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AICGS POLICY REPORT

AT THE EVE OF CONVERGENCE? SOCIAL SERVICES IN THE U.S. AND GERMANY

Annette Zimmer
Steven Rathgeb Smith

AMERICAN INSTITUTE FOR CONTEMPORARY GERMAN STUDIES THE JOHNS HOPKINS UNIVERSITY

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FOREWORD

Throughout 2009 and 2010, health care reform has been a hot-button issue in the U.S. Only a few years earlier, Germany also experienced controversy when the government implemented social security and welfare reforms (the so-called Hartz IV reforms). As populations age, social policy will play an ever-larger role in politics and elections.

In this Policy Report, Annette Zimmer and Steven Rathgeb Smith look at social service and health care provision in the United States and Germany, examining the historical development of the different styles of welfare state, the role of public and private expenditures and providers, and current trends in the two countries. The authors offer answers to questions such as how is social service and health care provision affected by the new approach of designing social policy? They also address whether path-dependency in the two countries is still in place; or if German and American nonprofit social and health care providers, confronted with similar problems, tend to adopt similar strategies in order to keep or even enlarge their share of a growing market of social service provision.

This publication is the part of AICGS' broader effort to study health care and social policy in the United States and Germany. The Institute seeks to bring together policymakers and practitioners on both sides of the Atlantic to learn best practices and to uncover the political and economic means by which a country can improve its health care and social service provision for its citizens.

AICGS is grateful to the authors for providing their knowledge and insights into this very timely issue, to the German Academic Exchange Service (DAAD) for its generous support of this Policy Report, and to Jessica Riester for her work on the publication.

Best regards,

Jack Janes
Executive Director

ABOUT THE AUTHORS

Annette Zimmer was a DAAD/AICGS Fellow in February and March 2009, and is Professor of German and European Social Policy and Comparative Politics at the University of Münster in Germany. Dr. Zimmer works on various issues concerning Governance and Civil Society and the Nonprofit Sector in selected policy fields and countries. Dr. Zimmer has written numerous articles on Third Sector Policies and Social Policy. She is an elected member of several prestigious positions, including the Governing Board of the German Political Science Association, the Advisory Board of the Institute for Social Policy at Bremen University, and the Secretarial Board of the International Society for present Third Sector Research. She is also the President of the Institute for Political Sciences at the University of Münster.

Steven Rathgeb Smith is the Waldemar A. Nielsen Chair in Philanthropy at the Georgetown Public Policy Institute. Dr. Smith was the editor of *Nonprofit and Voluntary Sector Quarterly* (NVSQ), the journal of the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA) from 1998-2004. From 2006-2008, he was also president of ARNOVA. His publications include *Nonprofits for Hire: The Welfare State in the Age of Contracting* (with Michael Lipsky), *Public Policy for Democracy* (with Helen Ingram), and the forthcoming *Governance and Regulation in the Third Sector: International Perspectives* (with Susan Phillips).

01

INTRODUCTION

INTRODUCTION

In the days of system rivalry between the so-called Communist Bloc and the western liberal countries, Germany was one of the most tightly coupled partners of the United States. The two countries "not only had common interests in preserving external security, but also considered each other to be part of a value based community, which shared the tradition of enlightenment, of freedom, democracy, and the rule of law."[1]

After the collapse of the Soviet Union, the formerly undisputed partnership between the U.S. and Germany has increasingly been called into question. For the very first time after World War II, Germans did not unanimously support American foreign policy when they refused to join American forces in the U.S.' endeavor to bring down one of the most ruthless dictators in the Middle East. However, the growing distance between the U.S. and Germany has not been restricted to the field of foreign and security policy. As Germany's foreign policy decision-makers directed the country on a course opposite that of the United States, German politicians and scholars alike started to support the European Union's framework for establishing a "European social model"[2] that tries to combine a highly competitive market economy with a benevolent and care-taking welfare approach.

Previously, politicians and social scientists in Europe referred to the U.S. as a role model and textbook example of a liberal and open society, based on a free market economy, able to provide job opportunities and life chances for all despite one's background; however, nowadays, it has become trendy in some political circles in Europe and Germany to stand apart from the U.S. The focus in the scholarly debate is no longer on the similarities between the U.S. and Germany, but instead highlights the differences. Researching "American exceptionalism" is back on the political science agenda. But, in sharp contrast to political discourse and common rhetoric, in-depth studies and scientific comparisons portray a very different picture of American exceptionalism that is far less simple and straightforward than day-to-day media coverage might lead us to believe.[3]

In the following Policy Report, we want to challenge the simple dichotomy between the U.S. as the superpower of both traditional capitalism and a residual welfare state on one side, and Germany as the example of a social market economy backed by an encompassing welfare state on the other side. We will argue that current trajectories of modern societies and highly industrialized countries, faced with the challenges of globalization and increased individualization, are more complex and differentiated than we might initially assume.

Our point of departure will be the welfare state, and more specifically personal social services provided under public auspices.[4] There is no clear-cut definition of "social services." Instead, the term covers a broad spectrum of caring activities, related to the well-being of individuals. Typically, social service

production is the outcome of a personal interchange between the producer and the recipient of the service. In the U.S., the term refers to those services "rendered to individuals and families under societal auspices excluding the major independent fields of service (that is, excluding health, education, housing, and income maintenance)."[5] In practical terms, "social services" refers to the social care provided to deprived, neglected, or handicapped children and youth, the needy elderly, the mentally ill and developmentally disabled, and disadvantaged adults.[6] In Germany, the term also is closely connected with caring and counseling activities. Accordingly, the term refers to any kind of support directed to people in need.[7] Connoted with a strong normative underpinning, the term social services is closely affiliated with notions of solidarity and community services. In the German tradition, due to its distinct commonweal orientation, social service provision traditionally has been set apart from any consideration of efficiency and effectiveness.

Until very recently, health care, although not perceived as an area of social services per se, was nevertheless considered to be guided by similar principles and norms. For facilitating our comparative analysis of welfare state developments in the U.S. and Germany, besides child care and care for the elderly, we will include health care (hospitals) in our investigation. The reason for selecting these areas of welfare state activity is at least threefold: First, each of the three welfare-related areas, albeit for different reasons, currently enjoys a top priority on the political agenda. Second, health care, in particular, constitutes a high profile area in which many stakeholders, including many with vested business interests, are involved. Third, each area of service delivery looks back on a history that is rooted in a culture of "private welfare."[8]

Prior to the development of the welfare state, caring for the elderly, the sick, and children was organized either by the churches, wealthy citizens in urban settings, or ethnic communities. Financed largely by philanthropy, care facilities were privately operated organizations and, as such, nonprofit. For our comparative investigation, the traditionally strong presence of nonprofit organizations in these areas of welfare activity provides a central point of reference. However, "nonprofit organization" is also not a clearly defined term. For the purpose of our comparative analysis, we refer to the terminology developed within the framework of the Johns Hopkins Comparative Nonprofit Sector Project,[9] but simultaneously, we go beyond the pragmatic definition of "nonprofit organization" by also referring to the tradition and "mission" of these organizations.[10] Along with the development of the modern welfare state, nonprofit organizations operating in the three program areas were integrated into the overall structure of the publicly-administered welfare state. Today, on par with public institutions and commercial enterprises, nonprofits are part of the welfare mix of these fields: child care, care for the elderly, and hospitals.

Further, the reason why these areas of welfare activity currently enjoy a top priority on the political agenda is due to two important developments in the discourse on the welfare state: First, the so-called "growth-to-limits" argument with regard to the welfare state underlines that government is unable to afford further increases in welfare spending. Second, and widely overlooked by the welfare state literature, a new and different approach of serving the public has come into place throughout the world. In the U.S. as well as in Germany, an encompassing administrative revolution has taken place in recent decades. "Re-inventing government" has developed into the leitmotif of intensive public administrative reforms, which did not stop at social services and health care provision as a specific facet of the countries´ welfare state arrangements. In each country, liberal and conservative governments have welcomed "market solutions" to public problems. Confronted with similar problems and challenges, the U.S. and Germany might opt in favor of similar solutions. However, it could also be the case that since path-dependency is still strongly in place, the impact of "re-inventing government" strategies will be quite different in the two countries. In order to address the topic of convergence versus path-dependency, we will begin with a comparative overview of the development of the welfare state, with a special eye on the three areas of welfare activity under investigation. A key concern of our comparative investigation will be the analysis of the embeddedness of nonprofits in the welfare mix in each country. Against this background, current trends and key developments will be highlighted. The comparative analysis will conclude with a discussion of our findings that addresses specifically the question of convergence versus path-dependency.

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WELFARE STATE TRADITIONS IN THE U.S. AND GERMANY

THE LEGACY OF HISTORY: WELFARE STATE TRADITIONS IN THE U.S. AND GERMANY

Bifurcation between "Social Security" and "Welfare"

Germany was among the very first industrialized countries to introduce "social security." During the time of the Empire, Chancellor Otto von Bismarck established state-regulated and contributory insurances for workers, in particular insurances for health (1883), accidents at work (1884), and old age and disablement (1889); The system was later extended to white-collar workers (1912). Unemployment insurance was instituted in the Weimar Republic (1927). Health, unemployment, and retirement insurance constituted the core of German "social security" until 1994 when nursing care insurance was established after long discussions in the German Parliament (*Bundestag*) and the media. According to the different schools of welfare state theory, Germany introduced "social security" comparatively early for two reasons: First, the country is an example of the "logic of industrialism" approach.[11] At its very beginning, social security was exclusively geared toward workers´ needs. Its prime aim was buffering the risks entailed in industrial work. The second reason is more straightforwardly related to the "logic of politics," albeit in a slightly modified version. In order to avoid political turmoil in a then autocratic and undemocratic Germany, Bismarck tried to patronize the members of the new social class of skilled workers by integrating them into an emerging welfare state. In the German case, the logic of politics translated into an approach that aimed at keeping workers apart from social democracy.[12]

In the ensuing decades, many other industrialized countries followed the German example, introducing the "Bismarckian Model"[13] of contributory insurance. Very often the media, particularly in the U.S., portrays German social security as a socialized system in the sense that the insurance funds are regulated, administrated, and funded by the federal government. However, this characterization is quite misleading since it does not capture the mixed, public/private complexity of the system. In particular, the insurance funds are self-governed, semi-public institutions; they are not part of the federal government. With one exception—the fund for unemployment—elected representatives of employers and employees serve on their boards. The exception is the Central Office for Labor (*Bundesanstalt für Arbeit*) with a tripartite board membership (representatives of the government, the unions, and the employers' associations). The funds are financed by contributions of employees and employers. Coverage also includes non-working members of the family (children and spouses at home and widows).

