

**The Dismantling of Welfare
in Germany**

Gerhard Bäcker and Ute Klammer

WSI-Discussion Paper No. 47

May 1998

The Dismantling of Welfare in Germany

Contents

The End of Basis Consensus in Social Policy?	1
An Overview of the Welfare State in Germany	3
Basic Structures of Social Insurance and Tax-financed Transfers	4
- Pension Insurance	6
- Health Insurance	6
- Unemployment Insurance	7
- Care Insurance	8
- Social Assistance and other Public Welfare Benefits	8
The Quantitative Dimension of the Welfare State	9
The Challenge of Diminishing Growth and Increased International Competition	10
Persistent Unemployment	11
German Reunification and the Crisis of Public Finances	14
Increased Expenditures and Contributions	16
Gender Issues	18
Reshaping and Dismantling	20
- Reshaping and Dismantling Statutory Health Insurance	20
- Reshaping and Dismantling Statutory Pension Insurance	21
- Reshaping and Dismantling Unemployment Insurance	23
- Reshaping and Dismantling Social Assistance	24
Some Trends and their Evaluation	25
- Women as Losers in Employment and Social Provision	25
- Income Distribution and Poverty	25
European Integration	29
A Look Ahead	30

Gerhard Bäcker /Ute Klammer

The Dismantling of Welfare in Germany

The End of Basic Consensus in Social Policy?

The welfare state in the Federal Republic of Germany (FRG) is suffering from massive pressure. We are no longer talking merely about individual cuts. Increasingly the principles of the welfare state itself are at stake. A growing chorus of voices in the academic and political world is beginning to demand a fundamental restructuring of the socio-political regime that has determined the structure of the Federal Republic as well as other European countries. In the political rhetoric of almost all parties in the FRG, the guiding image of the "social market economy", which has for decades been considered a precondition for the unparalleled economic progress and the high degree of political and democratic stability which shaped post-war Germany, is being challenged. Within a few years, radical market positions demanding a fundamental reshaping of society have moved from the fringe to the center of political discourse (Bäcker, 1996). The dominant thesis is that the "social market economy," though singularly successful in its day, cannot be projected into the future under the changed political and economic conditions of the present decade.

Certain ominous symptoms can be discerned: increasing unemployment, a low rate of economic growth, financing and debt problems affecting public budgets, and the burden of taxes on jobholders. The diagnosis of the problem is that the welfare state has become the real cause of the problems we now face. The charge is that "exorbitant" social standards and "non-wage labor costs" hinder the German economy in international competition. At the same time the welfare state is also accused of excessive generosity and a lack of effective work incentives. The political conclusions drawn from this diagnosis give rise to the demand that the market be freed from restrictive social welfare regulations, that social security be privatized, and that public benefits be reduced significantly in order to improve the competitiveness of the economy, stimulate growth, and decrease unemployment (SVR, 1996).

In Germany, this radical change towards a basic questioning of the welfare state began during the first half of the nineties. It is not as though the welfare state had been totally unchallenged before that. Those people who had no need of state benefits were among those who furiously fought the idea; the same goes for all manner of enterprises which, following their internal economic logic, have always regarded the welfare state's "decommodification of labor" (Esping-Andersen, 1990) as alien. Nevertheless the "expansion phase" of the welfare state which lasted until the mid-seventies and its subsequent phase of restriction which extended into the early nineties took place without major political conflicts (Schmid, 1988; Alber, 1990).

After the experience of fascism and war it was obvious that an "unadulterated" market economy could not serve to construct a stable democratic society. A living democracy not only presupposes technical equality before the law but is also based on civic rights and social justice. The Weimar Republic had taught us that there is another side to the blind submission of society and the economy to market forces and the acceptance of mass unemployment, social destabilization, and poverty, a side that is called extremism and violence. In addition, post-war Germany was placed at the boundary of two competing systems, capitalism and socialism. The conflict with the German Democratic Republic (GDR) was meant to prove that a capitalist economy was not only economically efficient and bound to guarantee a high level of income and consumption but that it could, with the aid of social welfare, provide social security and political stability at the same time.

It is not remarkable that the Social Democratic Party (SPD) and the trade unions of the FRG have traditionally advocated the welfare state. What is remarkable, however, is that the other national party, the conservative Christian Democratic Union (CDU), has also considered itself a guardian of the welfare state. Indeed, the two powerful wings of the CDU, Christian socialist and conservative paternalistic, have thus far prevented neo-liberal policies, like those pursued in the United Kingdom under the Conservative regime of Margaret Thatcher, from gaining sway in the CDU.

In the post-war period West Germany adopted a number of important, progressive social policies in the areas of pensions, sickness pay, health, housing, the labor market, asset formation, and, particularly since the mid-sixties, education. The four existing social insurances (accident, health, pension and unemployment) were continually expanded until the early 1980s with regard to funding, risk coverage, and level of payments. Measures assisting families (child benefits, tax relief, and child-care allowances) were also increased.

A first turning point, in the early 1980s, occurred when the coalition government of socialists and liberals (SPD and FDP) crumbled and was replaced by a coalition of the Conservative and Liberal parties under Helmut Kohl. Up until the early nineties the Kohl Government repeatedly made cuts in the system of welfare benefits, but until that time always shunned a radical restructuring of the overall social system. Even in the nineties, a more advanced branch of social insurance, the Care Insurance Law, was passed against stiff resistance of employers and FDP politicians. It remains to be seen whether demands for a total revision of the social system will soon begin to dominate the programs of the big national parties. Despite the discourse of politicians and academics, the social welfare state continues to enjoy a high degree of public acceptance, and opinion polls report scant support for its dismantling (Wagner/Rinne, 1995).

An Overview of the Welfare State in Germany

Social welfare provision in Germany includes the entire complex of state institutions and regulations which limit and complement the economic market. Apart from the cash and non-cash benefits of social security (the focus of this chapter) there exist a number of important structural elements: legal stipulations regulating the labor market, employment contracts and conditions; the public labor market (a "second" and "third" labour market partly financed by the unemployment insurance); occupational policies; health care; tax law; workplace labor relations and Labor Management Act; collective bargaining laws; social institutions and services on the communal level.

Most social welfare regulations are national and thus uniform throughout the country although the federal states have retained their own independent regulations with regard to school and university education. Local governments are responsible for financing local social infrastructure (social services and institutions for children, youth, families, handicapped and aged people) as well as social assistance and other means-tested welfare benefits. Most free services are made available by independent, non-profit-making providers, that is, the large, nationwide welfare organizations, that are nonetheless financed by taxes.

Regulation of the labor market by the national government, on the one hand, and collective bargaining, on the other, have created conditions in the German labor market which guarantee a high degree of social security and social rights to German employees. German labor law provides protection against dismissal, occupational health and safety regulations, continued remuneration in case of sickness (full gross wages for the first six weeks of an illness), childcare leave (legal entitlement of either father or mother to a leave of up to 36 months after the birth of a child, including a return-to-work guarantee), and paid leave to care for sick children (10 days annually per child and parent).

The establishment of "works councils" required by the Labor Management Act gives employees a share in policy making in their workplaces. Members of works councils - predominantly, but not necessarily, trade union members - are elected and have the right to codetermination in matters such as distribution of working hours and overtime.

Regulation of the labor market by legislation is complemented by agreements between the employers (and their associations), on the one hand, and the trade unions on the other. Legal norms merely set minimum standards on which collective agreements can be based. Regulations arising from collective bargaining usually cover employment relations and working conditions (for example, protection against dismissal, regulations regarding leaves of absence, in-company social

benefits, duration, placement, and distribution of working hours, vacations, overtime) as well as remuneration. Among the achievements of the trade unions in collective bargaining are fully paid annual vacations of six weeks, an average work week of 37 hours (35 hours in certain lines of business), special agreements for employees of advanced age, sick pay exceeding the statutory limits, special vacation pay and Christmas bonuses. Industrial disputes are rare, but the more important agreements (such as the 35-hour workweek in the metal industry) were only achieved after extensive industrial conflicts.

The national government does not involve itself at all in wage settlements; for the vast majority of employees these are determined by collective bargaining agreements. Characteristically, collective wage settlements are valid for entire branches of business or large geographical areas. Settlement clauses become effective at once and are absolutely binding; the parties to these clauses can only deviate from them in favour of the employees.

Public labor market policy, practiced by the Federal Government and the Federal Labor Agency under the Employment Promotion Act, can also be said to reduce unemployment and undesired inequalities of the labor market. Among the instruments of labor market policy are the public employment service and vocational guidance, job-creation measures and occupational projects, payment of wage and recruitment subsidies in occupational rehabilitation of the long-term unemployed, financing and implementation of training and retraining measures, and occupational and educational aid for young people.

Basic Structures of Social Insurance and Tax-financed Transfers

The German system of social security began with Bismarck's social legislation at the end of the nineteenth century, a body of law which has had a decisive influence on several other European countries as well. The characteristic feature of "Bismarck-type" social policy is that contributory social insurances protect certain groups of employees and professionals whose benefit payments are related to their contributions.

Excluding the workplace rights that we have already described, the present German welfare state consists of: social insurance for income loss resulting from unemployment, occupational accidents, sickness, disability, old age and death of the family provider, for payment of health care and, quite recently, payment for nursing care in the private home or in public institutions. For tradesmen, certain groups of self-employed workers, civil servants, freelance workers, artists, writers, and farmers other insurance arrangements exist, so that only some groups of self-employed persons are not covered by compulsory insurance. Social insurances cover not

only the insured worker but also his or her dependents and survivors. In many cases optional insurance coverage is also possible.

The amount of benefits from insurance varies from 53 percent of previous net income (for means-tested unemployment assistance) to about 80 percent of previous net income (for sickness benefits and maximum pension claims). Pensions are based on the relation between one's own earned income and the average earned income as well as the duration of one's contributions to the pension fund. All benefits are indexed according to average (nationwide) net earnings and are revised regularly. By and large, the individual branches of the social security system are based on the idea of an equivalence of contributions and benefits, but there is some redistribution in favour of women and lower-wage earners.

