer to the power of doctors in the NHS. Since doctors had no incentive to cut waiting times because their private practice benefited from it, the government wanted to create 'constructive discomfort' (Simon Stevens, adviser of Department of Health, as quoted in Gingrich 2011, p. 199) among providers in order to improve performance. Overall, market introduction according to this argument is a reaction to fears among politicians that the middle class could opt out of the public system if it is not improved in terms of quality and access.

'Labour explicitly used one form of market to stop another, with the massive increase in spending and the Consumer-Controlled market both aimed at reducing demand for private insurance and sustaining the legitimacy of the NHS' (Gingrich 2011, p. 100).

Other accounts of British health policy have criticized this argument for presenting a too neatly calculated political agenda of Labour. From this perspective, government plans were rather sketchy and, while generally in favour of markets, not precise about the preferred instruments. Instead of being the result of a strategic decision by government, the NHS Plan would better be explained by a garbage can approach resulting from a rather diffuse combination of ideas, interest groups, and political opportunities (Powell 2014). From this perspective, approaching the private sector was as a form of pragmatism of the government. When the expansion of spending for the NHS did not improve provision of services, the Department of Health in October 2000 signed the concordat with the private sector.

But why exactly did the Labour government approach the private sector? The following paragraphs show that in light of this pragmatism, private healthcare lobbying played a crucial role. While the political strategy argument presented above sheds light on the motives of government, we must also look at how policymakers and the private sector interacted. A necessary condition for the new policy was the increased visibility of the private sector in the political debate. It could thereby present itself as an alternative to public provision. Faced with stagnating numbers of private health insurance contracts since the early 1990s, private health providers played a role in pushing for more involvement into the NHS. 'From the point of view of the private health care industry, the only solution was to get NHS tax revenues diverted to it, and it lobbied hard accordingly' (Pollock 2005, p. 64). These efforts of the Independent Healthcare Association became most visible when its public relations officer in February 2000 in a television show asked Tony Blair if he had any 'ideological objection to cooperation between the NHS and the private health care sector' (as cited in Pollock 2005, p. 67). While Blair denied this, a letter of former Secretary of Health Frank Dobson revealed that the NHS executive indeed was circulating instructions which complicated private sector involvement in the NHS. In 1997, he had ordered that NHS Trusts should not contract with private hospitals unless there were exceptional circumstances (Hencke 2001; Olesen 2010; Pollock 2005). As a reaction to this public discussion, Blair stopped Dobson's instruction and

additionally organized a meeting with leading doctors, healthcare firms, and drug firms that would eventually lead to the finalization of the concordat. While months before civil servants in the Department of Health had opposed cooperation with the private sector, they now faced new guidelines that promoted organizational changes which eventually led to the creation of a unit in the Department of Health that should promote private provision (Leys and Player 2011, p. 15; Pollock 2005, p. 119).

We can characterize the lobbying efforts of the private healthcare sector as signalling strategy. In light of only loose links between the NHS and the private sector, anti-privatization public opinion and reservations among policy makers and bureaucrats, there was a need for private sector actors to establish first connections. Publicly visible lobbying, such as the television example presented above, sent a signal that the sector indeed was there and ready to take over tasks from the NHS. Much of the increase of power resources of the sector such as turnover and employment growth or denser economic networks also increased its visibility (see Chap. 4). On the less public side, Labour politicians and personnel in the Department of Health became less hostile towards the private sector when it started dealing more and more with private hospitals through inspection and regulation. 'The dialogue involved in this debate eased suspicions on both sides' (Timmins 2001, p. 598). This approximation went further as the first steps of interaction opened new opportunities for private providers to engage as advisers of government. Ham (2009, p. 196) writes:

> In developing these policies, ministers and civil servants consulted extensively with both the NHS and private sector interests, the latter being invited on a regular basis to advise the government on the role they could play in the emerging market and the policy changes needed to facilitate their entry. This included participating in meetings at 10 Downing Street as well as the Department of Health. The establishment of the Commercial Directorate in the Department in 2003 signified the increasing importance of the private sector at this time.

Summing up, the NHS waiting list crisis was the impulse for the Labour government to expand spending for the NHS and to additionally buy services from the private sector. Private providers were approached for two reasons. First, government feared that middle classes would opt out of the NHS by buying private health insurance. Since NHS doctors had few incentives to attract patients because of their own private practice, buying

services from the private sector followed the principle of divide and conquer: If the NHS could not control the side jobs of doctors, they could buy the services and integrate them into the NHS. Second, increases of power resources of private hospitals became manifest as increased visibility. The growth of personal and financial links to policymakers and parties had made the sector more visible and sent signals that private providers would be ready to engage in the NHS.

British Pension Reform 2004

Reform Content

The British Pension Act 2004 aimed at improving security for members of occupational pension funds by strengthening the regulation of private pensions as well as creating new incentives for employers to offer pension schemes. With regard to the first aim, it established a compensation fund for defined-benefit pension schemes which would guarantee pensions in cases of employer bankruptcy (Pension Protection Fund). Additionally, a new regulatory agency was created which should take a more proactive approach compared to its predecessor and would not only become active in cases of complaints or suspicions (Pensions Regulator). While the previous regulatory agency Occupational Pensions Regulatory Agency had been established with the Pension Act 1995 as an answer to the Maxwell pension scandal, it was now perceived as too tame (Miles 2004a). As to the incentives for employers, the government decided to lower the costs of occupational pensions in that the maximum adjustment of pensions was lowered from 5 per cent to 2.5 per cent for cases in which pensions were not indexed to the inflation rate (Willert 2013, pp. 224–257).

Reform Process

The reform process started in early 2002 with the publication of a report by Alan Pickering, former chairman of the National Association of Pension Funds (NAPF), who had been asked by the Secretary of State for Social Security to collect ideas for an improvement of occupational pensions. Extensive consultations followed when the Green Paper ‘Simplicity, security and choice: Working and saving for retirement’ was published in December of the same year, stressing the need to make tax treatments of individual and occupational pensions easier. The White Paper from June

2003 finally added the focus on protecting members of occupational pension schemes.