However, over time, the federal government's financial support of the insurance funds has steadily increased. The reason for this development is twofold: First, the insurance system, originally designed for the coverage of the working population, has developed into a comprehensive system comprised of groups and members of society without any company affiliation, including the unemployed. Second, a close linkage exists between employers´ payments into the funds and costs per unit of labor; thus, export champion Germany's government has a vested interest in keeping financial contributions of employers at a modest level. But the same holds true for contributions of employees since high contributions undermine and weaken the purchasing power of the population. Currently, contributions to social security, on average, absorb more than 30 percent of an employee's gross salary in Germany. The largest share is devoted to the health and pension insurance funds.

It is worth noting that traditionally a sharp distinction exists between "social security" and "welfare" (*Sozialhilfe*) in Germany. As outlined by welfare state researchers, the so-called "workers question" was at the heart of the Bismarckian Model of the German welfare state.[14] The modernizer Bismarck wanted to integrate the new social class of skilled workers into the German Empire without endangering the traditional social structure of the country, which at that time was still dominated by the nobility and the military. In sharp contrast to other countries, e.g., the United Kingdom, the struggle against poverty was not Bismarck's concern and therefore not a driving force of the development of Germany's welfare state.

Although at first glance the pioneering welfare state of Germany and the "laggard welfare state" of the U.S. have very little in common; each country is characterized by the sharp bifurcation between "social security" and "welfare." As noted by Theda Skocpol, the enactment of the Social Security Act of 1935 created a basic framework for U.S. public social provision, which is still in place today.[15] The 1935 legislation instituted three kinds of nation-spanning social provision: "federally required, state-run unemployment insurance, federally subsidized public assistance, and national contributory old-age insurance."[16] The enduring influence of this landmark legislation is evident today in the contemporary discourse whereupon "social security" refers to benefits for retirement and disability while public assistance programs are considered "welfare."

Similar to Germany, old-age insurance is a program funded through contributions by employers and employees collected through payroll taxes. The program is governed by a federal agency and staffed by the government. Moreover, the old-age program in the U.S. has also developed into a comprehensive and encompassing system. The original contributory old-age insurance was gradually enlarged by additional programs: 1939 for surviving dependents; 1956 for disabled workers; and 1965 for retirees in need of medical care (Medicare). In short, "by the 1970s, the U.S., uneven and often inadequate in the help provided to unemployed and dependent people, had nevertheless become reasonably generous in the benefits offered to retired people of the working and middle classes."[17] Compared to social programs for the elderly and the disabled, though, unemployment insurance schemes are less advanced. Through the 1935 legislation, all states were required to establish unemployment insurance programs, but each individual state was left free to decide terms of eligibility and benefits for unemployed workers, as well as the level of taxes to be collected from employers or workers or both. Today, it is a federal program jointly financed through federal and state payroll taxes. However, the majority of American workers, including part-time and temporary workers as well as self-employed individuals, are not eligible for unemployment assistance.

Public assistance programs and hence "welfare" constitute a highly complex and dispersed service field. The 1935 legislation built on existing state programs, for which the federal government henceforth had to share costs. Uneven standards, i.e., substantial state discretion on matters of regulation, standards, and eligibility, were and still are major weaknesses of welfare in the U.S. Consequently, many scholars and policymakers have tried over the years to increase the influence of the federal government in the administration and regulation of public assistance programs. Indeed, this restricted, limited character of social services contributed to the view in the 1950s and 1960s that the American welfare state was a "laggard" in comparison to European countries providing more extensive social welfare services.[18] Thus, partly due to the work of social policy scholars who called attention to the inequities and racism of American social policy, the role of the American state in funding social services started to change in the 1960s. The Kennedy and then the Johnson administration proclaimed a "War on Poverty," which produced federal legislation including the Economic Opportunity Act by which a range of social policy initiatives addressing the needs in particular of poor families, children, and adolescents were supported. For instance, the prime goal of the two major new federal programs—Head Start and Job Corps—was to enable citizens through training and education to be in a better position to seek employment.

Similar to Europe, then, the 1960s and 1970s were a time of expansion of the welfare state in the U.S. Special attention was accorded to the "poverty question" and welfare. But compared to Europe and

specifically to Germany, discontinuity is a strong feature of social policy in the U.S. After the "War on Poverty," interest in welfare-related issues declined sharply. The growth of neo-liberalism with its strong emphasis on individualism made welfare-related policies less attractive. However, the topic came back on the political agenda under the Clinton administration with the successful effort to overhaul welfare policies in 1996 and impose stringent new work requirements and time limits on welfare recipients. To underscore the emphasis on self-reliance, welfare was renamed, "Temporary Assistance for Needy Families" (TANF). Finally, the influence of welfare-related public assistance programs is evident in two health programs: Medicaid and the Children's Health Insurance Program (CHIP). The former is a means-tested health program, jointly funded by the states and the federal government. Administered by the states, it aims at providing health care to low income families and particularly children. Participation by the states in Medicaid is voluntary, but all states are currently participating. Because of this state discretion within the context of the federal regulatory framework, Medicaid stands out for uneven standards and significantly different approaches in management and eligibility between the different states. Also, nursing home coverage constitutes a fast growing segment of Medicaid, although many states have tapped Medicaid to fund community care services to keep older and disabled citizens in their homes and other community settings.

The CHIP program was introduced by the Clinton administration and provides states with federal support for health insurance to families with children. States enjoy flexibility with respect to criteria of eligibility requirements and policies within the program. Importantly, the Obama administration has brought health care reform prominently back to the political agenda. The recently passed health legislation was a major change in the American welfare state, although the actual implementation of the law in the upcoming years will tell how general health insurance will be put into practice in the U.S.[19]

Significantly, Germany is also facing increased complexity and interconnectedness in its social security and welfare programs. At the outset, however, a clear-cut division between the two pillars of the emerging welfare state existed. At that time, social assistance and poor relief were not considered the liability of the federal government. Instead, any type of public intervention to fight poverty and support social inclusion was regarded as an issue to be addressed exclusively by communities and local governments. Thus, Bismarck's insurance-based welfare state encompassed neither poor relief nor any other type of public intervention addressing the needs of the poor, reflecting a straightforward division between the "deserving" and the "non-deserving poor." The deserving poor—the workers—had to be protected against the risks accompanying industrial labor, whereas the non-deserving poor comprised by unskilled workers, vagrants, and criminals—the *Lumpenproletariat* of the cities—did not merit state protection. As a result, they were left to charity activities of either the churches, the local governments, or the wealthy members of the communities.[20]

From the nineteenth century through the 1960s, the distinction between the deserving and the non-deserving poor was encapsulated in the country's social laws. But similar to the "War on Poverty" in the U.S., Germany witnessed a major social policy reform in the 1960s reflected in the Federal Law on Social Benefits (*Bundessozialhilfegesetz*) by which support for the needy was turned into a citizen's right. Standards were defined and set in place. Traditionally, support for the needy was administered and financed by communities and local governments, a decentralization that dates to longstanding practice including the Charity Law of Prussia of the early nineteenth century. The lowest echelon of the country's administrative structure is still responsible for welfare, or *Sozialhilfe*. However, in contrast to former practices, since the 1960s communities and local governments are no longer allowed to opt out. Moreover, the federal government is responsible for regulation and eligibility of the financial support, which has to be provided by and administered through local governments. Before the 1960s, counties and local government were left free to decide on criteria of eligibility and on benefits. After the 1960s legislation *Sozialhilfe* developed into a more homogeneous social policy approach.[21]

By and large, German *Sozialhilfe* involves transfer payments and hence support in cash. But depending

on the specific situation of the person in need, public subsidies for coverage of costs for health, child, or geriatric care as well as job training are also included under *Sozialhilfe*. Funding for these programs comes from various sources. By law, insurance-based schemes such as health care, care for the elderly, and job training (unemployment insurance) must cover the expenditures earmarked welfare through the insurance fund. Consequently, the funding and financing structure for the institutions providing services is quite complicated. But simultaneously, the organization in charge of the service is not stigmatized as an institution that exclusively caters to welfare recipients. Thus, with respect to the provision of social services, the dividing line between welfare and social security is less distinct in Germany, compared with the U.S. Furthermore, in Germany, welfare does not translate into a one-size-fits-all model. Since local governments are co-funders of social service-providing institutions, the quality and scope of services depend substantially on the financial situation of the respective community. Hence, social service institutions in the richer cities in southern Germany are in a much better position than those operating in the east, north, or in the former highly industrialized regions such as the Ruhr area. However, these regions of the country are home to many low income families, including migrants, supported by welfare.