Compulsory health insurance covers the cost of health care for workers and salaried employees (up to certain income limits), recipients of unemployment and welfare benefits, and their family members. People with higher incomes, civil servants, and most of the self-employed have to join private insurance plans. Only about 0.1 percent of the population has no health coverage whatsoever. Since 1995, Care Insurance covers nursing care for practically the entire population.

Social insurance, which comprises more than two-thirds of social expenditures in Germany, is regulated by Federal Law. As para-state institutions providers of the five types of social insurance enjoy a certain degree of autonomy; they are in charge of their own budgets. Their budgets are largely financed by contributions earmarked for specific purposes. These contributions are related to the gross income of earners and are shared equally by the insured person and his/her employer. There are no additional charges payable, either for special risks, or for the joint insurance of children and marriage partners. In the case of Pension and Unemployment Insurances the Federal Government increases the income from contributions by tax-financed subsidies. The national social insurances are based on pay-as-you-go financing.

The supervisory bodies of social security agencies are formed in equal numbers by representatives of the trade unions and the employers' associations. This arrangement, referred to as "self-government," is one reason why the employers' associations have so far supported and shaped the German social security system.

Transfer payments financed from general tax revenues complement earned incomes and social insurance benefits. Tax-financed benefits are related to special requirements which are not taken into account either in wages or social insurance. They mainly comprise items such as child benefits and parental, housing and education allowances for pupils and students, subsidized housing and special tax relief. With the exception of the child benefits, these are income-tested and, in contrast to social insurance, raised only by discretion and at irregular intervals.

Pension insurance. The Statutory Pension Scheme ("Gesetzliche Rentenversicherung" or GRV) with its more than 44 million compulsory members, is the biggest branch of social security in Germany. Except for civil servants, all those in employment with wages above a certain threshold (at present 620 DM per month), as well as trainees and the unemployed who are eligible for unemployment insurance benefits are compulsorily insured. GRV covers retirement, disability and survivors' pensions as well as rehabilitation payments. The level of pensions is based on "remuneration points" which are primarily calculated on the basis of the length of covered employment and lifetime earnings. To a certain extent periods of child care, education and training, illness, and unemployment contribute to remuneration points and pension entitlements. The benefits are supposed to secure living standards after retirement similar to those attained during working life. A survivor's pension amounts to 60 percent of the pension of the deceased partner. These benefits are derived from contributions (combined employer and employee contributions at present equal 20.3 percent) as well as Federal grants (at present 21 percent of overall expenses).

In 1996 the average monthly GRV pension in the Old Federal States (former FRG) amounted to DM 1,929 for male pensioners and DM 825 for women. In the New Federal States (former GDR) men on average received DM 1,804, women DM 1,112 (VDR, 1997; figures relate to independent pensions only).

Allowances granted by the "first pillar", the state old age pension system, can be supplemented by a "second pillar", the (voluntary) company pension schemes. This "second pillar" extends to over 50 percent of the dependent (wage and salaried) labor force, though numbers are declining.

Health insurance. The Statutory Health Insurance Scheme ("Gesetzliche Krankenversicherung") is by far the most important safeguard against the expenses of illness; in the more than 100 years since its inception the system constantly increased its membership; at present almost 90 percent of the entire population are covered. Today, people in dependent employment and below a certain maximum income are compulsorily insured against illness as are pensioners, students, farmers, artists, and the unemployed. Family members do not have to pay contributions, if their personal incomes do not surpass certain limits. Approximately 11 percent of the population is not covered by Compulsory Sickness Insurance, but they have complete insurance coverage, predominantly through private insurance.

Presently, about 1,000 sickness insurance agencies of different sizes provide health coverage on regional, occupational, or trade-specific bases, being part of the Statutory Health Insurance Scheme. The range of benefits they offer is uniformly organized: apart from medical, dental, in- and out-patient therapeutic treatment it also comprises measures relating to prophylaxis

and early diagnosis of illnesses, as well as to rehabilitation. Services offered by the agencies are the same for all insured people; it is the aim of the health agencies to ensure all "medically essential" treatment. No direct rationing takes place. The insured are entitled to a free choice of doctors and dentists, nearly all of whom are practicing under the Health Insurance Scheme.

Providers deal directly with medical practitioners, hospitals, and pharmacies on a contractual basis, concluding agreements which entail the obligation to treat insured persons on behalf of the health insurance agencies. These contractual negotiations determine amounts of hospital care and the level of fees. Tighter controls of drug costs have been repeatedly blocked by the pharmaceutical industry.

Services in the public health sector are rendered according to the principle of solidarity. Although contributions can vary slightly from one agency to the next, persons who are publicly insured, in contrast to the privately insured, do not have to pay additional contributions based on age, gender or risk.

Unemployment insurance. Social safeguards against unemployment have been provided to all workers and salaried employees since passage of the Unemployment Insurance Act in 1927. After one year of contributions the insured are entitled to unemployment benefits, providing they register with the employment office as fit for work and "at the disposal" of the labor market. Unemployed persons have to accept all "reasonable" work; if they turn down the job offered, the receipt of benefits is suspended and, on repeated refusal, eligibility for benefits lapses. In evaluating the reasonableness of work offered a certain regard for qualifications, income, and status does exist. After a six-month unemployment period, however, any work is considered "reasonable," as long as it is not paid below the rate of the unemployment benefits to which the worker was entitled.

Payments are divided into "unemployment benefit" and "unemployment assistance." The unemployment benefit is an insurance benefit and not subject to means testing. It amounts to 60 percent of the previous net income (67 percent for unemployed workers with children). The period of receiving unemployment benefit is restricted: beyond a minimum period of six months it is related to the period of prior contributions and also to the age of the person concerned; it can be paid for up to 32 months. After an unemployment benefit has run out it is followed by "unemployment assistance," receipt of which is basically unlimited. Unemployment assistance is somewhere between insurance and welfare. On the one hand it is only paid in case of need and is financed from the general revenues of the Federal Government, while on the other hand, certain preconditions do exist, and the level of payment is related to the previous net income (53 percent, or 57 percent for unemployed workers with children).

Results show that of all unemployed persons just over two thirds (68 percent) receive unemployment benefits or assistance, while the remaining third are either not entitled to them. The reason is that entitlement has run out or their incomes are too high for means-tested assistance.

In West Germany, average monthly unemployment benefits are DM 1,424, and for unemployment assistance, DM 1,073. As expected, benefits for men and women are significantly different: men receive average monthly unemployment benefits of DM 1,682 and unemployment assistance of DM 1,050 DM, while the amounts for women are merely DM 1,050 and 827, respectively (Bäcker 1997: 103 ff).

Care Insurance. Following extended public discussion, compulsory Care Insurance was introduced nationwide in Germany in 1995 as the fifth branch of the social insurance system. It was meant to close a gap that had existed up to that point in the health security system, a deficiency to which both the rapid growth of the aged population and an increasing emphasis on individual over family responsibility have contributed significantly. This development had led to a strong growth of expenditures for social assistance because people in need got their expenditures reimbursed. One of the reasons to introduce the Care Insurance therefore was the aim to diminish the financial burden of social assistance. Compulsory insurance to cover care at any age now extends to the entire population. Allowances depend on the degree of care needed and alternatively include cash and non-cash benefits for home care as well as benefits in kind for residents of nursing homes. In the latter case, however, only nursing costs are covered, board and lodging expenses have to be paid privately. To that extent we can only talk of a partial insurance against the risk of institutional care which continues to entail substantial costs to those who require it or to their relatives.

Social Assistance and other Public Welfare Benefits. Benefits granted by social insurances do not necessarily guarantee a minimum level of subsistence. Indeed, they reflect market inequalities and may not allow for basic, minimum amounts. A loss of up to 50 percent of an income that is already low rapidly drags people below the subsistence level, especially when there are dependent children.

When people's incomes regardless of the reasons, fall below the politically-established subsistence level, they are entitled to social assistance. The aim is to enable the recipient of such assistance to lead a life in keeping with the principle of human dignity. In this context the cause of indigence is irrelevant. Subsistence aid relates to the community (household or other) in which the needy person lives and is specified according to what is needed in the individual case (principle of individuality). Before receiving any help at all, the recipients of social assistance are required to use any income and assets they possess.

Persons who are able and fit to work are expected to earn their own livelihoods. Here, all kinds of work or job opportunity can reasonably be expected to be taken up, unless the person concerned is not in a position to carry out the job for physical or intellectual reasons, or because he/she at the time is bringing up children. If a recipient of social assistance turns down a job without any cogent reasons, the welfare benefit is first curtailed and ultimately completely withdrawn.

Since July 1997 the average ordinary rate in the West German states amounts to DM 539 per month for the adult head of the household. The amount of benefit paid to the remaining members of the household is based on a percentage scale which, according to age, differs from between 50 to 90 percent of the basic benefit. This basic allowance is supplemented by demand-oriented lump payments and, as regards certain groups of people (e.g., pregnant women, single parents), by additional allowances. Housing costs are also provided. The drawing of social assistance is not limited in time.

To get this into perspective: a single household - with medium-size rent payment - achieves a subsistence level of DM 1,140 per month and a family with two children is entitled to a payment of a monthly DM 2,750. Households living on social assistance usually reach an income level about the 50% poverty line or slightly above, depending on the number of family members and their claims to additional payments such as housing benefits. Social assistance is financed by the local governments. From the early sixties when the entitlement to social welfare assistance was introduced for all citizens, the minimum benefit has been raised periodically, approximately in line with the average increase in wages.