Drivers

What caused the re-regulation of occupational pensions? When the final reform was announced in summer 2003, justifications aligned around the terms *confidence building* and *emergency measure*. An immediate need for reform was created by a public discussion about pensioners who had lost their pensions due to employer insolvency. Consequently, the answer to this problem, the Pension Protection Fund, was described as a lifeboat fund. As compensation for higher costs for employers, the reform would also reduce the obligation for pension level adjustments. Telling from these motives, the perception of a crisis of the pension system was a main driver for reform. The main reason was the lack of pension coverage that employees with defined-benefit pensions faced in case their employer would go bankrupt. Until 2004 there was no insurance for these schemes. Following a series of high-profile company collapses, labour unions mobilized when it turned out that pension schemes of these companies had been underfunded (Cohen 2004; Hall 2004a; Miles 2004b; Schulze and Moran 2007).[3] Along these lines of argumentation, the reform was meant to increase security of employees. It would additionally limit moral hazard of employers because contributions to the protection fund were linked to the risk profile of schemes. A direct answer to the publicly debated pension scandal the reform also aimed at strengthening trust in occupational pensions in order not to deepen an already existing saving crisis (Jones and Inman 2004).

Can we explain the reform with a functionalist argument according to which a lack in social security prompted its solution? A diachronic comparison of pension policymaking in the UK shows that additionally the existence of a left-wing government has played a role. While the British occupational pension system has traditionally been in line with a liberal pension regime, that is, low state benefits and voluntary and mainly unregulated occupational pensions, state regulation increased since the 1990s, for example, with the introduction of a minimum funding requirement in companies in 1997. This happened not least due to prominent scandals such as the Maxwell case (Bridgen and Meyer 2009). The 2004 reform, however, should also be regarded in the context of the Labour government's approach of 'taming' the pension market. Already the 1999 reform,

introducing Stakeholder Pensions, meant to improve pension coverage, especially for middle and low income earners (Blackburn 2008). Consequently, while problem pressure was created through employer insolvencies, the publicly scandalized loss of pensions functioned as a catalyst for a reform direction that was willingly taken up by the left-wing government.

What was the role of the pension industry? Generally speaking, the power of business, both pension providers and employers, has increased over the two decades since the pension reform of 1986. Schulze and Moran (2007, p. 59) write:

> The lobbying power of the pensions industry, and its ability to participate in pension policy networks, is very great. The pensions industry, although sometimes internally divided, is well integrated into the City of London—perhaps the single most effective constellation of interests in British society.

How then, one might ask, could a reform happen that strengthened regulation? According to the results of the QCA presented in Chap. 5, this reform was characterized by the presence of powerful welfare industries and a left-wing government and institutional leeway—a conjunction typically found to be a sufficient condition for privatizing reforms. Two questions therefore stand out: What preferences did the pension industry have in the reform process? And, if it was against this reform, what factors constrained its power?

When initial ideas of the bill were published in February 2004 they provoked a 'chorus of complaints from business, pension funds and lobby groups' (Timmins 2004a, p. 4). This was not a surprise if we take into account that the Department for Work and Pensions estimated the cost of the new insurance at 314 million pounds sterling for pensions schemes (Miles 2004b). In this phase of the political process business groups, while generally supporting the idea of a protection fund, were mainly concerned about the way it would be financed. The government planned to start with flat-rate contributions of employers, giving the fund a mandate to later switch to a risk-based financing model. The Confederation of British Industry (CBI) and other business actors called for the government to decide for a risk-based model from the start (Timmins 2004a, b).

The focus of criticism shifted when in May 2004 the government published an amendment to the bill that would allow holding employers liable

for pension funds if money had purposely been misused (Seib 2004). CBI, NAPF, and the investment banking industry immediately formed a coalition against these plans. Especially the private equity and venture capital industry feared that private equity funds could be held responsible to plug holes in pension funds of companies they bought (Bawden 2004a, b). Consequently, the 'British Venture Capital Association has been lobbying hard for change to clauses which, it believes, could have such an effect. So has the CBI' (Wheatcroft 2004, p. 7). While the government did not want to cancel the amendment but instead clarified rules by issuing guidelines, the clause was finally cancelled after consultations in the House of Lords (Bawden 2004c; Hall 2004b). Yet, in spite of these changes, when the legislation finally passed the parliament, both employers and the pension industry formulated critique.

What was the role of the life insurance industry in the process? The Association of British Insurers (ABI) was rather silent when compared to the voices of CBI, NAPF, and the investment industry. It mainly criticized the reform for not addressing the problems of the British pension system. Coalescing with CBI and the Consumers' Association, and similarly to criticism of NAPF, it saw a need for a reform of the state pension system instead of occupational pensions (Seib and Webster 2004; Senior 2004; Timmins 2004a). ABI, among other things, called for higher basic state pensions and a reduction of means testing, while better earners should have more incentives to save on their own (Berwick and Cumbo 2004; The Guardian 2004).

The government additionally faced protest from citizens asking for retrospective compensation for those that had already lost their pensions but would not be covered by the newly established protection (Bream 2004; Jones and White 2004; White 2004). The government did not include these claims into the bill but instead offered a 400 million pounds sterling compensation for affected workers (Cohen et al. 2004). Public protest, however, hints to the fact that the reform was a highly salient topic. Policymakers therefore faced electoral incentives to solve the publicly debated pension crisis. Overall, the reform introduced a regulation of occupational pensions that was costly for private providers. It happened despite a conjunction of factors—including powerful welfare industries—that are a strong explanation of privatizing reforms. Topic salience worked as a constraint for business power.