Fundamentally, the U.S. and Germany differ significantly with respect to the regulation of welfare—despite the tradition of bifurcation between welfare and social security—due to differences in state structures relating to the German versus the American interpretation of federalism. After reunification, the German Federal Republic is composed of sixteen states (*Länder*) bound together by a governance arrangement that political scientist Fritz Scharpf characterized as *Politikverflechtung*, or cooperative federalism.[22] In practice, *Politikverflechtung* means that the federal government and the governments of the sixteen *Länder* have to work together in every respect—politically, as well as administratively. Doubtlessly, *Politikverflechtung* has had a significant impact on governance in Germany. Thus, there is a smooth division of labor between the federal, the sub-national (*Länder*), and the local governments: County and local governments, by and large, are responsible for policy implementation, whereas agenda-setting and decision-making are the prime tasks of the federal government acting in close cooperation with Germany´s Second Chamber, the *Bundesrat*, which constitutes the representative forum of the German *Länder*. However, the *Länder* as well as local communities have room to maneuver with respect to policy implementation. Although differences exist from *Land* to *Land*, the heterogeneity with respect to social policy is far less significant in Germany than the U.S. Decentralized federalism is less pronounced in Germany for two key reasons: First, the German Basic Law encompasses two stipulations enforcing a more homogeneous approach to social policy than the U.S. The Basic Law defines the Federal Republic of Germany as a legal and social state (*Rechts- und Sozialstaat*). Further, the Basic Law stipulates equality with respect to life chances—*Einheitlichkeit der Lebensverhältnisse*—in the country. In order to attain this goal, those *Länder* that are economically prosperous have to support neighboring *Länder* that are less affluent. Second, Germany remains noteworthy for its neo-corporatist governance arrangement[23] in which associations traditionally play a key role in the policy process by providing conduits for bridging the different levels of governance (local, sub-national, and federal). In the area of social service provision, the political influence of associations is strongly evidenced by the prominence of the German Free Welfare Associations—powerful lobbying forces and the most economically important providers of social services in Germany. Since the Free Welfare Associations play a pivotal role with respect to the drafting and design of social policy programs and their implementation, the following chapter takes a closer look at the Associations by outlining their historical roots, their embeddedness in Germany society, and their key role in social service provision, particularly in service fields related to welfare.

03

PUBLIC-PRIVATE PARTNERSHIP IN SOCIAL SERVICE PROVISION

PUBLIC-PRIVATE PARTNERSHIP IN SOCIAL SERVICE PROVISION: GERMANY AND THE U.S.

The Key Position of the Free Welfare Associations in Germany

Close cooperation in social policy formulation and implementation between government and nonprofit organizations, particularly facilitated by the Free Welfare Associations, has traditionally constituted a hallmark of the German welfare state. This partnership reflects a long tradition that started at the local level in the late nineteenth century. At that time, private charity organizations, established by members of the local elite and funded by donations, mushroomed in Germany—particularly in the urban centers. These new organizations partially built on the traditions of church-run organizations; but they also complemented institutions that dated to the medieval tradition of charity by the cities and guilds, and they worked on par with organizations operated by the churches. These local private charity organizations (*lokale Wohltätigkeitsvereine*), the predecessors of today's German Free Welfare Associations, "were a manifestation of private initiative and private philanthropy,"[24] an expression of a local culture of private welfare, independent from government. Yet simultaneously, local governments also began to take further action with respect to the poverty question by implementing social programs specifically for the "undeserving poor." Local public institutions were established to take care of the "neediest" individuals. However, already before the turn of the nineteenth century, the parallel development of "public-community" and "private-nonprofit" social programs, initiatives, and institutions was met by growing critique. Thus, social reformers and activists asked for an improvement of social policy planning through the coordination of public and private welfare in Germany.[25] In the ensuing years, a culture of cooperation between public and private welfare gradually developed, initially at the community level. In the early 1920s, public-private cooperation was elevated to the federal level where it served as the blueprint for a governance arrangement that still exists today.

At this time in the social policy domain, similar to other areas of policy development, local organizations began to form umbrella organizations or associations. Nonetheless, the formation of these umbrella associations was accelerated in Germany in the late nineteenth and early twentieth centuries for two reasons: First, incorporating associations into the policy process—the German version of neo-corporatism—was strongly supported by the German administration at every level of governance and policy field. Agriculture and industry policy are early and very prominent examples for this specific approach.[26] Second, even at the local level, the charity organizations were bound together according to their ideological or normative underpinning. Germany's society used to be very heterogeneous and strictly divided along normative and religious lines. Local charities hence belonged to the various social milieus; among those, the Catholic, Protestant, and social democratic milieus were the most important. According to their ideological or normative affiliation, the local charities joined one of the "umbrella associations" (*Spitzenverbände*) that came into existence in the late nineteenth and early twentieth centuries. Today, the term Free Welfare Association refers to both the umbrellas associations and the local service providers that are free-standing, legally incorporated nonprofit organizations affiliated with one of the umbrellas. These nonprofit organizations are the most important providers of social services in Germany.[27]

Table 1: Service Capacity of the Free Welfare Associations in Germany, 2008[28]

Field	Facilities	Places/ Beds
Health Care	8,462	217,030
Children and Youth Services	38,092	2,032,790
Family Care	7,201	60,448
Care for the Elderly	16,524	548,072
Care for the Handicapped	15,365	493,708
Services for People in Exceptional Situations	7,782	60,449
Further Services	7,329	234,593
Education and Training in the Fields of Social Services and Care	1,638	51,935
Self-help and Civic Engagement Groups	34,817	-
Total	137,210	3,699,025

APPENDIX: THE FREE WELFARE ASSOCIATIONS

"Free Welfare Associations" (FWAs) is a generic term for organizations providing services in every field of social welfare. As such they are "umbrella associations" (*Spitzenverbände*) operating at the national, sub-national, and local levels of government. With more than 100,000 service units, FWAs are the most important providers of social and health care services, next to public providers. The umbrella associations function as pressure groups and are engaged in lobbying activities for the needy as well as for their member organizations. From a management point of view, the associations are loosely coupled organizations with the umbrella associations lacking the authority to regulate and control day-to-day operations of their member organizations, which share the value-set represented by the particular umbrella association. There are six Free Welfare Associations: the German Caritas Association (Caritas), the Welfare Services of the Protestant Church in Germany (*Diakonie*/Diaconia), the Worker's Welfare Service (AWO), the Association of Non-Affiliated Charities (Parity), the German Red Cross (*Rotes Kreuz*), and the Central Welfare Agency of Jews in Germany.

Caritas, or *Deutscher Caritasverband e.V.* (DCV), is closely affiliated with the Catholic Church, while its predecessor, *Caritasverband für das katholische Deutschland*, founded in 1897, operated rather independently from the Church. In 1921, the *Deutscher Caritasverband* was established as a national umbrella association. Today, Caritas is the largest of the six Free Welfare Associations with about 500,000 employees in health care, youth, family assistance, and other social services.[29] Caritas serves as the umbrella organization of 27 regional associations (with more than 500 member organizations), 67 issue-specific Caritas associations and working groups, and 276 holy orders. The territorial areas served by Caritas correspond to the boundaries of the German dioceses, of which the Bishops serve as chairmen. As such, they are the supervisors of the personnel employed by the Caritas association of the region. Caritas is not built upon individual membership, but volunteers are integrated by joining *Caritas-Gemeinschaften* (Caritas communities), which are integral parts of the parishes.

Diakonie Diakonisches Werk der Evangelischen Kirche in Deutschland e.V. (DWdEKD), is affiliated with German Protestantism (Lutheran-Unitarian). Its earliest predecessor, *Centralausschuss für Innere Mission* (Central Committee for Inner Mission) dates to 1848. It was founded to promote missionary activity and to counterbalance the workers' movement. Like the other umbrella associations, the national association, *Innere Mission* (Inner Mission) was established during the Weimar Republic, in 1920. After the Second World War, in 1945, the *Hilfswerk der Evangelischen Kirche in Deutschland* (Relief Agency

of the Protestant Church in Germany) was founded with the aim of fundraising abroad for the re-building of the infrastructure (buildings and facilities) of the Protestant churches[30] as well as providing help for the German population after the atrocities of World War II.[31] The umbrella organization, *Diakonie*, was created in West Germany and West Berlin in 1975 through the merger of *Innere Mission* and *Hilfswerk der Evangelischen Kirche in Deutschland*. After German reunification, the East German *Innere Mission-Hilfswerk* joined the West German *Diakonie*. Today, *Diakonie* serves as the umbrella organization for 27 regional associations (with several hundred member organizations) and about 100 issue-specific associations and working groups. The coverage of *Diakonie*'s regional associations corresponds to the territorial boundaries of Germany's 27 Protestant churches.[32] Similar to Caritas, individual membership in Diakonie is possible only indirectly via church membership—with the congregations being corporative members of Diakonie. With about 450,000 employees, Diakonie is the second largest Free Welfare Association in Germany.[33]

Workers' Welfare Association, *Arbeiterwohlfahrt* (AWO), was founded as a national association in 1919 as a section of Germany's Social Democratic Party (SPD) with the aim of lobbying in favor of the extension of public welfare. In contrast to Caritas and Diakonie, which were partially able to continue operation under the Nazi regime,[34] AWO was dissolved when Hitler come to power, and re-founded after World War II in West Germany and West Berlin as an organization legally independent from the SPD. However, the AWO is still organized along the administrative configuration of the Social Democratic Party with more than 3,800 local units, about 550 sub-regional units, and 29 regional units. Each unit constitutes a legally independent voluntary organization and is based on individual membership. About 140,000 employees work for AWO, primarily in the fields of assistance to the elderly, youth, and families.[35]

Parity, *Deutscher Paritätischer Wohlfahrtsverband* (DPWV), does not correspond to any ideological or political milieu. In 1919, local secular hospitals formed the *Verband Frankfurter Krankenanstalten* (Association of Frankfurt Hospitals), which expanded into a national umbrella association in 1920. More welfare associations and local service units without ideological affiliation joined, and thus Parity quickly developed into an association of respectable size. Parity was dissolved by the Nazis in 1933 and re-established in 1949. Today, Parity consists of 15 regional associations, more than 140 supra-regional associations, and around 8,700 local associations. About 150,000 employees work in the service units and associations affiliated with Parity.[36] Among the Free Welfare Association, Parity is the most accessible organization for members without church or other affiliations such as self-help groups.