The Quantitative Dimension of the Welfare State

The welfare budget shows that total welfare expenses presently amount to about 34 percent of the German GDP (Bundesministerium für Arbeit und Sozialordnung, 1997).¹ More than half of total expenses go to the pension, health, and care insurances. Further important factors are employment promotion (unemployment insurance and active labor market policies) which consume 11 percent, welfare benefits carried by employers (especially remunerations continued in case of sickness and company pension schemes) amount to 8.3 percent, and social aids and services (especially welfare benefits, child and youth welfare) account for 8.9 percent. Since different institutions are often responsible for the same kind of welfare task, it makes sense to subdivide total welfare benefits in terms of "purposes." It then becomes apparent that more than a

1 This is according to the German method of computing; the figures established by Eurostat for the purpose of international comparison regularly turn out to be lower by several percentage points.

third of the total expense (38 percent) is used for old age insurance and almost as much (35 percent) for health insurance.

The Challenge of Diminishing Growth and Increased International Competition

The German model of "social market economy" combines dynamic industrialization, world market orientation, stable currency, high productivity based on technological advance, high wages, and a well-established system of social provision. The market economy resulted in high growth rates and increased incomes and thus created the material basis for the welfare state which in turn markedly contributed to high (labor) productivity and political stability.

Meanwhile, however, the German market economy is beginning to show signs of weakness. The "economic miracle" of the postwar period has been succeeded by a phase of growing unemployment and diminishing economic growth, as well as stiffening international competition in commodity, services, and especially money markets. The GDP growth rate has been decreasing from one trade cycle to the next.

Relatively low growth rates are accompanied by high increases in labor productivity which in turn have led to a significant reduction in the volume of labor. The fact that the growth of production in Germany does not suffice any longer to absorb the employment losses created by this growth in labor productivity is one of the reasons for the high rate of unemployment.

In addition to this, the labor market is glutted with an increasing supply of labor. Due to high birth rates of cohorts now joining the labor market, immigration (work migrants from other European countries, refugees, and German repatriates from Eastern Europe), and, last but not least, a significant increase in the labor force participation of women, more people than ever are looking for employment.

Whether "globalization" or the increasing integration of the world economy has contributed to these growth problems cannot definitely be answered here. The public debate on this question is dominated by the view that German manufacturing is too expensive and is thus losing out in global competition. It is true that FRG has recently faced stiffer competition from the Asian countries and certain Central and East European countries that are producing technologically sophisticated products with cheap labor. Globalization also seems to have achieved a new dimension of internationalization of the money and capital markets, a fact which strongly restricts the free action of German monetary policy. Nevertheless we cannot necessarily deduce from this that the Federal Republic is losing out in this trade rivalry, for even with high wages and social benefits, unit labor costs in Germany are still relatively low. Indeed, a high-level of labor productivity continues in this country. Thus high wages and high productivity offset each other.

Over the last few years unit labor costs in the FRG have risen significantly less than in its trading partners. The increase of direct wage expenditure as well as the non-wage labor costs can be said to have been "earned" by increased production (Köddermann, 1996: 6 ff). The continuing high export surplus, which achieved a new high in the first half of 1997, supports this statement.

This expansion of productivity, however, resulted in an equally drastic reduction of workplaces. Moreover, the difficult, even endangered situation of individual branches of industry in Germany cannot fail to be noticed; the structural changes in a world economy under pressure from the labor markets become a threat to the people working in that economy and for it, forcing them to accept worsening working and social conditions. Company decisions on investments and jobs serve as levers to exert pressure on the labor force and the trade unions. Such pressure usually results in "stay-behind negotiations" (i.e., attempting to keep company production in the country), for which a price has to be paid in terms of the loss of remuneration (e.g., the dismantling of allowances paid in excess of negotiated scales), or deterioration in the conditions of work such as introduction of Sunday work and increase of working time without wage compensation.

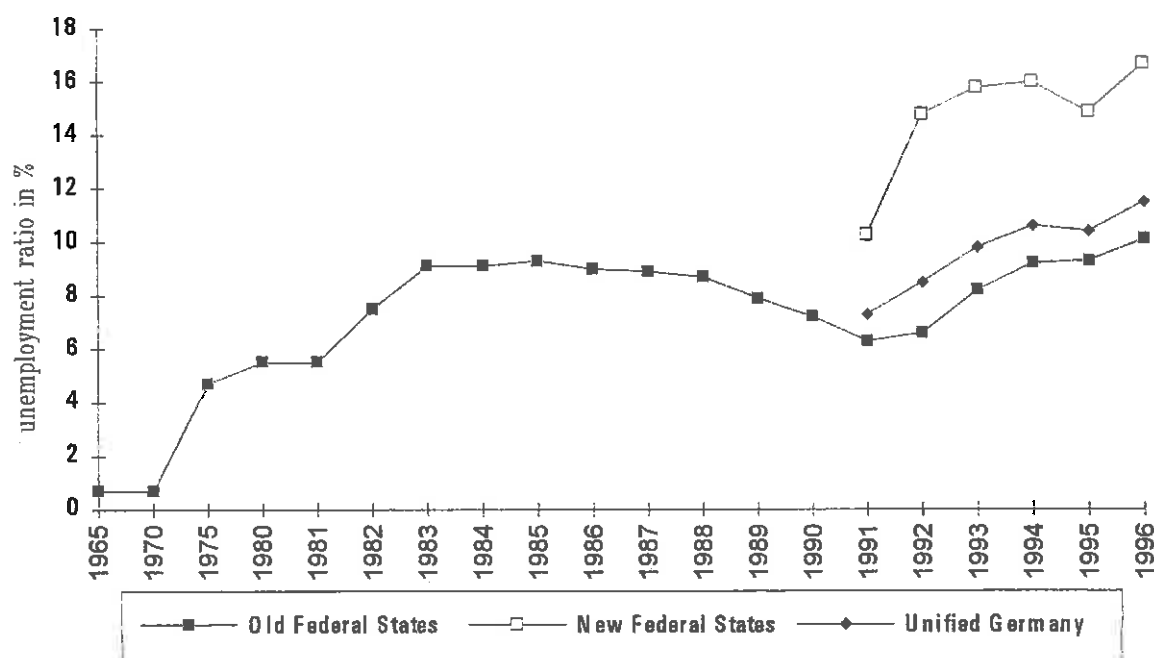
As the most powerful economy in Europe, the FRG is well able to defend and even consolidate its position, though obviously for the price of payrolls continuously decreasing in value and a worsening of the social welfare situation. The European welfare states find themselves in need of "social dumping"; they feel forced to go along with the trend, but none of them can hope for long-term improvements of the social situation (Bäcker 1997 b: 12 – 20). The Federal Republic, however, is the initiator and driving force of this disastrous devaluation race in the field of state welfare, not merely its helpless victim. The position of German trade unions that a developed welfare state helps to ensure "social peace" and thus itself contributes to a country's economic efficiency increasingly proves to be a blunt argument, as international development in recent years shows that social peace has become a "bargain", gained without paying for it in social welfare. The predominant European example for this is Great Britain, where the loss of the social punch of the Trade Unions has been accompanied by severe cuts in social security benefits.

Persistent Unemployment

To our mind, the successful legitimization of cuts in social benefits is essentially a consequence of the present labor market situation and not the result of a German welfare state that has lost its competitiveness. Experience of recent years has shown that all interventions in the labor law (e.g., cuts in the continued payment of wages in case of sickness, relaxing of the Dismissal Protection Law) have been justified as means of securing and creating jobs, without, however, any noticeable expansion of employment.

On the contrary, the job market in Germany has constantly worsened and in July 1997, achieved a new low with an unemployment rate of 11.4 percent. If one adds the "hidden reserves," jobless persons not counted in the labor market statistics, unemployment rises by one-third. There are significant differences, moreover, in the incidence of unemployment, depending on profession, qualifications, gender, and age as well as region. At particularly high risk of becoming and remaining unemployed are workers in traditional industrial areas, unskilled and semi-skilled workers, older persons and/or those with special health problems. Unemployment of young people is still below average, but the indications are that their unemployment rates will rise sharply. The situation of the long-term unemployed, however, is of particular concern. Numbering one-third of all those registered as unemployed, they find it virtually impossible to secure a job.

Graph I. Trends in Unemployment in the Old and New Federal States (1965 - 1996)



Source: Data supplied by the Federal Labor Agency.

High unemployment almost inevitably pushes the welfare state into a financial crisis. The influence of the level of employment and the number of unemployed on the financial situation of public treasuries is particularly critical. On the one hand the level of contributions to unemployment insurance funds shrinks considerably; at the same time direct and indirect

obligations for unemployment rise sharply (i.e., there is a trend towards earlier retirement that increases the costs of pension insurance and ultimately public welfare). In 1995, the total cost of unemployment - additional expenses and reduced revenues - amounted to DM 142.5 billion or just under 5 percent of GDP (Martens, 1997). We also have to take into account that over and above direct money benefits welfare services and benefits in kind are also affected by unemployment. With growing social problems and distress the need for social services automatically grows as well. For those working in the fields of child and youth welfare, homelessness, delinquency, and drug addiction, direct links with the employment crisis become apparent. We are, moreover, skeptical of whether political and business leaders are in a position to achieve priority for the reduction of unemployment. Though the Federal Government has set the ambitious target of halving the unemployment rate by the year 2000, there are as yet no signs of improvement. Germany's favorable position in the export markets cannot offset the lack of domestic demand. Restrictive budget policies of the Federal Government, the States, and the municipalities, including cuts in social expenditures and reduction of government staff and public investment, stunt growth of the economy and the labor market and increase unemployment. All this is aggravated by the fact that job-creation measures have been significantly reduced over the last few years because the Federal Labor Office has been obliged to spend an increasing share of its budget on unemployment benefits and assistance as well as on compensation for part-time work. For fiscal reasons, the Federal Government, in its turn, was not prepared to finance active, high-volume labor market policies. As a result, the number of people aided by job-creation measures fell from 925,000 in 1993 to less than 500,000 in 1996 (Sitte 1996: 780 - 789).