German Healthcare Reform 2007

Reform Content

The healthcare reform of 2007 (*GKV-Wettbewerbstärkungsgesetz*) mainly aimed at reforming the organization and finances of statutory health insurance funds. In contrast to other areas of the German welfare state, there was no structural reform in healthcare in the first half of the 2000s. Instead, healthcare reforms solely followed the idea of cost containment. The 2007 legislation was different in that it introduced a fundamental change of how health insurance coverage is financed and organized. A newly founded health fund called *Gesundheitsfonds* was the centrepiece. It was established to collect contributions from employees and employers in order to allocate it to health insurance funds according to standardized costs and adjusted to the risk structure and morbidity risks (Paquet and Schroeder 2009). What did the reform imply for hospitals? The legislation had two small positive and one large negative effect on hospitals. First, it opened the treatment of outpatient care for hospitals which implied a potential for growth. Similarly, introducing a new payment structure for private practice doctors that work in hospitals on a part-time basis was favourable for the hospital sector. Overall, however, the reform had a negative financial effect on hospitals as they were obliged to contribute more to statutory health insurance financing. Hospital bills should be reduced by 0.5 per cent for two years. Together with a cut in the remuneration of hospital services by health insurance funds (*Mindererlösausgleich*), this measure amounted to costs of 380 million EUR per year. As I will show below, the financial cuts especially prompted protest from public hospitals. The reform is a case of privatization (more in than out of the set, see Chap. 5) that happened without membership in the paths that typically lead to privatization.

Reform Process

The reform process was shaped by conceptual conflicts within the grand coalition government. Both major parties, SPD and CDU, had joined the government with contrary ideas about healthcare reform. While SPD favoured an expansion of the insurance pool by adding self-employed and privately insured to the statutory health insurance (*Bürgerversicherung*), CDU supported a concept in which employees' health insurance contributions would be decoupled from their income and substituted by a

flat-rate contribution (*Gesundheitsprämie*). As an effect of this confrontation, negotiations about the aims of the reform mainly took place between the parties in the coalition government, and especially between Chancellery and the Ministry of Health. In the early phase of the process, from November 2005 to April 2006, the general direction of the reform was decided in a small group of ministry, party leaders, and Chancellery. Academic advisers, in this phase, recommended the Dutch health funds as a role model. In summer 2006, cornerstones of the reform were negotiated between federal and Länder governments as well as between party leaderships of the coalition. In this phase, the financial contribution of hospitals emerged as an idea and soon evoked protest from the hospital sector. However, interest group influence was limited. Although a number of 94 interest groups were consulted during the parliamentary process, this was only during a phase in autumn and winter 2006 when rather small adjustments to the legislation were possible. The government had explicitly decided not to give interest groups too much of a voice (Hartmann 2010; Paquet and Schroeder 2009, p. 21). This was due to the traditionally large number of powerful organized interests in German health politics that were said to block any structural reform (Gerlinger 2009, p. 149). Avoiding interest group influence was possible because the Ministry of Health had gained expertise over the past decades. Additionally, the grand coalition government was strong enough due to its large majority in parliament. As a consequence, the opposition parties did not play a central role in the process either (Paquet and Schroeder 2009).

Drivers

The reform as a whole was the result of problem pressure arising from both funding difficulties of health insurance funds and an increasing number of non-insured. As to the first problem, high unemployment rates and the erosion of standard employment affected the finances of the statutory health insurance as contributions were tightly linked to employment via payroll taxes (Hartmann 2010). We could learn from the description of the process that a major step in the politics of this reform were the intra-government negotiations between SPD and CDU, while the government was very reluctant to listen to external stakeholders.

Against this background we can also explain why the reform included a financial cut for hospitals that was rather surprising for the hospital sector. The government aimed at increasing the income of health insurance funds

and it was able to ignore other interests due to its political strength. Hospitals therefore ended up in a losing position in the reform process. How did the sector react?

The sector heavily criticized that the reform would worsen the already bad financial situation of hospitals (Heins 2009). The umbrella organization of German hospital associations, *Deutsche Krankenhausgesellschaft* (DKG), started to oppose government plans as soon as it became clear that the reform would not be as expansive as initially expected. In this early phase, the sector was still mainly afraid that the reform would follow along the lines of cost containment, while it saw a need to strengthen the income of the healthcare sector by increasing the share of tax funding (Deutsche Krankenhausgesellschaft 2006a, b). Protest became stronger in summer of 2006 when it turned out that hospitals would need to contribute to ease the financial situation of health insurance funds. DKG reacted to this plan with 'incomprehension, powerlessness and enormous anger' (Deutsche Krankenhausgesellschaft 2006c, p. 641; own translation). In August 2006, it organized a poster and event campaign against the government plans with costs amounting to 300,000 to 500,000 Euro, financed by donations of hospitals (Hoffmann 2006). In winter 2006, an unusual ad hoc coalition of doctors, hospitals, and health insurance funds that typically have diverging interests in healthcare politics emerged (Mittler 2006; Thelen 2006).

In the parliamentary consultations, associations of all types of hospital providers opposed the government plans. *Bundesverband Deutsche Privatkliniken* (BDPK), representing private hospitals, called for cancelling the cuts in hospital bills. The federation of municipalities, speaking for public hospitals, saw a threat to the existence of public providers. The association of protestant hospitals even more drastically focused on the effects of the cuts on the variety of public, non-profit, and for-profit provision. It saw non-profit providers disadvantaged by the reform because rationalization efforts had been especially strong in their member hospitals. As an effect, however, higher costs could not be compensated as good as in public hospitals that had their deficits compensated by public money or in private hospitals that had better access to capital markets. DKG, finally, was the most critical hospital voice in the consultations.

As to the relation between types of providers, differences became visible both during the parliamentary consultations and in public statements. While all hospital organizations opposed the financial cut for the sector, the intensity of opposition differed. Compared to other organizations in

the field, the private hospital association BDPK was rather silent. When the cornerstones of the reform were published in July 2006, private hospitals saw a 'serious threat' (BDPK 2006a, p. 442; translation JP) arising from the financial cuts for hospitals. This and other statements in the consultation phase clearly signalled opposition to the government plans (BDPK 2006b). However, this opposition was never as strong as that of other hospital providers. When, for instance, DKG on 16 August 2006 announced a nationwide protest from hospital federations at the Länder level as well as non-profit and public hospitals (Deutsche Krankenhausgesellschaft 2006d, p. 723; see also Deutsche Krankenhausgesellschaft 2006e), private hospitals and BDPK were missing in the list of participating organizations. Another example is Michael Philippi, executive board member of hospital company Sana, who criticized the financial cut in its specific form but agreed that it was generally necessary. This general approval came with reference to expected market adjustment, that is, the closing or privatization of existing hospitals (BDPK 2006c). While these differences in positions between private hospitals and other types of providers do not explain the result of this specific reform, they support the assumption that cost containment or even financial cuts for the whole hospital sector can have a positive effect for private providers as it increases the potential for market share growth.