The German Red Cross, *Deutsches Rotes Kreuz* (DRK), was founded in 1921 as the umbrella association for the numerous regional and local Red Cross associations,[37] but German Red Cross associations had formed a loose federation as early as 1869. During the Nazi regime, the DRK was a well-acknowledged member of the Nazi welfare umbrella organization. Therefore, the Allies were very reluctant to cooperate with the DRK as a partner organization,[38] which was re-established as late as in 1950 in West Germany and in 1952 in East Germany. The two organizations merged in 1990 following Germany's reunification. The German Red Cross is based on individual membership and has a double function: it is a relief agency as well as a welfare association. Currently, there are 528 regional DRK associations (*Kreisverbände*) with 5,075 local associations (*Ortsverbände*), 34,000 sisterhoods, and more than 17,000 *Rotkreuzvereine*, voluntary organizations operating at the local level providing the organizational framework for volunteering.[39] Approximately 130,000 employees work in DRK service units. In addition to rescue services, a stronghold of DRK activity is the field of support for youth and the elderly.

The Central Welfare Agency of Jews in Germany, *Zentralwohlfahrtsstelle der Juden in Deutschland* (ZWSt), the smallest of the Free Welfare Associations, was founded in 1917 in Berlin, where about one-third of the German Jewish population lived. Originally, the prime task of the Agency was to take care of the immigrant population of so-called East Jews who had fled from suppression and persecution of the Russian government. When the National Socialists came to power, the Agency was dissolved[40] and in 1950 re-constituted in Frankfurt/Main.[41] The local units of the Agency are integrated into the Jewish communities and thus not legally independent. Currently, there are 22 organizations affiliated with the Agency, about 500 employees work in 440 service units dealing to a large extent with Jewish immigrants from Russia.

With respect to both social policy development and implementation, the important position of the Free Welfare Associations was legally secured by a number of mechanisms that were firmly set in place in the Federal Republic of Germany. In particular, the codification of the "principle of subsidiarity" in the country's social laws was of prime importance for the economic success and the sustained growth of the Free Welfare Associations. Based in Catholic social doctrine, the principle was originally designed to protect individual rights against any powerful intervention from the state. After the Second World War, the principle was redefined in favor of the Free Welfare Associations. In the 1950s and 1960s, the principle became part of German social laws underlining that government should abstain from providing social services as long as an affiliated organization of the Free Welfare Associations is able to provide the services. According to the Federal Law on Social Benefits (*Bundessozialhilfegesetz*, BSHG) and Children and Youth Services Act (*Kinder- und Jugendhilfegesetz*, KJHG), both of which were introduced alongside the growth of the welfare state in the early 1960s, the government was required to cooperate with the Free Welfare Associations, if a need for social service provision existed. At first, it was assumed that the privileged position of the Free Welfare Associations might put an end to public welfare in the sense of social institutions and organizations run by local governments. Unexpectedly, though, local public organizations such as kindergartens, hospitals, shelters, and local nonprofit organizations affiliated with one of the Free Welfare Organizations developed almost on par in the communities. But for a long time, neither public nor private nonprofit organizations providing social services faced any competition from for-profit commercial organizations.

The public-private partnership between public and private welfare was also built upon the policy architecture of the country. At each level of government, special "bridging institutions" were established and jointly staffed with representatives of public welfare on the one hand and representatives of the Free Welfare Associations on the other. At the federal level, the two tiers of social service provision—public and private—were grouped together under a unique organization, the German Association for Public and Private Welfare (*Deutscher Verein*). As a corporate body, the German Association for Public and Private Welfare is a membership organization with more than 2,700 members. Among those are the Free Welfare Associations, local authorities, and representatives of the governments of the German *Länder*, the federal government, universities, trade unions, and employers' associations. Serving as a clearinghouse, the Association monitors and evaluates social policy planning in Germany. Every three years, the Association organizes the German Welfare Congress, which is the most important forum for social policy issues in Germany.

At the federal and *Land* levels, the Free Welfare Associations established Standing Working Committees (*Landesligen, Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege*). The purpose of the committees is twofold: The Associations use the committees as a forum for discussion with respect to social policy planning and for the coordination of lobbying activities. The Standing Committees enjoy privileged access to the social policy administrations of the federal and *Länder* governments. Indeed, for many years representatives of the Standing Committees of the Free Welfare Associations were by law exclusively accepted as contact persons of the administration with respect to social policy issues.[42] The organizational infrastructure of the Free Welfare Associations serving as a partner in social policy development is made possible by generous public funding of the federal and Länder governments.

Finally, at the local level, the Committee of Welfare for the Youth (*Jugendhilfeausschuss*) is also by law staffed with representatives of the Free Welfare Associations, the local administration, and government coordinators for planning for children and adolescents. Against this background, Peter Katzenstein characterized Germany as a "semi-sovereign state" in which "dependence on cooperative arrangements between the federal government and other political actors"[43] enjoys considerable support. According to Christoph Sachße, the public-private partnership in the area of social policy stands for what he called "a unified welfare-industrial complex," a "factual merging of governmental and private welfare into a new form of public sphere."[44]

The Free Welfare Associations were thoroughly integrated into the policy architecture of the country because of the strong cleavage structures in the formerly heterogeneous German society. In the area of social services, the cleavages were pacified through their institutionalization. The Associations, furthermore, were incorporated into politics by guaranteeing them privileged access to the process of social policy decision-making. The German version of public-private partnership in social service provision, with the Free Welfare Associations being key players with respect to both the provision of services and social policy formation, constitutes a particular variety on neo-corporatism in the social policy field. The embeddedness of the Free Welfare Associations in the country's polity and policy structure also helps explain the remarkable success of these organizations in integrating new initiatives and developments in the social policy arena. A textbook example is the German self-help movement.[45] Parallel to this development is the integration of a welfare association of the former GDR. When the self-help movement started in the 1980s, the locally-based and health-related small self-help groups were very critical of the Free Welfare Associations. Two decades later, the movement is almost completely absorbed and integrated into the Free Welfare Associations. Over time, the groups joined one of the Associations, in particular Parity, because its representation at the various levels of government by a prominent actor with respectable lobbying power was a great advantage. The same basic reasons account for the integration of the *Volksolidarität*, a social policy association (*Wohlfahrtsverband*) of the former GDR.[46]

Despite its ongoing success as political advocates and service providers, the Free Welfare Associations, nevertheless, are currently confronted with a serious legitimacy problem. The reason why the Free Welfare Associations are criticized is closely linked to their new policies of adaptation to a significantly changed environment that has come into place since the mid-1990s in Germany, which put social service providers under tight economic pressures. This topic will be addressed after the American version of public-private partnership is outlined in the following pages.

The Government-Nonprofit Relationships in U.S. Social Services

One of the striking differences between the German and American welfare state arrangements in social service and care delivery is related to the fact that government input has traditionally been underestimated and by and large unappreciated in the U.S. While Germans are in general proud of their *Sozialstaat*, today even safeguarded by the country's Basic Law, Americans are far more reluctant to acknowledge the decisive role of government for the well-being of citizens. The nineteenth century witnessed, similar to the development in Germany, a steady increase of community-based and relatively small nonprofit organizations engaged in charity or caring activities in the U.S, many of which were faith-based organizations and/or embedded in ethnic communities.[47] There is no question that during colonial times, churches and early nonprofit organizations, including universities and hospitals, were critical and often prominent components of the American social structure. For the most part, these early nonprofit organizations received relatively little support from the public sector, compared to contemporary standards. Indeed, the character of the American state—with its decentralization, limited resource base, and minimal federal government role in domestic policy—has traditionally created powerful incentives for a distinctly local nonprofit sector with relatively little ongoing public funding. Nonprofits in social and health care provided services through a mix of private donations, fees, and very modest public subsidies.

Like Europe, many nonprofits during this period were associations and clubs rather than service providing organizations to the public.[48] Service-providing organizations began to grow in the late nineteenth century, sometimes supported with funds from state and local government. This growth is evident in an article by Everett P. Wheeler, a New York City lawyer, published in 1900 in the widely distributed journal The Atlantic Monthly and titled "The Unofficial Government of the Cities."[49] Therein, Wheeler discussed nonprofits in a manner that has become quite common in the subsequent decades. He pointed to "unofficial governments" indicating that "private corporations, chartered by the legislature, but receiving no pecuniary aid from the state, do in

fact discharge a very considerable and important part of the functions which by charter are devolved upon officials."[50] Accordingly, Americans solve social problems privately, whereas in Europe, government takes over responsibility. However, reports and statistical overviews of the late nineteenth century clearly indicate that numbers of private nonprofit institutions were already at that time heavily engaged in health care and social services. As a result, nonprofit charities and hospitals—as they do still today—outnumbered those that were publicly run. Many of these organizations received public subsidies as indicated in the table below, especially in urban areas.

Table 2: Public Subsidies to Charities in the District of Columbia, 1880-1892[51]

	Number of Institutions		Appropriation for Maintenance in $		Increase
	1880	1882	1880	1882	
Public	7	8	78,048.82	110,475.05	160%
Private	8	28	46,500.00	117,630.50	253%
Total	15	36	124,548.82	237,105.50	

However, many state and local governments curtailed their subsidies in the early twentieth century due to public backlash. Further, the growth of the Community Chest (now called the United Way), a federated organization to help local nonprofits raise private contributions from their communities, encouraged nonprofits to rely upon private charity. By mid-twentieth century, most nonprofits were primarily reliant on private donations from the Community Chest, except in a few very specific service categories such as child welfare.

Thus, unlike in Germany, the expectation of public support for nonprofit organizations did not become the norm in the twentieth century. Consequently, American nonprofit social and health organizations could not count on public support for their associational infrastructure and on privileged access to politics that was and still is characteristic of the German situation. However, the growth of the American nonprofit sector in the nineteenth and early twentieth centuries tended to be through federated national associations, which was also the case in Germany. Thus, Theda Skocpol points to the "philanthropic results"[52] of the Civil War, in the aftermath of which "people committed themselves to service […] Especially for leaders, wartime experience created ideals, and models of citizen organization that encouraged ambitious association building."[53] Not unlike in Germany, the largest of these organizations were either faith-based or linked to humanitarian values, such as the Catholic charities, the YMCA, Lutheran Social Services, the Salvation Army, and the American Red Cross.[54] These traditional organizations are still today major providers of social and health services in the U.S.