Were it not for one public policy - reduction of average work time - the impact of unemployment would be even worse. Credit for this development must go to the trade unions, because since the mid-eighties they have managed to put reduction of work time at the center of their collective bargaining policy, intending to spread the all-too-sparse volume of work as widely as possible. In the big branches of industry (steel production, metalworking, printing, and retail trade) the 35-hour week has been realized. In addition, part-time work is beginning to spread (though very slowly, with to date 16 percent of all employment contracts). Supported by early retirement regulations in the pension and unemployment insurances, businesses offer early retirement at 60 years of age at the latest, thus also alleviating job shortages.

The positive effects of these policies notwithstanding, the process of reducing working hours has almost ground to a halt. The promotion of early retirement has been replaced by measures intended to stabilize the financing of pension insurances by increasing the length of the working life and raising the age of retirement. The reduction in working hours has also come to a halt, as trade unions, weakened by the pressures on the labor market and suffering from loss of members, find it difficult to achieve wage increases that keep pace with inflation. Unions lack the

power to achieve agreements that reduce work time without wage loss, and work-time reductions entailing loss of income seem still not acceptable to their members.

German Reunification and the Crisis of Public Finances

The analysis thus far has pertained mainly to conditions in the "old" Federal Republic. A large part of our socio-political problems, however, result from German reunification (Bäcker 1992). Although seven years have passed since the unification contract took effect and the five New States were incorporated into the Federal Republic, the economic, social, and political challenges of this unique event have by no means been met. The basic and persisting problem is that the New States are far less efficient economically than the Old States. At present it is an undisputed fact that the currency and economic union between the two parts of Germany has not proved to be the stimulus for a rapid transition of the New States into the Western market economy, but on the contrary has resulted in wasting a large part of the industrial capacity of East Germany.

This dramatic process of economic restructuring or "crisis of transformation" is not finished. The outdated enterprises, producing ineffectively in a competitive world market, have disappeared without, however, being replaced by new workplaces in the trade and (expanding) services sectors. Unemployment in the region, close to 20 percent (registered unemployment only), threatens to undermine the economic, social, and political situation in East Germany.

A key question is whether and when a self-supporting improvement in investments and production will take place that will equalize the productivity and production of East and West Germany. It is not clear what period of time can reasonably be required for this adjustment process. Even under the most favourable conditions, the former GDR would not be able to achieve a standard of living comparable to that of the West earlier than 15 or 20 years from now. The longer we have to wait for economic improvement in East Germany and the longer employment remains low, the more social and political compensatory measures will be necessary to prevent social decline.

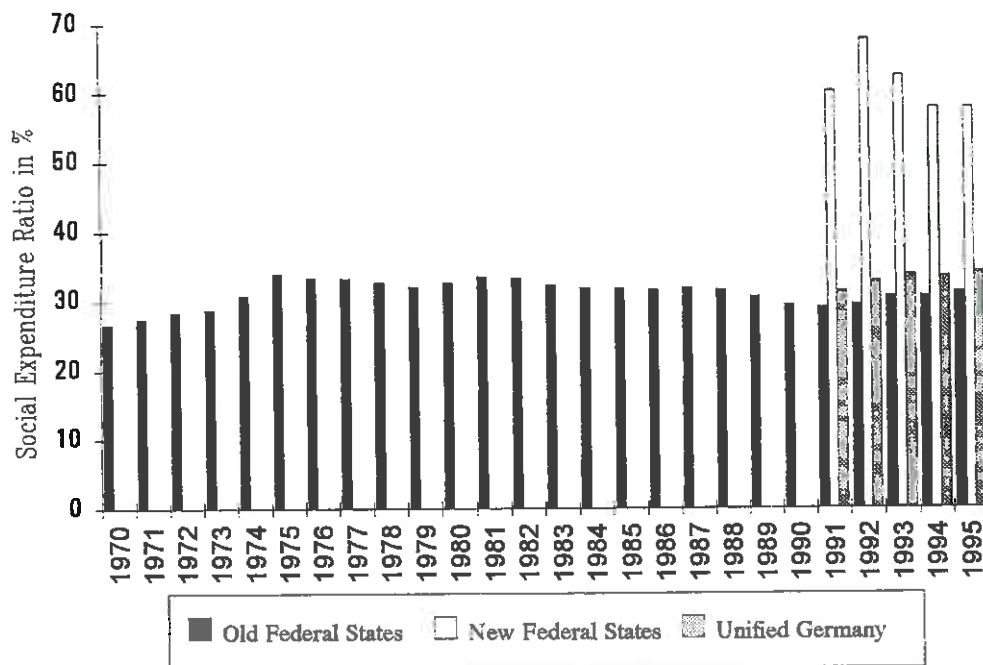
The 1990 contract for the union of the FRG and the GDR aimed at transferring the complete West German system of social security to East Germany, with the exception of some minor and special institutional regulations. Benefits, however, were based on the East German wage level which at the time of reunification was just under 50 percent of the West German figure; currently it is about 85 percent. Whereas initially it was expected that the wage levels of East and West Germany would adjust to each other within a few years, estimates in the meantime have become more pessimistic, with complete adjustment not expected before the millenium. As a result, the difference in the level of social benefits will persist. On the other hand, the

transformation of East German pensions resulted in a substantial increase in most pensions there so that the majority of pensioners in the former GDR were able to improve their position in relation to jobholders. East German pensioners thus became the real "winners" in reunification.

The problematic development of the new Federal States has had significant effects upon the Old States as well, especially with regard to over-burdened public budgets. Indeed, in hindsight, the early predictions of the Federal Government that reunification would be "free of charge" and would not unduly burden citizens in the West seem quite unfounded. It was claimed that unification could be financed by the increased taxes from economic growth and by limiting new public borrowing, but declining production and employment kept down tax revenues and contributions in the New States, while these same economic problems are causing social security expenditures at all levels of government to rise steeply. Since only part of the expenses of the States, local authorities, and social insurance agencies in the East can be met by their own revenues, a permanent transfer of funds from the West is needed.

This transfer sum amounts to 5 to 6 percent of the West German GDP and since the beginning of the nineties burdens the treasuries of all regional authorities and also of the social security providers. The result is growing deficits and increased direct and indirect taxes and social insurance contributions. In the years 1992 and 1993 alone contribution-financed transfers of the Federal Employment Agency and of the pension insurance agencies to the New States amounted to about DM 38.7 billion and DM 39.7 billion, which corresponded to 21.7 percent and 18.3 percent of the total income of the East German treasuries (Bundesministerium für Arbeit und Sozialordnung, 1997). The fact that these contributions burden only part of the working population can hardly be considered justifiable and conducive to the growth of national unity in Germany. The enormous size of social expenditure in the New Federal States emerges from a separate analysis of the rate of social security expenditure: In 1995, social spending in the *Old* Federal States was 31.2 percent of GDP, thus being significantly below the rates of the mid 1970s. In the *New* States, however, the figures in recent years were at the 60 percent mark (Graph 2). While in the majority of European countries high unemployment was a major contributor to fiscal problems, the burdens of reunification made the German case a very special one.

Graph 2: The Development of the Social Expenditure Ratio (1970 - 1995)



Notes: Social expenditure ratio in percentage of annual GDP.

Source: Figures according to Bundesministerium für Arbeit und Sozialordnung, 1997.

The budget deficits which have risen steeply in recent years due to reunification and labor market problems are exacerbated by the additional pressures created by the "convergence criteria" for membership in the European Monetary Union (EMU). To carry out a strategy of consolidation in an era of high unemployment and poor economic growth is bound to lead to an unsolvable dilemma: cuts in public expenses which, in turn, lead to reduced consumer demand, slower economic growth and increase unemployment. The result is an increase in state expenses and a rise in public debts.

Increased Expenditures and Contributions

The discussion pertaining to cutback and possible dismantling of the welfare state in Germany is dominated by concern over expenses. The central issue of this criticism is the fact that the increasing rate of social benefit payments has brought with it a steady rise in the rate of

contributions to social insurance. So at present the total of employers' and employees contributions amounts to about 42 percent of individual salaries and wages (Table 1).

Table 1. Growth of social insurance contributions (1977 - 1997)

(Total of employers' and employees contributions in percentage of individual salaries and wages)

Old Federal States; for 1997 the entire FRG					
Year	Pension insurance	Health insurance	Unemployment insurance	Care Insurance	Total
1977	18,0	11,4	3,0	-	32,4
1982	18,0	12,0	4,0	-	34,0
1987	18,7	12,6	4,3	-	35,6
1992	17,7	12,5	6,3	-	36,5
1997	20,3	13,4	6,5	1,7	41,9

Source : Own classification.

Contribution rates, moreover, rose much more than could have been expected from the rise in social benefits alone. One reason is that a greater share of benefit costs is financed by social security contributions, with a smaller part coming from general revenues. Whereas in 1970, for instance, almost 40 percent of the social budget was financed from general revenues, until 1994 the share sank to just under 32 percent (Bundesministerium für Arbeit und Sozialordnung, 1997). At the same time, however, wages declined as a share of national income. In 1982, gross wages in the FRG were 76.9 percent of total national income; in 1994 they had dropped to 70.1 percent. For the entire FRG the figure was only 69 percent in early 1996 (Schäfer, 1996). Since social benefits are predominantly financed by social security contributions on wages, a rise in the payment of welfare benefits has meant a heavier burden on a wage share that is itself shrinking as a proportion of national income. An additional factor in this development is the trend towards forms of labor which are not liable to social insurance contributions, such as marginal employment and (sham) self-employment.² At the beginning of 1992 an estimated 4.5 million people held marginal

2 In Germany, the term "marginal employment" refers to jobs which yield a maximal monthly payment of DM 610 (Old Federal States, 1997), and DM 520 (New Federal States, 1997);

employment as either their principal or secondary source of income, and thus were not liable to paying social insurance contributions on these earnings (ISG, 1993). Finally, the Care Insurance introduced in 1995 has raised contribution rates, initially by 1 percent and more recently by another 0.7 percent. Although the Care Insurance partly meant a refinancing of benefits which formerly were paid for by the (tax-financed) public assistance scheme, it has nevertheless to be stated that it included an expansion of the range of social welfare benefits in a period where many other benefits were cut down.