In sum, the reform shows that welfare industries not only are drivers but can also simply be beneficiaries of privatization without having taken action. What has been a typical pattern for early reforms in the 1990s can also be observed in times of established welfare industries. The reform introduced financial cuts for the hospital sector that increased the likelihood of privatizations. This, however, was only a side effect of a reform that aimed at guaranteeing the financial stability of health insurance funds. Private hospitals benefited from a political reform without having been actively involved in the process.

Conclusion

This chapter has studied the political processes leading to four welfare reforms. Cases were selected in order to complement the results of the QCA presented in Chap. 5. They have different degrees of membership in the outcome (privatizing reform) and the solution path (left-wing government, powerful welfare industries, and institutional leeway). The German pension reform of 2001 is an example of a strongly privatizing reform.

The case study showed that problem pressure, that is, unemployment and German reunification effects on social insurance contributions, was a push factor for reform. Ideational change was responsible for the content and direction of the reform, namely, the partial privatization of the pension system. In this context, financial industry actors played a crucial role as ideational agents. Institutional change worked as an enabling factor in that the erosion of the old pension policy network gave financial industry actors and other privatization-friendly actors access to the arena of pension politics. In addition to the conjunction of conditions found in the QCA, we see that problem pressure was a causal factor, too.[4]

Just like the pension reform in Germany, the NHS reform of 2001 is an example of a privatizing reform. It increased public spending for the NHS and in parallel introduced more contracting out to the private sector, thereby increasing public–private competition. Again, problem pressure was a crucial factor. In this case, however, it came in a different form. While I have conceptualized problem pressure as financial deficits and increased demand for social spending, problem pressure in this case arose from an underperformance of the NHS in terms of access and quality. Especially long waiting lists created pressure for policymakers to *expand* NHS spending. In addition, private providers were strengthened as suppliers of NHS services because of two reasons. First, the government aimed at stopping the private practice activities of NHS doctors by integrating private provision into the NHS. Second, private sector lobbying was successful as a signalling device in that the presence of the private hospital industry signalled to policymakers that there was a reliable alternative to pure public provision. Both reforms—the German pension reform as well as the NHS reform—are typical cases of a strong explanation of privatizing reforms, namely the combined presence of powerful welfare industries, left-wing government, and institutional leeway. The case studies show different mechanisms of how welfare industry power worked. Welfare industries alone did not cause a privatizing reform but they were necessary parts of a sufficient explanation of such reforms.

The British pension reform of 2004 is a deviant case because it represents a case where privatization did not happen in spite of the above-mentioned combination of factors. The case study shed light on the mechanisms of the reform process showing that it was mainly driven by a strong public perception of a pension crisis. With coverage of private pension being low and cases of lost occupational pensions discussed in the public, the government was pushed to introduce a regulatory reform to create trust into the pension

system. As to the role of welfare industry power, the case shows how topic salience works as a constraint of business power.

The 2007 healthcare reform in Germany is another type of deviant case. It is an interesting case that teaches us how other paths to privatization may look like. The case study showed that a powerful grand coalition government explicitly neglected interest group influence in the reform process in order to especially avoid incumbents such as doctors, unions, or hospitals to influence the process. Financial cuts for the hospital sector disproportionally hit public and non-profit providers and increased the likelihood of privatizations. Private hospitals thereby benefited from the reform without being a relevant actor in the political process.

Summing up, the case studies showed that welfare industry power is an important part of explanations for privatizing reforms and mechanisms of power differ. In addition to the first two cases, we could see that powerful providers do not always get what they want in welfare state politics and that privatization also happens without private provider power.

Notes

1. The approach violates two rules of post-QCA case selection as proposed by Schneider and Rohlfing (2013). First, I only analyse one term of the solution. Optimally, I would be able to analyse selected cases of each term. However, this is not possible due to practical reasons. Second, the 2001 German pension reform is not a unique member of only one term but is a typical case for all three terms. I still study the reform because it represents a paradigmatic change in German pension politics.
2. Original: 'war irgendwo schon abzusehen, dass man im Bereich der kapitalgedeckten Vorsorge sich was einfallen lassen müsste' (Wiß 2011, p. 156).
3. In 2005, the newly established Pension Protection Fund estimated a deficit of pension funds amounting to 134 billion pounds sterling (Blackburn 2008).
4. Note that the reform is also member in a term that contains problem pressure, left-wing government, and powerful welfare industries.

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CHAPTER 7

Conclusion

Advanced welfare states have seen fundamental changes in past decades. Many social insurance systems have been reformed to meet new demands stemming from deindustrialization and societal modernization. While this caused states to retreat from social policy production in some areas such as traditional social insurance systems, they expanded their intervention in other areas such as education, elderly care, or childcare.

Part of these changes has been a transformation of the organizational dimension of the welfare state. Provision of social policy is now more often organized via markets than 30 years ago. These markets are not uniform but vary widely with regard to the modes of risk sharing, state intervention, or regulation. Some of these arrangements do not even fit a strict definition of markets as there is no competition on both the demand and supply side. Contracting out of healthcare services, for instance, creates competition among potential providers, while the state remains the only actor on the demand side. These monopsonies are one type of markets in social policy provision. In the light of the different market arrangements, each of these types creates specific authority structures. Some give state actors many possibilities to intervene, while others provide citizens with consumer power. Finally, some markets are more beneficial for providers than others (Gingrich 2011).

Despite the differences of arrangements, one common consequence of market reforms has been the increasing relevance of private providers. Social policy provision has been partially privatized in that state actors transfer social policy production to for-profit firms and industries. These newly

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emerging welfare industries provide all kinds of services in the welfare state, from healthcare and elderly care to labour market services and trainings to the organization of old-age pension income. Providers can come from different industries. In pensions, for instance, we observe life insurance companies as main actors of welfare industries. They are engaged with both occupational and personal pensions. Banks and investment companies are also active on these markets, yet to a minor extent. In hospital sectors, welfare industries consist of for-profit firms that own and run private hospitals.