In many ways, these organizations had a pioneering role with respect to the development of the American welfare state. With state and local government still focused on a very limited number of services, they provided complementary assistance by emphasizing those fields where no public support was available. This specific partnership between public and private provision in social services continued in the early decades of the twentieth century. Apart from the still relatively limited public support, the organizations were basically funded by private donations, volunteer input, and also fees until the late 1950s. Despite the federalized structure of the umbrellas, the nonprofit social providers operating locally continued to be relatively small; they also lacked extensive professionalization or infrastructure.[55]

However, the limited role of the federal government funding, in particular, for social services and health care changed significantly after World War II in the U.S. Funds were made available in 1946 for hospitals through legislation supporting the modernization and establishment of hospitals throughout the country,

and more importantly through the introduction of Medicare in 1966 as a part of the Social Security Act that assured elderly American access to hospital care. Simultaneously, hospitals were assured reimbursement of "reasonable costs."[56] It is rarely mentioned that today almost half of America's skyrocketing spending for health care is government funded (46 percent), of which the largest share covers the costs of Medicare.[57] Since 80 percent of U.S. hospitals are nonprofit, federal government funding for nonprofit organizations is significant.

In the field of social services, the role of the federal government shifted dramatically in the 1960s during the Kennedy and Johnson administrations, which initiated a "War on Poverty" that translated into the availability of funds for a wide array of community-based social programs. The federal initiatives had four overlapping purposes: expand opportunity, stimulate citizen action, provide new services, and expand cash transfer payments.[58] As a result, federal funding for a diverse mix of social services and health care delivered at the local level expanded rapidly in the late 1960s and 1970s. For instance, spending rose on a bundle of different social services including child welfare from $416 million in 1960 to $8.5 billion in 1980.[59] However, unlike in the case of Germany where at that time *Sozialhilfe* was introduced, many of these new U.S. programs were "means tested." Further, many of the new programs required state and local funding support, hence substantial variation existed across the country regarding program quality and funding levels. Nonetheless, the impact and effect of the increase in public funding was very similar in Germany and the U.S. The increase of public spending for social policy has also been well documented for each country;[60] simultaneously, the growth of nonprofit organizations engaged in social service provision in both countries was also significant.

One of the major effects of the increase in public funding in both countries translated into a marked shift away from the voluntary roots of nonprofit organizations, as reflected in the declining percentage of revenue from private donations and in the increase of professional personnel, clearly indicated by the statistics of nonprofit organizations for each of the countries. In Germany until the mid-1970s, the service-providing agencies of Caritas and Diakonie were still significantly staffed by nuns and padres.[61] Today, clerical input, as far as personnel is concerned, no longer plays any significant role. In the U.S., agencies, including many child welfare agencies, that were primarily dependent on private donations (especially through the Community Chest/United Way) for well over half of their revenues gradually shifted their revenue mix toward public funding in the 1960s. United Way funding for these same agencies would typically be less than 5 percent today.

The comparison of the two countries, despite significant differences, therefore points to major similarities. First the embeddedness of social service provision in the tradition of private charity, either linked to the churches or specifically in the U.S. to ethnic communities, has to be mentioned. In each country, social security is kept at a distance and differentiated from welfare which, in Germany, is considered to be a task taken care of by state and local governments but not primarily by the federal government. Accordingly in the U.S., welfare is primarily the responsibility of state and local governments with additional support from the federal government. As noted, this division of labor is directly related to the legacy of the history of social services. And second, although the German public sector recognizes the need for action with respect to social services, from the very beginning of the German welfare state, government worked closely with nonprofit organizations which were and still are organized along religious, ideological, and normative lines. In Germany, the public-private partnership was even encapsulated in the country's social law that granted the affiliates of the Free Welfare Associations a privileged position vis-à-vis for-profit competitors. Similarly, in the U.S., many nonprofit organizations receiving government contracts were essentially insulated from competition from for-profit competitor organizations. Contracts were routinely renewed and rarely did agencies lose contracts for poor performance. However, the well-publicized challenges facing the welfare state[62] in Germany and the U.S. have changed this situation quite sharply.

04

PARADIGMATIC SHIFTS

PARADIGMATIC SHIFTS: GROWTH TO LIMITS, NEO-LIBERALISM, AND RE-INVENTING GROWTH

Changing Times

The end of the 1970s signaled a decisive shift toward conservative governments in the U.S. and Germany. One of the major issues on conservative governments' agendas was a roll-back of big government with the aim of providing new avenues for market activities. Welfare was perceived as diminishing one's willingness to take over responsibility. Compared to the U.S. under the Reagan administration, the approach of dismantling the welfare state was far less accentuated in Germany. Despite widespread rhetoric targeting the "safety net" of social policy, the German government acknowledged that, compared to previous periods, different groups of the population were at risk of falling below the poverty line, notably single mothers and members of the migrant population. As a result, the 1980s were a period of social policy continuity in Germany. Major developments such as the self-help movement were integrated into the well-established funding infrastructure of social services through the Free Welfare Associations and local governments. Thus major policy changes, which were in line with a new approach of social policy and which also built on concepts and ideas of new public management, came about in Germany as late as in the 1990s after reunification. The driving force for policy change since then has been the so-called "cost disease" which stands for a continuous increase of Germany's social policy and health care programs.

Fundamentally, these reforms have been built on competition and the market-based strategies evident in the New Public Management (NPM) movement. Thus, starting in the mid-1990s, the German federal government, irrespective whether the Christian or Social Democratic Party was in power, tried to introduce competition in social service delivery and health care through various actions and approaches. In the mid-1990s, the country´s social laws were modified with the aim of softening the "principle of subsidiarity." Through this legislation, the privileged position of the Free Welfare Associations has been noticeably changed. For the first time, for-profit providers became eligible for government support almost on an equal footing with service units affiliated with the Free Welfare Associations. However, depending on the policy field and respective service, the impact of the opening of the market for social service providers beyond the Free Welfare Associations differs significantly. For example, private commercial providers have successfully made major inroads into the market of health care, especially hospitals where for-profit firms have purchased previously public hospitals, as illustrated in Table 3.

Concentration is a central feature of the commercial market of health care because the field is dominated by a limited number of "big players" (e.g., Rhön, Asklepios, Helios, and Sana) which since the 1990s have bought many hospitals operated by local government especially in the former East Germany. A cost-containment strategy of reducing personnel is a major approach of these hospital chains.

Compared to health care (hospitals), the modification of the principle of subsidiarity, introduced by the German federal government in order to make private providers other than the Free Welfare Associations eligible partners of social policy governance arrangement[64] has developed quite differently in other policy domains. In the area of child care, local community-based organizations with ties to the self-help movement and without affiliation to any of the Free Welfare Associations became entitled to public funding for the first time. But in this policy field, the change of law did not work in favor of for-profit providers. The

welfare mix of the policy area of child care continues to be a prime domain of nonprofit providers which are either affiliated with one of the Free Welfare Associations, or the facilities belong to one of the Churches (Protestant or Catholic Church), or they are free-standing nonprofit organizations governed by parents. Hence for-profit providers did not make significant inroads into the market of child care in Germany.

Table 3: Changes in the Welfare Mix: Hospitals[63]

Hospitals according to ownership: number, percentage of total

	Public	Nonprofit	Commercial
1991	1,110 **46%**	943 **39%**	359 **15%**
2001	825 **37%**	903 **40%**	513 **23%**
2005	751 **35%**	818 **38%**	570 **26%**
2007	677 **32%**	790 **38%**	620 **30%**

Table 4: Child Care and Facilities for Youngsters[65]

Facilities according to ownership: number, percentage of total

	Public	Nonprofit	Commercial
1990/1991	38,389 **51.1%**	35,748 **47.6%**	856 **1.1%**
1998	28,338 **35.5%**	50,297 **63%**	1,125 **1.4%**
2006/2007	25,263 **31.6%**	53,372 **66.8%**	1,202 **1.5%**

The data reveal a shift from the public to the private nonprofit sector that benefited in particular from the growth of the market of child care facilities (*Kindergärten*). This development was facilitated by policies in the former GDR that traditionally and by law provided the population of working mothers with child care facilities, which outnumbered those that were available in West Germany. Thus, reunification contributed to the growth of child care programs. Further, the Federal Ministry for Family Affairs of the Christian Democratic government introduced a social law in the mid-1990s that entitles children over the age of three with the right to care in a *Kindergarten*. In short, it would appear that child care is not perceived as a commodity in Germany and appropriate for for-profit provision. Also, nonprofit child care providers have been able to retain their programmatic dominance because of a long tradition of service provision and partnership with government. Thus, for-profit providers are not a major factor in child care provision in Germany.

However, home care for the elderly presents a very different situation. Indeed, the "principle of subsidiarity" was not recognized at all by the new insurance scheme, put in place in the early 1990s for elder care. This "insurance for care for the elderly" (*Pflegeversicherung*) created an entirely new market of home care provision. Previously, home care was the primary responsibility of family members, specifically

of women. With the new insurance, home care developed into an increasingly important segment of the social service industry.

Table 5: The Welfare Mix of Home Care for the Elderly[66]

Facilities according to ownership: number, percentage of total

	Public	Nonprofit	Commercial
2001	204 **2%**	4,897 **46%**	5,493 **52%**
2005	193 **1.7%**	4,457 **40.6%**	6,327 **57%**
2007	191 **1.6%**	4,435 **38.4%**	6,903 **60%**

This table underscores the growing dominance of for-profit organizations in home care for the elderly, although the majority of the home care providers are small and medium-sized enterprises and have much in common with nonprofit organizations. It also becomes clear that recent social policy reforms were built on the rationale that the legal form does not matter. In social service provision, the German government works closely together with nonprofit and for-profit providers. Nonprofits, specifically the Free Welfare Associations, still enjoy a privileged position where the principle of subsidiarity is still somehow in place. Nonprofits are also still very strongly in those segments of the market, where they look back on a long tradition of service provision. Therefore, in contrast to home care for the elderly, the market of institutional care for the elderly is still dominated by nonprofit organizations. But for-profits are also gaining terrain in this segment of the social service industry as indicated in Table 6 below.