Rising contributions and direct wage tax are burdens on workers and their families. At present, the average wage earner with two children (unmarried, without children) retains about 70 percent (59 percent) of gross earnings (Bäcker 1996: 150). At the same time, increases in the average, inflation-adjusted gross income per employee have been slowing down. Disposable net income of the average wage earner rose only slightly in the 1980s and has been decreasing continuously since 1993.

It is generally feared that contributions will continue to rise because of demographic changes. The share of the population who are of retirement age will increase from 15.1 percent in 1992 to between 25.7 and 27.7 percent by the year 2040. These demographic changes will lead to further rises in contribution rates, especially in the area of old age security, unless the system is financed differently. According to the Prognos Institute contributions will have to rise from 17.2 percent in 1992 to between 26.3 percent and 28.7 percent, depending on economic conditions (Eckerle/ Schlesinger/Blaha, 1995). In view of the aging of the population and new, expensive forms of therapy, further rises in contributions for health care are also expected.

Gender Issues

In the old FRG, the favoured model unit for social politics was the single wage-earner family, with the husband as breadwinner and the wife as homemaker. In recent years, West German women have gradually entered the labor market. Consequently, the problem of combining the obligations of job and work in the home has become a focus of public discussion. Between 1970 and 1992 women in the old FRG have risen from 36.4 to 41.7 percent of the total number of employees liable to insurance payments (Engelen-Kefer, 1993). On a European scale, however, the (West) German ratio of working women is no more than average.

The increase in gainful employment of women is largely due to the expansion of part-time work. At present in Germany about a third of working women are employed in part-time

sham self-employment is understood to be similar to marginal employment albeit officially carried out as self-employment and also not subject to social security contributions.

positions, as against less than 3 percent of working men. In this, women profit from the increasing importance of the services sector. Public discourse often still refers to a "three phase model" for women - an initial period of full-time work, a subsequent period of family-leave and a third phase of reduced employment as a "supportive earner." All available indications are that West German women are increasingly inclined toward earning an income (DIW, 1996); so far, however, entering the labor market is frequently thwarted by deficits in public child care. In the labor market itself gender-specific forms of segregation are clearly apparent even though women have caught up remarkably well in terms of educational attainment. Yet, typical workplaces for women are still defined in terms of low qualifications, working conditions, wages, and levels of advancement.

Although the German constitution calls for equal treatment of men and women, women still remain unequal as far as social security protection is concerned. One reason is that the decision of wives not to work is encouraged in many ways. To begin with the tax system favors a single wage earner, typically the husband. Financial incentives for non-working women to become employed are rather unattractive, given high marginal tax rates. In addition, family members with no or merely minimal incomes are entitled to health insurance on a non-contributory basis, while employed spouses are both subject to the full payment of contributions. Child rearing periods (up to three years per child) are taken into account in the calculation of pensions, but so far the precondition is that the educating parent - in most cases the mother - is not working during this period. Finally, the comparatively generous survivor's pensions enable a widow or widower to sustain an accustomed living standard without having been worked outside the home or contributed to the system.

With persisting sexism in the family and the labour market it is not surprising that women's *independent* claims on social security are on average much poorer than those of men. Most elderly women in the former FRG would barely be able to survive on their *own* old age pensions. At the end of 1996 only 28.3 percent of all female pensioners, compared to 85.1 percent of all male pensioners in the statutory pension scheme achieved an individual monthly pension of DM 1,200 (VDR, 1997). In retirement, an adequate subsistence level can only be achieved, if at all, by those women who are able to combine their own retirement pensions with widows' pensions to which they are entitled. This *derived* form of protection, however, has become more fragile as a result of the increase in divorce, separation and other non-traditional family forms.

The situation in the New Federal States looks somewhat different. Reunification of the two Germanys at the beginning of the nineties brought together two entirely different conceptions of women's employment. In the late 1980s female employment rate in the GDR was more than 80 percent, being one of the highest in the world. In contrast to the former FRG, gainful employment of women, even of mothers of small children, was considered a matter of course. Underlying this

was a "right to work" or full employment policy as well as a sufficient supply of childcare institutions. Although the GDR also had a gender-segregated job market with "male" and "female" training courses and job specializations, women in the GDR on average had a relatively better position in the labor market and were far more frequently employed in leading positions than their counterparts in the FRG.

Particularly in the age group between 20 and 55 years, the labor activity rate (comprising those in employment and all registered unemployed) is still far higher in the former GDR than among West German women. Consequently, the average East German woman has considerably higher pension claims than her counterpart in the West. Nonetheless, there were large differences between the average pensions of men and women in the former GDR. Presently, the average *independent* monthly pension drawn by East German women is DM 1,112, compared to DM 1,804 for men (VDR, 1997).

Reshaping and Dismantling

The economic, fiscal, and social conditions that we have described have put increased pressures on the German welfare state. As a result, there are serious proposals to restrict social expenses as well as to alter basic elements of the welfare state, including its auspices. Proposals include a restriction of the public welfare system to minimum supply as well as the move toward privatization.

Reshaping and dismantling statutory health insurance. For some decades now the cost of the national health system has increased at a higher rate than wages. This has been caused by numerous factors, the most decisive of which are extension of the range of benefits, the costs of medical and technological progress and changes in both the range of illnesses treated and the age structure of the population. As early as the second half of the seventies there was talk of a "cost explosion in the health service," and a policy of "cost abatement" was introduced. The professed aim was to restrict the growth of expenses in the health service to the development of contribution payments of the insured, in order to be able to achieve a certain stability of contributions. These efforts, however, achieved little success. Since the end of the eighties, therefore, stronger measures were taken to curb health expenses, specifically passage of three reforms entailing considerable benefit cuts in a period of only a few years. The insured now have to contribute more for many services (such as artificial dentures and drugs), while others item (especially some medical drugs) are no longer covered. Significantly, there were no attempts to reduce overcapacities in the ambulatory and in-patient sectors (e.g., an unnecessary high supply of costly

hospital beds in some regions), and to restrict excess quantities and prices of medical supplies which had got out of control.

As the results of the first Health Reform Act in 1989 were not successful, an additional attempt to control costs was attempted in 1992. The growth rate of benefits was pegged to the growth of wages. Another innovation was to limit the licensing of medical practitioners, thereby curbing the number of service providers. The number of hospital beds available to insurees was also restricted, while long hospital stays were limited by such measures as encouraging ambulatory operations.

Even this reform did not effect a lasting restriction of rising expenses. A "Third Stage of the Health Reform Act," passed in the summer of 1997, centered on market-oriented and competition-boosting elements in the health system. Any increase in contributions by one of the statutory health insurances was tied to a parallel rise in the additional payments by the insured. In an attempt to achieve more efficiency through increased competition, the insured were granted the right to terminate membership with one agency and change to another. In addition, payments for medical drugs were raised, in some cases by more than 100 percent. Similarly, patients now will have to pay more out of their own pocket for dental replacement, massage treatment, and hospitalization. Benefits paid during prolonged sickness as substitutes for earnings have been cut from 80 to 70 percent. Health-promotion measures, introduced in 1989, were short-lived. Cumulatively, these changes show a trend towards reducing the level of governmental health provision to a mere basic provision, with the insured required to pay for the remaining services. By and large, the development moves towards a shifting of financial burdens from employers to employees or the insured and from the well to the sick members of the plans. Thus the potential for redistribution within the health system is successively diminished.

The cuts in the health system have also created great financial problems for many providers in the health sector (e.g. sanatoriums and spas, hospitals, medical practices). Many jobs in these facilities are endangered. Ever more doctors are making use of the newly introduced possibility of privately billing their health fund patients. Creeping privatization of the health service is discernible.

Reshaping and dismantling statutory pension insurance. In 1989, the German Bundestag agreed to a reform of pension insurance which went into effect at the beginning of 1992 (the 1992 Pension Reform Act). Substantial points of the reform, which was supposed to ensure the long-term viability of pension insurance, included: indexing pensions on the basis of net rather than gross wages; extending the child education periods which are taken into account for the educating parent's pension from one to three years for children born since 1992; gradually raising the pensionable age, beginning in the year 2001; and significantly reducing education and training

periods that count toward pension entitlements. Basic elements of the Statutory Pension Insurance were however retained, although some rather radical reform ideas had been discussed, such as a reorientation towards a basic-pension system with flat rate benefits, or a change from financing by a pay-as-you-go system to a capital funded system. As a result of the reform, the increase in pensions was halted. Redistribution within the pension system was reduced, disadvantaging smaller pensions. If the official targets to establish a "fairer" distribution of financial burdens and to improve the social protection for not working mothers were achieved, remained controversial.

Although this reform was considered to be a long-term solution, it only sufficed for a rather short period. The consequences of German reunification and surging unemployment led to further increases in contribution rates.

In 1996, further cuts in the Pension Law were made at short notice. Once more, for instance, the countable periods of education and training were reduced. Moreover, the process of raising the retirement age for women, unemployed persons, and the long-term insured to 65 years was accelerated; anyone who wants to retire earlier will, in the future, have to accept a reduction of up to 18 percent of his or her pension. Once again changes brought statutory Pension Insurance closer to private insurance. Hardest hit by these changes are women and others drawing small pensions.

In addition to these cuts, a renewed general pension reform discussion got under way from 1996 onwards. Government and Opposition commissions presenting reform concepts; further demands and contributions to the discussion were submitted by trade unions, employers' organizations, and other social groups. The advocates of a change towards a basic pension system with flat rate benefits gained in weight but in the last resort were not able to prevail. The new 1998 Pension Reform Law diminishes pension indexation. The burden on pension funds arising from a rising average life expectancy is to be shifted equally onto the pensioners and contributors. This means that in the future pensions will grow more slowly than net incomes, and in the long run the replacement rate for a retiree with a complete insurance record (45 years) will drop from the present 70 percent of prior earnings to 64 percent. There will be further substantial cuts in the level of disability pensions, which account for about 20 percent of new benefits. The Pension Reform Act passed the parliament in late 1997; there is no need for the opposition-dominated Bundesrat (Upper House) to agree, as was the case with tax reform.