Private provision has become more important in such different cases as hospital and pension sectors in Germany and the UK. In the UK, the share of private pension expenditure has increased since 1988 although it started from high levels. In consequence, the pension business has become much more important for British life insurers. In the German pension system, there has been a slight increase of private expenditure since the introduction of private schemes in 2001. Not surprisingly, here too, insurer-administered business as indicated by the number of private pension contracts and contributions has grown. Also private hospital sectors have grown in Germany and England. The National Health Service (NHS) increasingly spends on non-NHS providers, which is reflected in a growing share of private beds. In Germany, private hospitals have constantly increased their market share. According to some indicators they have already overtaken public and voluntary providers. In light of the growing relevance of private companies for social policy provision, we may wonder whether these new welfare state actors remain providers only or whether they in addition become active politically. The political activity and power of welfare industries is the subject of this book that asks: Do welfare industries become powerful in welfare state politics?

In what follows in this chapter, I will summarize the main findings along three dimensions: political action, power resources, and involvement into welfare state politics. I then discuss theoretical implications of these results with regard to welfare industry power as well as recent theories of welfare state change. I close with discussing what we can learn from the results politically.

Summary of Findings

Political Action of Welfare Industries

Do welfare industries become politically active? I expect that they do because possible gains outweigh the risks of corporate political action.

Overall, we can observe that welfare industries make an increasing share of their business on welfare markets. While in 1990 42 per cent of all life insurance business in the UK was related to welfare markets, this share reached 76 per cent in 2012. At a lower level, but also with an upward trend, the new private pension schemes have become more relevant for life insurers in Germany. In 2013, the share reached 14 per cent. We observe a similar development in hospital sectors: In England, income from the NHS has become a much more relevant source for private hospitals since the 1990s, while private hospitals in Germany, once licensed as part of hospital plans, have access to full reimbursement from health insurance funds.

The increasing share of business that welfare industries make with providing social policies suggests that they have an interest in becoming political actors. Is there evidence that supports this expectation? We can learn more about it by looking at some of the indicators of political activity that have been presented in Chap. 4. There we could see that party donations increased over time and especially after 2000. This also holds for three of the four industries individually. Only British life insurers spent less in 2010 than in 1990. All other industries strongly increased their donations. Next to party donations, also the existence of networks between politicians and firms expresses political activity of an industry. The findings show that networks of welfare industries and politics have become denser over time.

Power Resources of Welfare Industries

Chapter 4 started from the assumption that power resources are crucial factors for political action. What are power resources of welfare industries? As opposed to power resource theory, I have applied a more fine-grained measurement of power resources of business. Welfare state researchers have built on a detailed definition of power resources of workers, including degrees of unionization, coordination of different unions, and the strength of alliances with left-wing parties in parliament (Korpi 1983, p. 39). Power resources of business, on the other hand, have mainly been assumed by referring to the control of means of production.

Aiming at an empirical analysis of power resources of welfare industries, I have combined several indicators along four theoretical dimensions. Power resources, first of all, stem from industry characteristics such as the economic relevance of an industry as measured by size. Second, inter-firm relations such as networks among firms and levels of concentration provide information about the structure of an industry. The more coordinated an

industry, the more powerful it will be. Third, the ability to act collectively increases the chances of an industry to get what it wants in politics. Finally, personal and financial relations between an industry and politicians or political parties serve as a power resource.

What do we find after collecting information on all these dimensions? There is a moderate increase in power resources over time when cumulating scores of all industries. What is more, power resources for three out of four industries grew with only the German pension industry experiencing a slight decrease. As to power resources, therefore, the findings support Hypothesis 1 that welfare industry power will increase over time. In total, pension industries score higher than hospital industries. This lends support to Hypothesis 2. Looking at changes over time, however, hospital industries show a much stronger dynamic. Against the background of low starting levels, I interpret this upward movement as a catch-up effect. Especially private hospitals in Germany show an impressive growth of power resources.

Welfare Industries and Welfare State Politics

Patterns of Privatization of Social Policy Provision

Having seen that power resources of welfare industries increase over time, the second step of the analysis was dedicated to the question whether they become powerful in welfare state politics. Analysing the determinants of welfare reforms, my expectation was that welfare industry power would help in explaining why some of these reforms aim at increasing the share of private provision. Findings of the Qualitative Comparative Analysis (QCA) in Chap. 5 suggest that powerful welfare industries indeed are part of the explanation of privatizing reforms—but this only holds for later periods of marketization. Until 2000, powerful welfare industries do not figure as explanations. On the contrary, the absence of a powerful welfare industry is a necessary part of explanations for privatizing reforms in this early period. The very robust finding that there are two periods of privatization of social policy provision lend support to the expectation that welfare industry power will increase over time.

Comparing pension and hospital reforms, solutions for both sectors contain powerful welfare industries. However, they figure more prominently in the analyses of pension reforms, while some privatizing hospital reforms are even partially explained by the absence of powerful welfare

industries. Reforms of the 1990s in both countries are examples: The abolishment of the cost coverage principle and the introduction of flat-rate reimbursements in the German hospital system, both effectively functioning as financial cuts rather for public than private hospitals, were introduced without the presence of powerful welfare industries. Instead, the combination of problem pressure and a right-wing government (1992) or a left-wing government (1999) can explain these reforms. Similarly, the internal market in the NHS was introduced without powerful welfare industries being present. Only the Labour government reforms of the early 2000s are partially explained by the presence of powerful welfare industries. Overall, the comparison of sectors increases our confidence in Hypothesis 2 which states that welfare industries will be more powerful in pension than in hospital politics.