Table 6: The Welfare Mix of Institutional Care for the Elderly[67]

Facilities according to ownership: number, percentage of total

	Public	Nonprofit	Commercial
2001	749 **8.1%**	5,130 **55.9%**	3,286 **35.8%**
2005	702 **6%**	5,749 **55.1%**	3,974 **38.1%**
2007	635 **5.7%**	6,072 **55%**	4,322 **39.1%**

Importantly, the system of reimbursement for social service and health care providers has also changed significantly. Traditionally, service providers, hospitals included, enjoyed a heaven-on-earth situation regarding reimbursement for their expenses in Germany. More specifically, at the end of the fiscal year, deficits were by and large leveled by public subsidies. For the upcoming year, the budget of the respective institution was increased in accordance with the deficit of the current fiscal year. As a result, little incentive existed for cost containment strategies in the German social service and health care industries, besides professionalism of the staff. Recently, however, a major policy change designed to reduce costs was put in place by capping the expected cost of service provision per year. Contract management is a well-established approach to avoid increasing cost over a period of time. If a service unit overrides its budget, deficits are no longer leveled by public subsidies. The changed reimbursement system was

intended to improve the efficiency as well as the accountability of the service providers. The changes introduced in the area of social services and health care are thoroughly in line with the approach of new public management that gained momentum in Germany in the early 1990s.

New public management represents an innovative reform approach in public administration that traces its philosophy to market economics and private management. At the time of its introduction,[68] it was widely welcomed by policy experts and politicians alike because it signaled a marked shift away from both classical bureaucracy and top-down political engineering in the spirit of classical social democracy, and hence from "big government." Soon, the new approach developed into the ideological underpinning of a movement whose core notion was elucidated best under the heading of Osborne and Gaebler´s bestseller "Reinventing Government."[69] Political leaders, most prominently Bill Clinton, Tony Blair, and Gerhard Schröder, strongly supported the new approach of governing because "New Public Management"—besides championing the "label" for an innovative concept in public administration—also indicated a fundamental change of the role of the state in society and public service delivery.

"Big Government" is often used as a synonym for liberal (U.S.) or social democratic (Europe) governments, whose traditional negative characteristics were top-down political steering, as well as large and inefficient public institutions. This image was replaced in the reform movement with more active and positive terms such as "catalytic," "mission-driving," "result-oriented," "enterprising," and "anticipatory-government," which incidentally are the titles of Osborne & Gabler's book.[70] Therefore, it is crucial to note that since its initiation, New Public Management was not exclusively perceived as a reform of public administration. Instead, it was conceptualized as a far-reaching reform movement for governing the welfare state. Next to the assumption that, compared to their public counterparts, private service providers stand out for efficiency, it is also taken for granted that, compared to public service delivery, private provision might be more client-oriented and consumer-friendly.

Table 7: Changes of the Employment Structures in the Social Services[71]

Field	Full Time Employees	Part Time Employees	Full Time Employees	Part Time Employees
	2004	**2004**	**2008**	**2008**
Health Care	231,792	136,575	224,435	152,451
Children & Youth Services	146,037	129,023	146,018	179,955
Family Care	20,040	47,017	16,029	45,470
Care for the Elderly	166,474	200,829	152,750	246,164
Care for Handicapped	133,157	109,673	125,815	156,492
Services for People in Exceptional Situations	15,157	10,882	13,765	13,936
Further Services	30,375	21,834	25,625	22,279
Education & Training	8,218	7,854	6,086	7,559
Total	**751,250**	**663,687**	**708,523**	**833,309**

The new mode of governance in accordance with new public management techniques was directly reflected in the introduction of contract management and competitive tendering by government, and the adoption by nonprofit organizations of business-like approaches in social service provision. Thus, many nonprofit organizations implemented cost containment strategies that were similar to for-profit providers such as downsizing of personnel.

This new approach to management is evident in the above table on trends in employment in social and health services run by the Free Welfare Associations in Germany. As indicated in the table, the Free Welfare Associations welcomed the new mode of human resource management by implementing more flexible working conditions through the introduction of part-time and temporary jobs. The so-called "flexibilization of working conditions" has in recent years developed into a major strategy. The personnel affected by these new working conditions are primarily women because they constitute the majority of the work force in the social service sector, notwithstanding whether the provider is a for-profit or nonprofit organization.[72] However, the so-called economization of social services, originally perceived as a major threat to the position of the Free Welfare Associations in the social service market, has evolved in the long run into a process of adjustment and adaptation to a changing organizational environment. The nonprofit service agencies affiliated with the Free Welfare Associations have engaged heavily in management courses and cost-containment strategies. Moreover, depending on the area of activity, the organizations changed their legal form, switching from the nonprofit *Verein* to the GmbH, a private limited company. Today, many hospitals, homes for the elderly, and counseling centers are organized as private limited companies, which nevertheless are affiliated with one of the Free Welfare Associations. In the meantime, "social management" courses are now part of the curricula of German schools for social work, and volumes addressing cost control, fundraising, and efficient management techniques in social service provision abound in the German book market.

In sum, the Free Welfare Associations reacted with flexible adjustment, thus successfully taking up the challenge of what is generally called the "marketization and economization" of the welfare state without losing their prominent position as important social service providers in Germany. Due to their ability to adapt to a significantly modified organizational environment, the Free Welfare Associations were particularly able to maintain their dominant role in those segments of the social service market in which they traditionally have been strong. Moreover, as outlined previously, the Associations are still incorporated into policy development and decision-making despite recent modifications to neo-corporatism.[73] Hence at a first glance, it seems that nothing has been changed. However, the service units of the Free Welfare Associations, the hospitals, shelters, and counseling units are increasingly facing problems of legitimacy since it is progressively more difficult to distinguish a for-profit service provider from a nonprofit provider. Thus, adaptation to a more and more competitive environment is producing organizational isomorphism with less difference in practice between nonprofit and for-profit organizations.

Recent Trends in the U.S.

Until the financial crisis of 2008, social service agencies and particularly nonprofit social service providers had grown quite significantly during the previous fifteen years. Welfare reform sharply reduced the importance of cash assistance for the poor and concomitantly shifted funding to community-based social services for the poor and disadvantaged.[74] The Bush administration actively supported government funding of faith and community-based nonprofits providing social services as a strategy to address urgent social problems and the Obama administration has pledged to continue to seek partnerships with faith-based organizations. Community service, through programs such as AmeriCorps, Teach for America, YouthBuild, and City Year, has received broad political support from across the political spectrum.

The current situation in part reflects changes in social services starting in the 1960s that led to a rapid buildup in social services including community mental health centers, community action agencies, new child welfare agencies, drug and alcohol treatment centers, domestic violence programs, legal services for the

poor, home care, emergency shelters for youth, and workforce development programs. Most of the funding for these agencies and programs was federal although the additional federal spending spurred more spending by state and local government supplemented by private philanthropy.[75] Over time, the federal percentage of total public social service spending grew substantially. Despite efforts of different administrations to reduce federal funding of social services at the local level, public funding continued to rise until the financial crisis hit in 2008. The steady increase of public and private funding for social services translated into a significant growth of the social service industry at the community level.

Several reasons account for the growth of public funding. First, thousands of new, primarily nonprofit social service agencies had been established since the early 1960s; these agencies were now vocal advocates of continued public funding. Second, the growth of federal spending was encouraged by advocates for the poor, disabled, and disadvantaged. Many of these advocates were also family members who were seeking more services for their relatives and children; thus, a new constituency existed for expanded services. Third, federal spending had created another important constituency for federal social service spending—state and local government officials, especially the administrators of line agencies such as Departments of Social Services. Federal spending directly supported many positions in these agencies and supported many private nonprofit agencies on which these state and local agencies depended for vital public services. As such, the expansion of contracting during the 1960s and 1970s created tight relationships between state and local agencies and nonprofit service providers in support of more funding. Fourth, the courts had slowly started to support expanded social services in the community, especially through landmark court decisions in the 1970s pushing deinstitutionalization of the public state institutions for the developmentally disabled and mentally ill.[76]

This new configuration of political interests, as well as the rising demand for services such as community care for the disabled, encouraged nonprofit and for-profit organizations and state and local government officials to seek new sources of funding including Medicaid, the program created in 1965 as the health program for the poor. Until the 1980s, Medicaid was a very limited source of funding for traditional social services such as individual and family services or residential care for foster children. But starting in the 1980s, Medicaid became increasingly prominent as a revenue source for social services including: mental health, child welfare, home care, hospices, counseling, residential foster care, drug and alcohol treatment, and services for the mentally ill, although the extent of coverage varies depending upon the state.[77]

In addition, other new sources of federal financing spurred the expansion of job training, child-care, and other social services in the aftermath of the landmark welfare reform legislation of 1996 that created Temporary Aid to Needy Families (TANF). As part of this legislation, the federal government created new funding for services and gave greater administrative discretion to state and local governments to spend the new money including much greater flexibility by local administrators to shift money from cash assistance to services. With these new requirements and funding streams, the welfare rolls and the expenditure of funds on welfare-related programs changed dramatically: the number of families and teen parents on welfare dropped and the share of AFDC/TANF dollars spent on direct cash assistance declined rapidly, from 73 percent to 44 percent between 1996 and 2001.[78] While federal funding for income maintenance support dropped sharply, federal funding for welfare-related services rose significantly.[79] Overall, a large percentage of this additional service funding was spent in support of services provided by nonprofit and for-profit organizations including day care, welfare to work, job training, and counseling.