The Social Democratic Party and the trade unions do not think it necessary to lower pension levels at the present time. They argue that as a result of reductions already adopted a large number of pensions will sink to the level of social assistance payments, thus being non-contributory benefits. This means that people who have made pension contributions for many years will be no better off in their old age than those who never contributed.

One proposal for reducing financial burdens on the pension system that would not involve benefit cuts is to relieve the system of "extraneous" benefits - that is, obligations connected with reunification, repatriation of former emigrants of German descent, and the financial equalization of family burdens. The total share of these non-contributory benefits amounts to almost a third of entire expenses (Ruland, 1995).

In the long run a further dismantling of provision for old age security can be foreseen. The problem often not considered sufficiently is that the intended cuts in the *theoretically* achievable level of pension (after a full working record) will be joined by concrete future losses in pensions due to unemployment and the increase of precarious forms of employment which are not covered by the social security schemes. The overall level of social security will in all probability further be decreased because coverage by the German company pension schemes, the "second pillar" of old age security, is declining, according to all available empirical. A decade ago 72 percent. of all employees in industry had a claim on a company pension, while the figure has decreased to 65 percent. (ptz, 1997). Consequently many voices call for an expansion of private provision as a fully funded "third pillar" of old age security. (e.g., IW, 1997). Such a solution, however, overlooks the fact that income distribution in Germany, as elsewhere, is becoming more unequal, so that a considerable part of the population is not in a position to accumulate additional private savings.

Reshaping and dismantling unemployment insurance. Only well-paid employees with a previous long-term record of regular employment whose unemployment is short-term are likely to be well protected by the Employment Promotion Act. It is the "problem groups" in the labor market who usually fail to be caught by the social security net. Among these are the large numbers of unregistered job-seekers, the so-called "hidden reserves", who have no claims to benefits. Especially vulnerable are young people after they finish school, apprenticeship or university education and women joining the labor market after an extended period of child-rearing. Similarly unprotected are the large and growing number of employees who are part-timers with low incomes and/or pseudo-self-employed, both of which are not covered by compulsory unemployment insurance.

Even when they are covered by unemployment insurance, persons who previously worked in lower to medium income brackets may find their benefits insufficient. Families with several children whose sole breadwinner earned an average wage and has become redundant, almost invariably fall below subsistence level and are forced to depend on public welfare benefits.

Despite the problems caused by increasing unemployment, expansion of social protection for the unemployed has not been a topic of public discussion in recent years. On the contrary, earnings-replacement benefits went from bad to worse on several occasions in the years since

1982: the terms of entitlement were tightened by expanding the periods of insurance prior to an entitlement to benefits. The payment levels of unemployment benefits and unemployment assistance have been lowered; the so-called bad-weather allowance for outdoor workers has been abolished; it has been made more difficult for the unemployed to refuse work beneath their qualifications, and last but not least according to a new regulation unemployment assistance benefits for long-term unemployment are now annually lowered by 3 percent.

Fiscal considerations or attempts to relieve the strained budgets of the Federal Labor Office and the Federal Government are among the reasons for these restrictions. So far the restrictions have not led to an appropriate relief of the public households, however. Therefore to a large extent the mere redistribution of finances is taking place by means of which the Federal Government wishes to stabilize its own budget at the cost of the local authorities, who are forced to foot more of the welfare bill. But this is actually only part of the motivation for austerity. The emaciation of social safeguards in unemployment at the same time serves as a kind of lever to differentiate the wage system. To the extent that government regards far-reaching deregulation of the labor as a precondition for growth and employment, the obvious conclusion seems to be that unemployment must lead to significant cuts in income, even bordering on impoverishment. Social protection is being diminished so that workers will be obliged to accept whatever job is available.

Reshaping and dismantling social assistance. Even the ultimate social safety net has not escaped cuts. Reductions in public welfare include limiting benefit levels and tightening disciplinary measures. The proclaimed intention was to retard the growth of expenses in this area and thus offer financial relief to local authorities that were hard hit by the mounting burden of welfare benefits. It was argued that the cuts had become necessary because of widespread misuse of the benefit system and provision of allowances well above the survival level. It is maintained further that there is no longer a significant difference between incomes of low-wage groups and the level of benefits paid as subsistence aid; that surviving on welfare benefits is easier and more convenient than existing on a working income in the lower segment of the labor market; and that such benefits prevent the unemployed from accepting low-wage work.

Research, however, shows that wages are still more adequate than social assistance (Bäcker/Hanesch, 1998). The present level of social assistance for nearly all family constellations lies significantly below the available income of working people, even when poorly-paid groups are considered. Overlapping only occurs when several older children are part of the household or when rent is high and only one member of the household receives a regular income, reasons unrelated to the level of assistance benefits.

In the political as well as scientific discussions, however, these facts are hardly taken into account. Those employees who are relatively safely placed in the labor market are receptive to the

idea that unemployment, especially if it is long-term, is the result of personal failure, and consequently cuts in benefits meet with general approval. This pattern of thought is reinforced by the enormous pressure resting on the labour market to which the opening of Central and East European labor markets and subsequent (legal as well as illegal) entry of newcomers have contributed. Such policy interpretations of unemployment, labor and wages are of decisive importance for the present discussion on reforming social security programmes.

Some Trends and their Evaluation

Women as Losers in Employment and Social Provision

Women are losing ground as a result of declining labor market conditions and diminishing social provision. In East Germany, for example, women have suffered much greater unemployment than men in the process of restructuring. In July 1996, the unemployment rate of women in the New States for the first time rose above the 20 percent mark (20,2 percent against 12,9 percent for men). Once out of a job, women find that their chances of reemployment are much lower and that their average period of unemployment is almost twice as long as that of men.

Especially women with infants and young children, single mothers, and women beyond 50 years of age have an extremely hard time. In addition, young women are facing greater difficulties in finding company traineeships than their male counterparts. In all branches of the East German economy the share of women in the labor force is declining significantly; in certain branches and areas of activity women are increasingly restricted to the lower rung of work hierarchies or to precarious forms of employment like part-time work. Moreover, there is an obvious tendency to retrain women formerly employed in the professions, trades, technology, or natural sciences for the traditional women's occupations (Engelen-Kefer, 1993).

Many of the changes adopted in recent months suggest that women's position in the labor market and in the social security system will decline still further (Klammer, 1997). Women are especially hard hit by the general trend toward removing from the social security code those regulations that have a redistributive effect and on which women have been particularly dependent.

Income Distribution and Poverty

Income distribution and poverty can be regarded as sure indications of the degree to which a country manages to achieve its targets of social redistribution and provision. Income distribution in the old FRG had been quite stable over many years (Statistisches Bundesamt, 1994). From the early seventies to the early nineties only marginal changes occurred in the relative assets of the

individual groups. Transfer payments have, on the whole, provided households in need with appropriate shares in the development of social prosperity in the FRG.

Since the beginning of the 1990s, all calculations support a trend towards increasing inequality in the distribution of net incomes (Hauser/Becker, 1996). This trend becomes particularly apparent in the New Federal States or the former GDR. According to socialist philosophy it could not be expected otherwise; income distribution at the time of reunification was far more evenly balanced in the GDR than in the FRG. Since then, however, income distribution in the former GDR is rapidly moving closer to those in the FRG.

Regardless of the relative poverty standard chosen (40, 50 or 60 percent of the average net equivalence income), in the former FRG there was a *decrease* in the rate of poverty during the sixties and seventies and a continuous *rise* since the end of the seventies that has been intensified in the nineties (Table 2). In the new Federal States relative poverty rates are lower than in the former FRG: 11.8 percent of the population in the West, compared to 8 percent in the East in 1995 (50 percent standard).

Although relative poverty in the Old Federal States is as high as in the early sixties again, the groups of individuals affected have changed. The population group most vulnerable to poverty 30 years ago, older people, run a below-average of being poor today. Neither is the "feminization of poverty" a serious problem in Germany anymore. Although women are indeed over-represented in several of the groups with a high risk of poverty, men's poverty rates have risen far faster than those of women over the past two decades, so that the women's rates are currently only marginally higher than those of men. It is the foreign population, the unemployed, and single parents - who in fact in most cases are single mothers - whose risks have risen sharply. The high percentage of children among the poor today has led to concern over the "infantilization of poverty" with a poverty-rate of 14 per cent (e.g., Hauser, 1997; Hauser/Hübinger 1993). Causes of child poverty are growing instability of marriage, relatively low percentages of working women which is, in turn, related to the paucity of child-care facilities. The growing risk of being reduced to poverty through unemployment has now reached the formerly safe middle class. Especially within the income segment close to the 60 percent poverty limit - that is, among those who are rather "precariously well-off" - considerable shifts can be observed, as current research shows (Hübinger, 1996).

Table 2:

Poverty Relative to Income in West and East Germany with Alternating Poverty Limits
 (40, 50 and 60 percent of average net equivalent income)^{a)}

Year	former FRG (Old Federal States)			former GDR (New Federal States)		
Perc.	40%	50%	60%	40%	50%	60%
1962/63	4.1	10.6	20.9			
1969	2.0	7.1	17.1			
1973	1.7	6.5	16.1			
1978	1.8	6.5	16.0			
1983	2.9	7.7	16.9			
1988	3.4	8.8	17.1			
1990	4.2	10.5	18.8	0.8	3.7	10.3
1991	4.2	10.1	19.6	2.3	4.3	10.3
1992	4.1	9.6	20.2	2.2	6.3	10.9
1993	5.3	11.0	21.1	2.8	6.3	10.9
1994	5.0	11.5	22.2	3.4	8.1	13.7
1995	5.6	11.8	21.6	2.6	8.0	13.9

Notes: ^{a)} Impoverished individuals in percentage of the population total. - All calculations are based on the old OECD- equivalence scale.