Departing from the focus on welfare industries and looking at conjunctions of conditions, there is no support for H3a which was derived from the classical partisan hypothesis according to which right-wing parties would privatize if institutional leeway allows and if they can build coalitions with business. The absence of right-wing governments during the introduction of privatizing reforms is a very robust finding. Instead, there is partial support for the competing hypothesis (H3b). Referring to more recent theories about left-wing party incentives for marketization (Gingrich 2011), it states that left-wing governments will introduce privatizing reforms if they face problem pressure and powerful welfare industries. The results partially confirm this expectation in that the expected combination is one path towards privatizing reforms in the later period since 2001. The combination of left-wing government and powerful welfare industry together with either problem pressure or institutional leeway is also a powerful explanation of reforms in the separate analyses of hospital and pension reforms. An example is German pension reforms between 2001 and 2007 that established the private pension market and can be explained by the combination of left-wing government, powerful welfare industry, and problem pressure.

Reform Processes

While QCA results give us an idea of the patterns of conditions that are sufficient for privatizing reforms, we do not learn anything about causal mechanisms. Generally speaking, case study results from Chap. 6 confirm the expectation that welfare industries are relevant actors in some political processes of welfare state reforms. In line with findings of the QCA, they

show that private providers contributed to promoting reforms that strengthened private provision. However, the presence of strong welfare industries does not always lead to privatizing reforms. Additionally, and in turn, there is also privatization happening without powerful welfare industries being present.

The German pension reform of 2001 is an example of a privatizing reform that we cannot fully explain without referring to the role of financial industry actors in the reform process. It differs from earlier reforms in that the informal grand coalition of pension policymaking, consisting of the two major parties as well as labour unions and employers, could not be revived. Also the classical partisan argument and external influences such as globalization or European integration fail as an explanation. Instead, I have described problem pressure as the engine for any reform, ideas as drivers that decided about the direction and institutional change as the road on which the reform went forward.

The existing literature comes with two limitations for explaining the 2001 pension reform in Germany. Institutionalists around Palier and Martin (2007) and Bonoli and Palier (2007) helpfully describe pathways for reforms in Bismarckian welfare states but neglect to analyse how perceived problem pressure was translated into specific political answers. Häusermann (2010) develops the argument further and offers an explanation for specific policies by referring to changing voter preferences in post-industrial societies. Yet, both accounts have difficulties to explain the exact outcome of the 2001 case. If voters prefer flexible pension policies, this does not necessarily imply that policymakers introduce capitalization. As there are other ways to make pension systems more flexible, the demand for reform stemming from new social risks cannot fully explain the reform direction.

Rather, explaining the 2001 reform, we will have to understand how and why the paradigm of a three-pillar pension system became so prominent in Germany. An analysis of the networks that built around certain discourses and political positions reveals that there was a broad coalition aligning around the support for privatization (Leifeld 2013). In the mid-1990s, the old pension coalition that had been committed to the social insurance pension system more and more eroded. After 1998, a new coalition arose that supported privatization and consisted of actors from the financial sector, industry, and parts of the government such as the Ministry for Finance and the Ministry for Economic Affairs. Overall, although life insurers and, to a lesser extent, banks became increasingly

important as actors in pension politics since the end of the 1990s and used the whole array of lobbying instruments (Wehlau 2009; Wiß 2011), their main success was to contribute to the establishment of the three-pillar paradigm as alternative to the traditional pension model. Institutional change, finally, worked as an enabling factor in that only the erosion of the old pension policy network gave life insurers, banks, and other actors the chance to have a say in pension politics.

The results of the case study of the 2001 NHS reform show that private hospital providers successfully raised their voice in the political process. Looking for a solution against long waiting lists, the Labour government expanded NHS spending and strengthened contracting out to the private sector. Concerns about quality and access surely were a push factor for the reform. Private sector lobbying, however, was a crucial contribution to the opening of NHS for private hospitals in that the presence and visibility of the industry made the government rethink its position towards the private sector. Different from the German pension case, welfare industry power in this case became manifest through a signalling effect. Powerful private hospitals were more visible than ever before because of personal and financial relations with policymakers and parties as well as due to their growing economic relevance.

The QCA results show that both reforms, the German pension reform and the NHS reform of 2001, can be explained by the presence of powerful welfare industries *and* a left-wing government *and* low institutional constraints. Yet, the combination of these factors does not always lead to privatization as the case of the British pension reform of 2004 shows. Strongly regulating the provision of occupational pensions, it is classified as a reform that is rather out of the set *privatizing reform*. Against the background of the argument of this book, one might wonder how such a reform was possible despite strong welfare industries, institutional leeway, and a left-wing government. The case study points us to the relevance of topic salience. The reform process was shaped by high public attention and a strong notion of need for reform. Facing protest from citizens that had lost their pensions due to employer bankruptcy, the government aimed at building confidence in the pension system. Perceptions of a pension crisis and public scrutiny pulled the reform into the electoral arena and prevented influence of single interest groups in the political process. At first sight contradicting the main argument of the study, the 2004 pension reform shows how topic salience can work as a constraining factor for welfare industry power.

The German healthcare reform of 2007 also departs from the causal mechanisms found in the first two case studies. The reform contributed to privatization in the German hospital sector in that the financial cuts disproportionally hit public hospitals, making them more likely to be privatized. In this case, however, the explanation of powerful welfare industries and left-wing government and institutional leeway does not hold. Logically, this does not contradict the statement of sufficiency. Rather, it is an interesting case for detecting other paths to privatization. The reform was mainly driven by a grand coalition of Christian Democrats and Social Democrats and negotiations mainly took place between government parties. Due to the many powerful interest groups in the German hospital sector, the government had explicitly decided to use its strong position in order to neglect interest groups. Despite this strategy, private hospitals relatively benefited from the reform because effects were worse for public and voluntary hospitals. Not surprisingly, thus, the intensity of protests against financial cuts differed between groups of hospital providers—private hospitals were more silent than other providers and they weakened their general criticism during the reform process. This, however, is not to say that they built a coalition with political parties in government. They partially benefited from a reform that happened due to the political power of a grand coalition government that was able to neglect the interests of incumbents.