In addition to Medicaid and TANF-related funding, other federal programs for at-risk youth, community service, drug and alcohol treatment, prisoner re-entry, and community care witnessed substantial rises in funding. Although states often were given substantial discretion on specific spending decisions, and the money was often channeled through state and local governments, the overall effect of the rise in federal funding for social services was fiscal centralization even as government was devolving responsibility for service decisions to the states.[80] Overall the policy

shift from "welfare to workfare" contributed significantly to both the growth of the social service industry in the U.S. and the centralization of funding streams. Despite political rhetoric, the country has witnessed a significant growth in federal funding for welfare related issues over the last decades. The funds were not primarily used for cash allowances but invested in social service programs. This translated into a remarkable growth of social service agencies in the U.S.

As indicated in Table 8, the total number of social services agencies increased from 63,528 in 1995 to over 100,000 in 2005. In addition, the number of outpatient treatment facilities and mental health organizations also increased significantly. The growth in nonprofit social services agencies is also reflected in the employment figures. For instance, from 1977 to 2006, total employment rose from 676,473 to over 2.6 million.[82]

Table 8: Change in the Number of Reporting Social Service Agencies in U.S. by Category, 1995, 2000, 2005*[81]

	Reporting Public Charities		
	1995	**2000**	**2005**
Social Services	63,528	81,043	100,436
Crime & legal-related	3,818	4,956	6,044
Employment & job-related	3,036	3,511	3,872
Food, agriculture, & nutrition	1,923	2,335	2,982
Housing & shelter	9,855	13,280	15,882
Public safety & disaster preparedness	2,191	3,455	5,068
Recreation & sports	11,904	17,439	24,519
Youth development	4,515	5,443	6,501
Children & youth services	5,372	6,219	7,016
Family services	3,392	3,988	4,585
Residential & custodial care	4,654	5,032	5,388
Services promoting independence	5,920	6,766	7,813
Other social services	6,948	8,619	10,766
Health			
Treatment failities (outpatient)	1,654	2,020	2,343
Mental health	6,990	7,561	8,496

* Categories are as defined by the National Taxonomy of Exempt Entities.

However, the growth of social service provision, by and large financed by an increase of federal funding supplemented by private donations and fees, has been accompanied by complex trends:

- a significant increase in competition among social service providers, nonprofits as well as for-profits,
- a remarkable growth of for-profit service agencies, which managed to make inroads in important segments of the market for social services, and
- greater pressure for accountability and improved outcomes.

While previously it was assumed that state and local government primarily worked with nonprofit social service providers, this situation has changed substantially in many jurisdictions, although great variation exists across the country. The marked growth of for-profit firms is evident in the table below. Indeed, nonprofits face growing competition from for-profit social service firms, although this competition tends to vary tremendously by the service category. There are good reasons to highlight a change of the welfare mix in the U.S. for the benefit of private commercial social service provision.

While many traditional social services, such as emergency assistance, remain dominated by nonprofits, for-profit firms are increasingly important in key service categories such as child-care, youth services, home care, and community programs for the mentally ill and developmentally disabled. The reasons why commercial social service providers are on the advance are manifold. However, a significant changed

Table 9: Change of the Welfare Mix in the U.S.[83]

		Facilities		
Industry	**Type of Operation**	**2002**	**2007**	**% Change**
Industrial & family services	**Total**	**49,618**	**56,693**	
	Nonprofit	38,731 **78.05%**	39,177 **69.9%**	-8.15
	Commercial	10,887 **21.94%**	17,516 **30.89%**	+8.95
Child day care services	**Total**	**69,127**	**74,151**	
	Nonprofit	24,231 **35.05%**	21,403 **28.86%**	-6.1
	Commercial	44,896 **64.94%**	52,748 **71.13%**	+6.1
Service industry	**Total**	**188,610**	**206,008**	
	Nonprofit	108,241 **57.38%**	108,095 **52.47%**	-4.9
	Commercial	80,369 **42.61%**	97,913 **47.52%**	+4.9
Homes for the elderly	**Total**	**14,072**	**14,720**	
	Nonprofit	3,107 **22.07%**	2,360 **16.03%**	-6.0
	Commercial	10,965 **77.92%**	12,360 **83.96%**	+6.0

funding environment counts most prominently. Since recently, government has itself shifted away from the traditional contracts that were the hallmark of the initial period of widespread government contracting in the 1960s and 1970s.[84] In this period, most nonprofit social services agencies did not really compete with other agencies for funding. Contracting at that time was more or less a synonym for trust-based nonprofit-government relationships in the area of social service delivery. Therefore, most contracts were cost reimbursement contracts that essentially paid agencies for their costs based on the contract terms and budget. Reimbursement was not linked to outcomes and most agencies recovered their costs, at least as specified in the contract. Like Germany at the time, little incentive existed for organizations to compete with other nonprofits since contracts were unlikely to be moved from one agency to another unless egregious problems existed. Current performance contracting offers the threat that social service providers could lose their contracts for poor performance.

Against this background and as already mentioned, nonprofit social service providers have become more "business-like" with respect to management procedures, public relations, and marketing in the U.S. However, for-profits possess some advantages vis-à-vis nonprofits in the competition for government and private client funds. First, for-profit chains have access to capital and a sufficient size that allows substantial economies of scale, permitting them to operate at least some programs more efficiently. Second, many nonprofits are mission-based and small and unwilling to serve certain types of clients or in certain regions, thus reducing the opportunities for them to cross-subsidize their operations through growth or a diversified client mix. Many community-based nonprofits may also be very ambivalent about expansion, or they lack the capacity for expansion. For-profits typically do not have these types of mission constraints and are thus more willing to serve a diverse mix of clients, including controversial clients. Third, for-profits tend to be newer entrants to the provision of some types of social services such as home care or community programs for the mentally ill. As a new entrant, they may be able to obtain substantially higher rates from government for their services than a thirty year old community-based nonprofit program, since rates for specific agencies can be quite dependent on the date of founding and the negotiating skill of the chief executive. Once a service in a specific industry is established, rates tend to grow incrementally.

Increased competition among commercial and nonprofit social service providers goes along with a changed policy environment in which government exclusively provides funds with "strings attached." At all levels, government has instituted more rigorous expectations on performance and accountability, albeit to varying extents depending on the state and locality. The steady increase in regulation has prompted government and social service providers, to varying degrees depending on the jurisdiction, to explore ways to achieve accountability through accreditation and self-regulation. For example, the Maryland Association of Nonprofits has developed "Standards of Excellence" to promote high standards of ethical behavior and good governance in nonprofits. And nonprofit agencies in specific service categories, such as addiction services, are using accreditation to help support their efforts to enhance their impact and effectiveness. Government contracts with social service agencies are increasingly more performance-based. Many key social service contracts including welfare to work, mental health, workforce development, and foster care are now performance-based contracts whereupon agencies are reimbursed for services only if they meet specific performance targets.[85] Many private funders such as the United Way and national foundations such as the Edna McConnell Clark Foundation also tie their grants to an expectation of meeting certain agreed-upon performance targets. A key ripple effect of this increase in performance management, broadly defined, is the "professionalization" of the administrative and programmatic infrastructure of particular nonprofit social service providers.

These management changes have been accelerated by the financial crisis. Importantly, the financial crisis has created serious budget problems for state and local governments and produced major declines in the assets of private foundations and individual donors. Many social service agencies—commercial as well as nonprofits—are wrestling with unprecedented challenges on their revenue side. By responding to the changed environment, many

nonprofit social service organizations have adopted management practices characteristic of commercial social service providers. Overall, greater competition, the shift toward more diversified means of government support, and the economic crisis require service agencies—commercial as well as nonprofits—to alter their management to allow them to be well-positioned to manage economic risk. In this sense, nonprofit social service agencies are adopting a more corporate management style that emphasizes growth opportunities, revenue diversification, and reducing programs that may place the organization at financial risk. Revenue possibilities can include new sources of earned income including client fees, new government contracts for services that the agency previously did not provide, and expanding into new service areas.

Despite the emphasis on earned income and social enterprise as a new revenue strategy for nonprofits, it may be limited as a revenue strategy. In general, social enterprise refers to organizations that mix nonprofit and for-profit activities.[86] Many high profile examples of social enterprises exist including the Manchester's Craftsmen Guild a social service agency in Pittsburgh;[87] Farestart, an agency in Seattle with a restaurant staffed by previously homeless or low-income individuals;[88] and Share our Strength, a national nonprofit focused on addressing hunger.[89] More typically though, a nonprofit child welfare agency or food bank or homeless shelter relies on a mix of public funding and private contributions that is increasingly uncertain. These community agencies face limited opportunities for social enterprise revenue.

Nonetheless, as part of this overall risk management strategy, many nonprofit social service agencies are restructuring their organizations with more complex and hybrid management models.[90] Three different types of structures illustrate this point. First, many nonprofit social service agencies have established fundraising units for the parent organization. This reflects an effort to diversify the revenue of the organization through more aggressive fundraising. Second, agencies may create different subsidiaries in order to manage different programs and revenue streams. For example, the Manchester Craftsman's Guild is actually a subsidiary of Manchester Bidwell Corporation which owns two nonprofit subsidiaries as well as a Development Trust. Share our Strength, a hunger relief organization based in Washington, DC, has a for-profit arm called Community Wealth Ventures to provide technical assistance to other nonprofit and for-profit organizations. Low income housing organizations create separate limited for-profit partnerships as part of their Low Income Housing Tax Credit (LIHTC) deals. A major service provider for the homeless in Seattle recently absorbed another service provider subsidiary of the parent organization. These hybrid structures may in part be dictated by laws and regulations governing their funding streams. However, organizational structures such as the Seattle homeless program are also a way of minimizing the potential liability of the agency to unforeseen problems after the merger is completed. Third, many social service agencies have created advisory committees, partnerships, and support groups to help the agency raise funds and build and broaden community support. In the current environment, this effort can be especially important for smaller community organizations since many of these organizations have often had small boards and weak community support; thus, advisory committees (and larger boards) can help the agency develop deeper connections to the community.