Source: EVS data bank (until 1988) and SOEP (from 1990) - cf. Hauser, 1997.

The development of poverty in Germany is reflected by a growing number of welfare recipients. When the public welfare system was introduced in the early sixties, it was generally assumed that with the continuing development of prosperity ever fewer people would have to depend on means-tested benefits. The opposite was the case, however. Since the beginning of the seventies the share of welfare recipients has risen continuously (Table 3). In the meantime more than 5 per cent of the population in the former FRG receive, if only temporarily, social assistance

payments. Though originally mainly women were concerned, in the course of time the risk levels of women and men to depend on social assistance have almost adjusted to each other. In the New Federal States the level of welfare recipients has risen rapidly since reunification. We also have to note that the figures concerning the drawing of welfare benefits only inaccurately reflect the need for social welfare; working on reliable estimates we can assume that between a third and half of those entitled to welfare benefits never realize their claim, whether from stigma or sheer ignorance (Hauser, 1995).

Table 3: Percent of Populating Receiving Means-Tested Social Assistance ^{a)}
(Old and New Federal States, in percent of the respective population group)

Year	old Federal States			new Federal States		
	all	male	female	all	male	female
1963	1.3	0.9	1.7			
1969	1.2	0.8	1.5			
1973	2.1	1.0	1.8	2.1	2.1	2.1
1983	4.0	2.4	3.0	2.8	2.9	2.7
1991	4.3	4.2	4.5	3.2	*	*
1992	4.7	4.6	4.8			
1993	5.1	*	*			

Notes : ^{a)} Social assistance, branch subsistence aid, annual total.

* no figures available at present

Sources: Statistisches Bundesamt (ed.): Fachserie 13 Sozialleistungen, Reihe 2: Sozialhilfe, various annual volumes.

All indigent persons in Germany can of course avail themselves of welfare assistance as a minimal security, a safeguard which is generous by international standards. Welfare benefits manage to lift recipients close to the poverty line. However, the steeply rising number of recipients of income-tested social assistance clearly is a result of the dismantling of the different social insurance benefits in Germany. Additionally, it has created difficulties for both the States and the local authorities that carry the main burden for financing the social assistance system. Conceived

as an emergency measure for exceptional cases, welfare assistance for a certain part of the population has become a regular line of support.

European Integration

Despite differences in historical development and current shape of their social security systems, most European countries at the present moment have to cope with problems similar to those outlined for Germany, that is to say, high unemployment and changing ways of life, immigration (legal and illegal), and demographic pressures of various sorts. The parallels which can be observed are particularly remarkable when one considers that the European Community agreed to leave social welfare policies, except protection for migrant workers, entirely in the hands of the individual member countries. Although so far no incisive assimilation of national social security systems has been arrived at, we are increasingly able to recognize signs of a "de facto approximation". National legislation also has a considerable share in this assimilation (Schulte, 1997).

Thus far the European Union has exerted upward pressure on southern European countries with less developed and generous welfare systems and in most cases avoided the danger of "social dumping" in which benefits are harmonized downward. Very strong downward pressures on welfare systems have, however, now been exerted by the "convergence criteria" established for entry into the European Monetary Union (EMU) by the Maastricht Treaty. In order to be eligible to join the EMU a country must limit its net new borrowing to 3 percent of GDP. The aim to reach this goal has been decisive for recent cuts in social welfare programmes in several European countries. Meanwhile, however, many of the responsible players in this game seem to realize that in view of similar problems being faced by all member countries, it is only sensible to search for corresponding solutions in the area of social policies. Some stages of this common endeavor to improve social safeguards on a European level have already been incorporated in the Green Book on the future of social policies (1993) and the White Book (1994), in passing the medium-term Socio-political Action Programme, the statement of the European Commission on the "Modernization and Improvement of Social Safeguards in the European Union" (Spring 1997), the Agreement on minimum standards, and the acceptance of the Social Protocol into the revised Maastricht (Two) Treaty (Summer 1997). In order to continue this dialogue, international groups of experts have been established recently to deal with certain socio-political topics. Nevertheless there can still be no mention of the fact that the economic dimension of the European Union is joined by an equally solid social dimension.

A Look Ahead

As long as the welfare state is seen as the decisive obstacle to innovation, growth, employment, and strength of the economy, its political and moral foundations will continue to erode. The welfare state needs a considerable volume of money to accomplish the task of reducing social and economic inequality. Therefore the population at large must be prepared to help carry the burden and to accept the loss in incomes. Those who count themselves among the losers in this game of redistribution will not see any use in taking part in it and will orient themselves increasingly towards private forms of provision which they regard as less costly. Such narrowing of socio-political perspectives to short-term, cost-effective calculations threatens the ideal of solidarity or community. Predicting the future of the German welfare state involves an assessment of its overall social and moral advantage to a democratic society. If the welfare state is in crisis, then this is ultimately not an economic and financial crisis but one of political acceptance. The problem we face is serious: the welfare state can administer solidarity but cannot engender it. Solidarity cannot be decreed but must be propagated continuously on the political level if people are to be convinced of its value. In a society pervaded by the need for economy this proves to be difficult, because in such a society solidarity which is needed most to overcome division and disintegration is the first value to be eroded.

Literature

- Alber, Jens (1990): Der Sozialstaat in der Bundesrepublik, Frankfurt/New York.
- Bäcker, Gerhard (1997 b): Der Sozialstaat hat eine Zukunft, in: Aus Politik und Zeitgeschichte 48-49/1997.
- Bäcker, Gerhard (1997): Arbeitslosigkeit und Armut - Defizite der Sozialen Sicherung, in: Müller, S., Otto, U. (Hrsg.), Armut im Sozialstaat - Gesellschaftliche Analysen und sozialpolitische Konsequenzen, Neuwied.
- Bäcker, Gerhard (1996): Sozialpolitik zwischen Abbau und Umbau - Reformansätze aus Sicht der Gewerkschaften, in: Schönig, W., L'Hoest, R. (Hrsg.), Sozialstaat wohin? Umbau, Abbau oder Ausbau der Sozialen Sicherung, Darmstadt.
- Bäcker, Gerhard (1992): The new Germany - a divided Society, in: Welfens, P. (Hrsg.), Economics aspects of German unifikation, New York.
- Bäcker, Gerhard, Hanesch, Walter (1998): Arbeitnehmer und Arbeitnehmerhaushalte mit Niedrigeinkommen, Düsseldorf 1998.
- Bundesministerium für Arbeit und Sozialordnung (1997): Übersicht über das Sozialrecht, 4. Auflage, Bonn.
- DIW (Deutsches Institut für Wirtschaftsforschung) (1996): Wochenbericht 28/1996.
- Eckerle, K./Schlesinger, M/Blaha, G. (1995): Perspektiven der gesetzlichen Rentenversicherung für Gesamtdeutschland vor dem Hintergrund veränderter politischer und ökonomischer Rahmenbedingungen, Prognos, Basel.
- Engelen-Kefer, Ursula (1993): Frauenerwerbstätigkeit im demographischen Wandel, in: Klose, Hans -Ulrich (Hrsg.): Altern hat Zukunft, Opladen, S. 176 - 196.
- Esping-Andersen, Gosta (1990): The Three Worlds of Welfare Capitalism, Cambridge.
- Hauser, Richard (1995): Das empirische Bild der Armut in der Bundesrepublik Deutschland - ein Überblick, in: Aus Politik und Zeitgeschichte, B 31 - 32, 28. Juli 1995, S. 3 - 13.
- Hauser, Richard (1997): Armut, Armutsgefährdung und Armutsbekämpfung in der Bundesrepublik Deutschland, in: Jahrbücher für Nationalökonomie und Statistik, Vol. 216/4+5, Stuttgart, S. 524 - 548.
- Hauser, Richard/Becker, Irene (1996): Zur Entwicklung der personellen Verteilung der Einkommen in West- und Ostdeutschland 1973 bzw. 1990 bis 1994, in: Sozialer Fortschritt, Jg. 45 Heft 12, Dezember 1996, S. 285 - 293.

Hübinger, Werner (1996): Prekärer Wohlstand - Neue Befunde zu Armut und sozialer Ungleichheit, Freiburg.

ISG (Institut für Sozialforschung und Gesellschaftspolitik) (1993): Sozialversicherungsfreie Beschäftigung, Forschungsbericht Nr. 181a des Bundesministeriums für Arbeit und Sozialordnung, Köln/Bonn.

IW (Institut der Deutschen Wirtschaft) (1997): Reform des Sozialstaats, Vorschläge, Argumente, Modellrechnungen zur Alterssicherung, Köln.

Klammer, Ute (1997): Wieder einmal auf der Verlierer(innen)seite - Zur arbeitsmarkt- und sozialpolitischen Situation von Frauen im Zeitalter der "Sparpakete", in: WSI-Mitteilungen 1/1997, S. 1 - 12.

Köddermann, Ralf (1996): Sind Löhne und Steuern zu hoch?, in: IFO-Schnelldienst 20/1996.

Martens, Rudolf (1997): Teures Elend. Die fiskalischen Kosten der Arbeitslosigkeit in West- und Ostdeutschland - Ausgaben und Einnahmeausfälle entstehen auf sieben unterschiedlichen Ebenen, in: Blätter der Wohlfahrtspflege 4+5/1997, S. 82 - 84.

ptz (1997): Betriebsrenten zu unattraktiv, in: Frankfurter Rundschau, 16.7.1997.

Ruland, Franz (1995): Versicherungsfremde Leistungen in der gesetzlichen Rentenversicherung, in: Deutsche Rentenversicherung 1/1995.

Schäfer, Claus (1996): Mit falschen Verteilungs-"Götzen" zu echten Standortproblemen. Zur Entwicklung der Verteilung in 1995 und den Vorjahren, in: WSI-Mitteilungen 10/1996, S. 597-616.