Theoretical Implications

Private Provider Power

How do the results speak to theories of welfare state change? I have started with the argument that welfare industry power contributes to the privatization of social policy provision. The findings of this book generally support this argument—however, some qualifications are necessary. The temporal constraints of welfare industry power that have been theorized in Hypothesis 1 are reflected in very robust findings that there are two periods of privatization. In an early phase until 2000, welfare industries did not have much of a say in welfare state politics, that is, privatizing reforms were introduced even in the absence of powerful welfare industries. The temporal dimension of the constrained provider power argument therefore implies that privatization of social policy provision creates a new type of welfare state politics (Lowi 1964, p. 688; Schelkle 2012, p. 31). Once

welfare markets have been introduced and established, providers on these markets develop a stake in welfare state politics as their business directly depends on political decisions of how to arrange, reform, or regulate markets of social policy provision. Paul Pierson (1996) identified a large proportion of the electorate as welfare constituencies that prevented the retrenchment of the welfare state because it relied partially or completely on social transfers or services. This book shows that Pierson's argument is mirrored in the era of welfare state reorganization. Industries that do business with and within the welfare state become a new type of welfare constituency that has strong interests in protecting or expanding existing levels of private social policy provision.

At first sight, the distinction of the two phases of privatization and welfare industry power looks as if the first phase represents the *introduction* of welfare markets, while the second stands for *reforms* of these markets. According to this impression we would suggest that welfare industries were created by a first wave of privatization (market introduction) and in consequence became powerful supporters of the maintenance and expansion of private provision (market reform). Powerful welfare industries would then, first of all, be an effect of political decisions. As a consequence of these decisions, welfare industries themselves would become more powerful and eventually contribute to political processes. The results, however, point us to the fact that this distinction, while being correct in parts, is too general. For instance, it fails to explain why financial industry actors were relevant actors in the political process leading to the 2001 pension reform in Germany, a reform that is usually counted as market introduction.

Trying to capture the power of welfare industries, one will therefore necessarily have to distinguish between types of welfare industries and their experience with political activities before entering the welfare state as providers. Some welfare industries have been established economic and political actors before. They often have existed for decades, having a long tradition in a number of different markets. They only added welfare market activity to their portfolio very recently. Apart from their economic activity, many of these firms and industries have also been politically active before. Life insurers, for instance, had often already been founded in the nineteenth century and were engaged as political actors in other issues than welfare markets for decades. Other welfare industries just emerge as relevant actors because they have only been created through the introduction of welfare markets. Before the mid-1990s, hospital companies in

Germany and England have only existed as very small groups of few single private hospitals (Germany) or small subsidiaries of companies from overseas (England). They only started to grow economically since the mid-1990s when market reforms offered new potentials in private hospital provision. Consequently, some welfare industries could only become politically powerful in later stages by definition.

Thus, we have to distinguish between *established* and *emerging* industries when discussing their role during market introduction and market reform. While we generally observe that welfare industries become powerful once welfare markets have been created, established industries may also have been powerful during the introduction of welfare markets. The 2001 pension reform in Germany and the role of the financial industry represents such a case.

In addition to temporal constraints, the results point to the fact that welfare industries alone did not cause any political reform. Rather, the combination of problem pressure, left-wing government, and private providers are a strong explanation of privatization. Against existing arguments in the literature that voter demand is a driving force of privatization, the unsystematically existing poll data suggest the opposite (Chap. 5). While we have to be cautious with interpreting the data, there seems to be a stabile majority against privatization in both countries for both sectors.

Case study results stress two more constraints. First, high salience was a constraint for welfare industry power in the pension reform process in 2004 in the UK where an intense public debate pulled the issue into the electoral arena so that welfare industries did not get a say. This observation is in line with Culpepper's (2010) theory of business power according to which single interest groups will not be successful once an issue has become so salient that policymakers face strong electoral incentives. Second, privatization also happens without the contribution of powerful welfare industries. The distinction of two phases implies that privatizing reforms happened already when welfare industries were not yet powerful or not even existing. The results of the case study of the 2007 healthcare reform in Germany go further by showing that even when welfare industries are formally powerful, that is, when they score high on the power index, they are not necessarily crucial actors in the political process. Other factors, such as problem pressure, expected efficiency gains or political strategies against incumbent interest groups affect decisions to privatize social policy provision.

What is more, the case of the German hospital market points us to the limitations of federal legislations. While political decisions at the federal level have definitely promoted privatization of hospitals by setting the broader legal framework that increased efficiency demands for hospitals, concrete decisions to privatize hospitals are mostly taken at the local level. Municipalities (and sometimes *Länder*) decide to privatize independently from each other. These atomized decisions have been described as implicit privatization (Schmid and Wendt 2010, p. 61) where hundreds of local decisions lead to a national trend: the outstanding growth of private hospitals and hospital beds. Both cases, national legislation without welfare industry involvement and atomized privatization decisions at the local level, remind us of the fact that welfare industries can also be beneficiaries of privatization without having actively contributed to it.

The Argument in the Context of the Business Power Debate

How does the argument relate to the political economy literature about business power that has been surging up in recent years? While Baumgartner and Leech (1998) found that interest group analysis had become more specific and technical but less relevant since the 1960s by focusing on the analysis of membership recruitment or collective action problems and neglecting the study of influence, this can certainly not be said about the trend in welfare state and political economy research that has brought back the study of power. First of all, business power experienced a revival in comparative political economy. Business actors were found to become powerful in corporate governance reforms when public attention was low (Culpepper 2010). Also in the analysis of the financial crisis of 2008 and the following years, business power has become a research topic again, especially with regard to banks and bailout programmes (Culpepper and Reinke 2014; Grossman and Woll 2014; Woll 2014).

This trend has also spread to welfare state research. For decades, students of welfare states implicitly recognized the role of business actors in affecting state interventions. Yet, the same students ignored business in empirical research. Power resource theory holds that the strength of labour movements, both inside and outside of parliaments, is the main explanatory variable for the size of the welfare state (Esping-Andersen 1985, 1990; Korpi 1983). Thereby business was theorized as the mirror image of labour. If labour power was the driving force behind welfare state

expansion, business must have been the counterpart aiming to block any of these reform attempts. Interestingly, however, empirical analyses concentrated on labour, whereas the role of business was only assumed. This focus only shifted in the 1990s and early 2000s when the varieties of capitalism literature put a focus on employer preferences towards social policy programmes. Since then, scholars have further developed the study of business power in the welfare state (Hacker and Pierson 2002, 2004, 2010; Paster 2012, 2013, 2015; Swenson 2004a, b).