Another noticeable trend is the growth of very large nonprofit social service organizations reflecting in part the competitive pressures from for-profit and other nonprofit organizations. Many nonprofit agencies, especially longstanding agencies such as Catholic Charities, have grown very large as the services they provide such as foster care, home care, and home health have increased substantially in terms of their funding. Typically the geographic reach of these agencies has also grown. Newer agencies with roots in the social entrepreneurship movement such as City Year, a community service program for youth, YouthBuild, a youth and community development agency, and Pioneer Human Services (PHS)[91] have also grown large through close partnerships with government, supplemented with income from foundations and individuals. Community Voice Mail,[92] an agency to help the homeless obtain employment, was started in Seattle in 1991 and now has sites in 47 cities. Hence, similar to the German Free Welfare Associations that look back on a legacy of continuous growth and diversification, in the U.S., traditional community-based nonprofit agencies have in recent

decades embarked on a course of accelerated expansion that leads to a further concentration of the nonprofit social service industry that is increasingly faced with for-profit competition.

05

CONVERGENCE OR PATH-DEPENDENCY?

SUMMARY: CONVERGENCE OR PATH-DEPENDENCY?

Convergence versus path-dependency constitutes the central question and the point of departure of our comparative analysis. Doubtlessly the U.S. and Germany stand out for very different backgrounds with respect to social policy development. It is widely acknowledged that the U.S. is exceptional with respect to public social expenditures. Although a recent study[93] puts the dichotomy between the U.S. and Europe concerning public policy into question, the U.S. was definitely a latecomer in introducing social policy programs compared to Germany. While Germany counts among the pioneering welfare states that inaugurated insurance-based assistance programs for workers and the elderly as early as the late nineteenth century, national old-age pensions and social insurance in the U.S were not introduced before the Great Depression in the 1930s.[94] Looking back on a long history of welfare expansion, Germany is a "big spender" allocating a respectable share of the GDP to welfare-related issues.[95] But acknowledging the difference with respect to levels of spending for social policy issues, the topic that nevertheless has to be addressed is related to the "growth to limits" argument of welfare state research. Do we observe a downturn of public funding for social service and health care provision in the two countries?

Despite neo-liberalism and "growth to limits" rhetoric, a downturn of public funding for social service and health care provision is definitely not the case. There is no significant downturn with respect to social expenditures. On the contrary, each country shows a significant increase in expenditures in the last twenty years. In Germany, the steep increase in spending is most probably linked to reunification. The breakdown of East Germany´s economy after unification put a high burden on the country's social assistance programs. However, the comparison also sheds light on the development in the U.S. Doubtlessly, the country is still lagging far behind Germany but, similar to its European counterpart, the U.S. has also had a steady period of growth in social expenditures.

Table 10: The Development of Gross Social Expenditure Rates (% of GDP)[96]

	Levels OECD		
Country	**1980**	**1990**	**2005**
Germany	22.7	22.3	26.7
U.S.	13.1	13.4	15.9

Indeed, the U.S. is moving even further toward Germany as a "big spender," according to the research of Castles and Obinger[97] who, building on the critique of the OECD database, have decoupled the OECD data on gross public social expenditure into its components—"public" and "private" expenditures—by simultaneously factoring in the distorting effects of tax policy regimes.

The results of the analysis jeopardize the categorization of the classical regime approach.[99] The comparison shows that the private share of social expenditures makes a significant difference. Accordingly, the American welfare state is "not incomplete, but different."[100] And the German welfare state is definitely not 100 percent publicly financed. If the tax regime and private social expen-

Table 11: Social Expenditures as a Percentage of GDP[98]

	Gross public social expenditure	Rank	Net current public social expenditure	Rank	Net current private social expenditure	Rank	Net current total social expenditure	Rank
Germany	27.40	4	25.40	1	2.60	7	27.60	1
U.S.	14.70	17	15.90	16	8.50	1	23.10	6

ditures are included, the U.S. should no longer be considered as a laggard in the traditional sense. But it now ranks sixth among the OECD countries with respect to the level of social expenditure. Using this alternative framework, Germany is top among OECD countries in overall social expenditures. Importantly, this comparison of spending patterns calls attention to the "private" component of the welfare state arrangement. This is of particular relevance because privatization was one of the key ingredients of the new public management movement.

Indeed, private organizations in each country play a significant role with respect to social service provision. The countries have in common a long tradition of community-based service provision by nonprofit organizations. Thus, nonprofits are of significant importance as service providers because of the culture of "private welfare": faith-based organizations, churches, or voluntary associations financed by philanthropy were the forerunners of contemporary, nonprofit social service providers in both countries. Despite the difference with respect to welfare state development in Germany and the U.S. nonprofit organizations are at the core of local social service delivery, holding the largest share of the social service market.

Notwithstanding these communalities, the embeddedness of the nonprofits, and specifically the modes of cooperation with government, differ significantly in the two countries. In a nutshell: The umbrella organizations of the locally-operating nonprofit service providers in Germany, the Free Welfare Associations, are closely intertwined with government. They are part of the German "semi-sovereign state" and, as such, they have a strong voice in the policy process, and the infrastructure of the associations is in accordance with neo-corporatism, even government funded. The embeddedness reflects the specificity of the German version of federalism. Whereas the Free Welfare Associations and their relevance for social policy development is not jeopardized by the new modes of governance under the guidance of neo-liberalism and new public management, the service units and thus the German nonprofit organizations involved in the delivery of social service had to adjust to a significantly changed organizational environment characterized by greater competition and more pressure for accountability and performance. Yet, in spite of this increased competition from commercial providers, local nonprofits affiliated with the Free Welfare Associations and active in social service and health care were at least able to keep their share of the market. In those segments of the market where nonprofits have always been strong, the number of organizations operating under the umbrella of the Free Welfare Organizations is still on the rise.[101]

With respect to the welfare mix, significant differences exist among different social and health care categories. Concerning health care, the public sector and hence municipal hospitals are doubtlessly the losers in recent developments. Nonprofit social service providers were able to keep their market share in those fields of activity in which they have always been strongly engaged, such as institutional care. They were less successful in new areas, such as home care for the elderly, that were formally established as an important and growing market by introducing a specific "care insurance" in the mid-1990s. To be sure, the German dual system of public and nonprofit social service and health care provision has declined in importance and relevance due to the modifications of the subsidiarity principle in order to place greater emphasis within social policy on the norms of efficiency and effectiveness. Nonetheless, the funding of social and health care services in terms of the public/private mix has remained quite stable despite the growing role for commercial service providers. The levels of reimbursement for service delivery are still the outcome of a bargaining process

in which the central players of the governance arrangement are participating; however, commercial providers now have also a voice in the bargaining process.

To date, no decisive changes to the regulatory structure of social service and health care provision have been implemented. The Free Welfare Associations, the umbrellas of the local nonprofit service providers, have been able to largely maintain their prominent position in the arena of welfare policies.[102] Indeed, the Free Welfare Associations have adjusted themselves to a significantly changed environment by intensifying the traditional division of labor between the "umbrellas" and the nonprofits operating at the street-level: The "umbrellas" or associations have sharpened their lobbying profile by getting even more involved in politics, particularly at the European level of governance; the local nonprofit service providers became more business-like by heavily engaging in management programs and cost containment strategies. Thus, the management practices and programming of many nonprofit and commercial service providers are often quite similar in the service categories under study. However, this institutional isomorphism among providers may raise a question of legitimacy because, in contrast to the commercial providers, the German Free Welfare Associations still enjoy a privileged position within the governance arrangement of the welfare state, and they are also still receiving public subsidies to finance their organizational infrastructure including their lobby offices in Berlin, Brussels, and the regional capitals of Germany.

In many ways, the evolving character of social services in the U.S. reflects the particular features of the American welfare state in the context of general trends in public management. The federal government's funding role has become more important through direct contract funding as well as other funding programs such as Medicaid. Yet the states remain very important in regulating and funding social services, reflecting the federal system in the U.S. that gives states and localities a strong role in public policy, especially in social and health policy. Indeed, many key funding programs such as Medicaid and TANF are shared federal/state programs; however, this federal system leaves social service agencies highly vulnerable to changes in local political and economic conditions and state and local budgetary politics. Indeed, this vulnerability has been heightened in recent years because of changes in federal programs, which have granted greater discretion to state and local governments on the administration and funding of important social and health programs. Also, the pressure for performance management is particularly keen at the state and local level given their economic pressures, the rising demand for services, and the sharp increase in the number of nonprofit and for-profit service providers. In this sense, the U.S. has adopted many of the practices associated with new public management at the state and local level. The increase in contracting and the proliferation of service agencies tended to promote service fragmentation and decentralization. It has also encouraged nonprofit agencies to mobilize politically and work closely with state and local government on funding and regulatory issues.

Arguably, then, the U.S. situation reflects the evolving structure of American federalism, which has moved in the direction of the German version of a cooperative federalism. The sharp rise of federal funding in the 1960s and 1970s in the U.S. helped transcend important funding constraints created by the long-standing reliance on a decentralized federal structure with a relatively small role for the federal government in social services and health policy. Since then, the continued availability of federal funding through programs such as Medicaid has allowed an expansion of social services to varying extents depending on the specific service and jurisdiction; as a result, private fees and donations in the case of nonprofits are much less important as a percentage of agency revenue than fifty years ago. In this sense, the U.S. no longer fits neatly into the liberal welfare state regime model of a welfare state, at least as it pertains to social services. It is still terrain to discover and investigate further, however, especially given the financial crisis and the severe cutbacks currently affecting many nonprofit social service agencies in the U.S. Consequently, in order to deepen our comparative understanding of welfare state development and the evolution of social services we need in-depth studies of how change evolves over time, what impact it has on the particular organization, and how government legitimizes policy changes.

NOTES

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AICGS

1755 Massachusetts Ave., NW
Suite 700
Washington, D.C. 20036 – USA
T:(+1-202) 332-9312
F: (+1-202) 265-9531
E: info@aicgs.org
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