Schmid, Manfred (1988): Sozialpolitik - historische Einführung und internationaler Vergleich, Opladen.

Schulte, Bernd (1997): "Europäische Sozialpolitik - Auf dem Weg zur Sozialunion?" Die "soziale Dimension" der Gemeinschaft: Europäischer Sozialstaat oder Koordination nationaler sozialpolitischer Systeme, in: Zeitschrift für Sozialreform 3/1997, S. 165 - 186.

Sitte, Ralf 1997: Bilanz der "Politik für mehr Arbeitsplätze", in: WSI-Mitteilungen 11/1997, S. 780 - 789.

Statistisches Bundesamt (1994): Verfügbares Einkommen, Zahl der Haushalte und Haushaltsmitglieder nach Haushaltsgruppen - Aktualisierte Ergebnisse der Volkswirtschaftlichen Gesamtrechnungen für die Jahre 1972 bis 1993, Wiesbaden (Sonderdruck).

Statistisches Bundesamt (ed.): Fachserie 13, Sozialleistungen, Reihe 2: Sozialhilfe, various annual volumes, Wiesbaden.

SVR (1996): Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, Jahresgutachten 1996/97, Bundestagsdrucksache 13/6200.

VDR (Verband deutscher Rentenversicherungsträger) (1997): Statistik Rentenbestand am 31. Dezember 1996, Frankfurt a.M.

Wagner, Gerd/Rinne, Karin (1996): Droht ein "Krieg der Generationen?" Empirische Evidenz zur Zufriedenheit mit der sozialen Sicherung, in: Sozialer Fortschritt 12/1996.

Bisher erschienene WSI-Diskussionspapiere

1. **Tofaute, Hartmut:** Bonner Finanzpolitik auf Crash-Kurs - Der öffentliche Dienst als Sparschwein der Nation?, Juli 1993
2. **Heise, Arne:** Beschäftigung und Wachstum in der Bundesrepublik 1970 - 1990 - einige Bemerkungen, August 1993
3. **Meißner, Werner:** Die Einheit als ökonomische und nationale Aufgabe - Beitrag zum Hambacher Disput „Solidarität gefordert“ am 25. September 1993, September 1993
4. **Sitte, Ralf/Ziegler, Astrid:** Die - neuerliche - Reform der EG-Strukturfonds. Einige Anmerkungen zu den wesentlichen Änderungen, November 1993
5. **Ziegler, Astrid:** Gewerkschaftliche Politik für kleinere und mittlere Unternehmen und die Praxis der „Mittelstandspolitik“. - Regional- und Beschäftigungspolitische Bedeutung -, Dezember 1993
6. **Nolte, Dirk:** Die Strukturkrise in der Automobilindustrie. - Entstehungsursachen und Perspektiven -, Januar 1994
7. **Nolte, Dirk:** Die Bedeutung der Automobilindustrie im südkoreanischen Wirtschaftsmodell.- Perspektiven der südkoreanischen PKW-Industrie - Januar 1994
8. **Tofaute, Hartmut:** Frisches Geld für staatliches Handeln - gibts das noch?, März 1994
9. **Sitte, Ralf:** Ökologische Neuordnungspolitik im Energiesektor? Eine Betrachtung zur Kontroverse um die Kohlefinanzierung und den „Energiekonsens“, April 1994
10. **Tofaute, Hartmut:** 'Marx und Keynes' Bedeutung für arbeitnehmerorientierte Wissenschaft und Politik, April 1994
11. **Nolte, Dirk/Sitte, Ralf/Tofaute, Hartmut/Wagner, Alexandra:** Zum Verbleib von ehemals 4 Millionen Beschäftigten in Unternehmen der Treuhandanstalt, April 1994
12. **Heise, Arne:** Skizze einer alternativen Theorie der (Unter-)Beschäftigung, Mai 1994
13. **Tofaute, Hartmut:** Ökosteuern und -abgaben. Wirksame Instrumente des Umweltschutzes, Juli 1994
14. **Bispinck, Reinhard:** Strukturprobleme der bundesdeutschen Wirtschaft - Strukturprobleme der Tarifpolitik, August 1994

15. **Lecher, Wolfgang:** Die reale Situation der Interessenvertretung in Frankreich und Deutschland - ein empirischer Vergleich -, September 1994
16. **Sitte, Ralf/Ziegler, Astrid:** Gewerkschaftliche Beteiligung an den EU- Strukturfonds in den Bundesländern - Ergebnisse einer schriftlichen Umfrage -, September 1994
17. **Bäcker, Gerhard:** Altersarmut - Frauenarmut. Diskussion eines sozialen Problems und sozialpolitische Reformoptionen, September 1994
18. **Bäcker, Gerhard:** Soziale Sicherung bei Arbeitslosigkeit - Soziale Ausgrenzung, Negativsteuer und Grundsicherung, September 1994
19. **Lecher, Wolfgang:** Angebotskorporatismus? Finanzierungsmodelle von Weiterbildung in Europa, September 1994
20. **Bäcker, Gerhard/Stolz-Willig, Brigitte:** Mehr Teilzeitarbeit - aber wie? Zur Diskussion über Förderung und soziale Absicherung optionaler Arbeitszeiten, September 1994
21. **Heise, Arne:** Welche Bedeutung hat die neoklassische Arbeitsmarkttheorie angesichts dauerhafter Massenarbeitslosigkeit?, November 1994
22. **Sitte, Ralf:** Ökologischer Strukturwandel durch Energiesteuern. Eine kritische Würdigung erwünschter Lenkungseffekte eines sozialverträglichen Kompensationsmodells, März 1995
23. **Ziegler, Astrid:** Gleichwertige Lebensbedingungen. - Zur Diskussion um den Gleichwertungsbegriff in der Raumordnungs- und Regionalpolitik -, September 1995
24. **Sitte, Ralf:** Klimapolitik und Energiekonsens - Politische Rahmenbedingungen und ökologische Anforderungen bei der Wiederherstellung eines Energiekonsens, Oktober 1995
25. **Heise, Arne:** Struktureller und institutioneller Wandel, Deregulierung und Beschäftigung in Großbritannien und der Bundesrepublik - ein einführender Überblick -, Dezember 1995
26. **Stolz-Willig, Brigitte:** Chancengleichheit im Kollektivvertragssystem, Februar 1996
27. **Ralf Sitte/Hartmut Tofaute:** Beschäftigungsbilanz der Treuhandanstalt. Eine kritische Übersicht zur Personalpolitik der Jahre 1990 - 1994, April 1996
28. **Tofaute, Hartmut:** Die Belastung der privaten Haushalteinkommen mit indirekten Steuern auf spezielle Güter und Dienstleistungen, Juli 1996
29. **Heise, Arne:** Deregulierung und Beschäftigung in Großbritannien und Deutschland, Dezember 1996

30. **Lecher, Wolfgang:** Gewerkschaften und industrielle Beziehungen in Frankreich, Italien, Großbritannien und Deutschland - Rahmenbedingungen für die EBR, Januar 1997
31. **Sitte, Ralf:** Nach dem Abschwung Ost: Letzte Ausfahrt „Lohnfalle“?, Februar 1997
32. **Samland, Uwe:** Reformdebatte der europäischen Strukturpolitik. Synopse wichtiger konzeptioneller Positionen zur Reform der europäischen Strukturpolitik, Februar 1997
33. **Heise, Arne:** Wage dispersion, structural change and unemployment - a graphical exposition, Februar 1997
34. **Ziegler, Astrid:** Partnerschaft, Beteiligung und Umsetzung. Zwischenbilanz und Perspektiven der Beteiligung der Sozialpartner an der Europäischen Strukturpolitik, Februar 1997
35. **Tofaute, Hartmut:** Zur Bedeutung und Funktion steuerlicher Vergünstigungen - zu Möglichkeiten und Konsequenzen ihres Abbaus im Zusammenhang mit der Debatte um die Steuerreform 1998/1999, März 1997
36. **Störmann, Wiebke:** Die Vorschläge der Bundesregierung zum Steuerreformgesetz 1999 - Ziele und Wirkungen -, April 1997
37. **Klammer, Ute:** Zur Umgestaltung der sozialen Sicherung und ihrer Finanzierung - Europäische Wege und ihre Relevanz für die deutsche Diskussion, Juni 1997
38. **Störmann, Wiebke, Ziegler, Astrid:** Wirtschaftliche Förderung in den neuen Bundesländern. Kritische Anmerkungen zum mittelfristigen Förderkonzept der Bundesregierung nach 1998, Juni 1997
39. **WSI-Arbeitsgruppe Reform der Europäischen Strukturfonds:** Die Reform der europäischen Strukturfonds aus arbeitnehmerorientierter Sicht - Positionspapier, Juli 1997
40. **Störmann, Wiebke:** Reform der Unternehmensbesteuerung, Juli 1997
41. **Eufinger, Barbara/Radke, Petra:** Lohnsubventionen als Beschäftigungsstrategie für gering qualifizierte Arbeitskräfte, August 1997
42. **Höpner, Martin:** Politisch koordinierte Ökonomien 1973-1996, Oktober 1997
43. **Radke, Petra/Störmann, Wiebke:** Qualifizierung und Chancengleichheit - Zu den Auswirkungen staatlicher Bildungsmaßnahmen während des Erziehungsurlaubs, Februar 1998
44. **Hassel, Anke/Schulten, Thorsten:** Globalisation and the future of central collective bargaining: the example of the German metal industry, Februar 1998

45. **Sitte, Ralf:** Ausbau - Umbau - Abbau - Notwendige Korrekturen an der Kritik des Sozialstaates, Februar 1998
46. **Radke, Petra/Störmann, Wiebke:** Erziehungsurlaub und Chancengleichheit am Arbeitsmarkt, April 1998
47. **Bäcker, Gerhard/Klammer, Ute:** The Dismantling of Welfare in Germany, Mai 1998.