Many of the empirical findings and theoretical propositions of this revived business power literature have influenced this book, from the general notion of variation of business power over time and depending on political contexts (Vogel 1989) to specific mechanisms of constraints (Culpepper 2010) to the distinction of structural and instrumental power (Hacker and Pierson 2002). With regard to the debate about business power in welfare state politics, however, this book differs in one important aspect. The debate about preferences and power of firms has been stimulated by the confrontation of varieties of capitalism and power resource approach. However, while it deals with firms as employers, this book is about firms and industries as product market actors.

Theories of Welfare State Change

In the past decade, research on welfare state change has rediscovered the study of interest groups. Starting from the observation that policymakers were able to fundamentally reform welfare states, scholars have gone beyond Pierson's notion of the 'immovable objects' (Pierson 1998). This book, too, speaks in favour of a post-Pierson approach as it shows how powerful interest groups contribute to structural reorganizations of the welfare state. While welfare industries are certainly not the only driver of privatization of social policy provision, they do become increasingly powerful. The results of this book therefore support the post-Pierson interest group focus. Going beyond that, however, they show that new interests arise in times of the reorganization of social policy production. This book emphasizes that the new research on welfare state change so far misses welfare industries as increasingly relevant actors in welfare state politics. Speaking to Gingrich's (2011) theory of marketization, the findings generally support the argument that left-wing parties have incentives to introduce markets. According to Gingrich, left-wing parties will introduce markets in public service provision if they fear middle classes to opt out of

traditional public provision. Left-wing parties are driven by the preferences of their electorate and introduce markets as an answer to disappointed middle class voters and will introduce markets in which risks are shared collectively rather than individually and in which states or consumers are in a powerful market position.

This book supports the expectation that left-wing parties and market arrangements are rather friends than foes. The results, however, go beyond Gingrich's theory. Her differentiation of types of markets lets us expect that private providers generally increase their market share when left-wing parties govern. One would rather expect them to introduce markets without or with weak private providers. The findings of this study, however, hint at exactly this unexpected pattern: Between 1990 and 2010, left-wing governments rather than right-wing governments introduced reforms that strengthened private provision of social policy in such different cases as pensions and hospitals in Germany and the UK. How can we explain this finding? Different from Gingrich, I do not argue that electoral incentives serve as an explanation. As the brief discussion of public opinion data in Chap. 5 has shown, there is no majority supporting private social policy provision in any of the cases I study. What is more, opposition against privatization is at similar levels across the different settings and can therefore hardly explain the differences. Instead, I argue that the combination of left-wing governments with powerful welfare industries and problem pressure are an explanation because the presence of welfare industries offers left-wing parties a way out of costly social policy provision. The results of the QCA support this argument. The combination of left-wing governments *and* powerful welfare industries *and* high problem pressure is one explanation of privatizing reforms. What is more, case studies of reforms in the German pension and English hospital sector show different mechanisms of interaction between left-wing governments and welfare industries. The German case stresses the importance of financial industry actors as ideational agents that promoted ideas of privatization that then resonated in the government. The English case shifts our focus to the signalling function of lobbying: More powerful welfare industries are more visible and therefore more likely to be heard by policymakers that are searching to solve a crisis such as the long NHS waiting lists.

Throughout this book I have made two references to power resource theory—one methodological, one theoretical. The welfare industry power resources index draws upon the idea of a resource-based operationalization of power. It further develops the notion of power resources in two

respects. First, it applies the study of power resources to business as an interest group. Different from traditional studies, business is not conceived in its role as capital as opposed to labour, but as a group of producers that develops a stake in certain markets. It follows from this conceptualization that, second, the operationalization of power resources has to take into account more and other resources than simply the means of production. I consequently analysed different types of resources that contribute to the political power of welfare industries, ranging from economic indicators that reflect the dimension of structural power to political indicators representing instrumental power.

Apart from the conceptual reference and adaptation, the results of both QCA and case studies also speak to the propositions that power resource theory makes about welfare state politics. Hypothesis 3a was derived from its expectation about party politics in the welfare state. It states that right-wing parties would be likely allies of welfare industries when it comes to the privatization of social policy provision. In light of institutional leeway they would coalesce in order to promote private provision. The systematic overview of paths to privatizing reforms shows that right-wing governments were not drivers of privatization in the period and countries under study. In technical terms, they were not found to be an insufficient but necessary part of an unnecessary but sufficient (INUS) condition of privatizing reforms. On the contrary, most of the privatizing reforms were introduced by left-wing governments. Overall, the very stable finding of left-wing governments as an INUS condition for privatizing reforms contradicts the expectation that power resource theory formulates with regard to the drivers of privatization (Zehavi 2012). In conclusion, while I find the resource-based approach to studying power fruitful, the theoretical expectations of power resource theory are not supported by the findings of this book.

Political Implication

Finally, I will briefly discuss the main political implication of this book. Typically, studies of privatization deal with economic or social consequences. From an economic perspective, one typically wants to know if privatization has increased the efficiency of service production, asking, for instance, whether companies provide better value for money—or same value for less money—than public agencies. Sociological studies usually focus on social outcomes such as privatization effects on stratification

through unequal access, individualization of costs or, more indirectly, deteriorating working conditions. The different institutional and regulatory settings that welfare markets are embedded in provide manifold starting points for such questions. How do social regulations of pension markets affect the distribution of old-age income or the distribution of risks? Do different types of hospital privatization—functional privatization as in England or material privatization as in Germany—have different effects on patients or employees? Notwithstanding the attraction of such questions I have addressed in this book an equally fascinating consequence of privatization, namely, its political effects. The results show that privatization policies create their own kind of politics. Private providers develop a stake in social policies and increasingly become involved in welfare state politics as well. From a political perspective, these effects seem to be unintended consequences of the promotion of private provision. Whereas short-term political consequences such as election results are certainly in the interests of policymakers, this book has shown that there are also mid-term effects on future political processes. For whatever reasons policymakers decide to promote private provision of social policy, this decision has not only economic and social effects but also political consequences.

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