

VII Germany

Josef Schmid

1 Introduction – Crisis and reform

The social security systems of the Federal Republic of Germany have come under massive pressure, as have those of all the western European countries. Changes in the general political, economical and social conditions have intensified the inherent ‘contradictions of the modern welfare state’.¹ On the one hand there is the need for an increase in financial efforts, because there are more than four million people unemployed. On the other hand the national debt in excess of 1.5 trillion Deutschmark (DM, or €0.87 trillion), severely impedes the political scope for manoeuvring. In addition, a string of further important challenges awaits, such as the problems in financing the pensions, given the altered demographic structure, the erosion of the social and moral foundations of societal solidarity, as well as the slackening of the care that, beforehand, had been provided for within the boundaries of the family. The latter phenomenon inspired the introduction of the nursing care insurance in 1994, which is intended to close this gap in the provision of care. Apart from specific socio-political questions, the future of Germany is at stake: its political and economic structure, its competitiveness, its social quality. Moreover, a considerable burden has been added to the social security system by the aftermath of the German unification.

In the past decades, many political attempts have been made to introduce reforms in order to correct the mismatch between the social security system and its socio-economic context. Along with the change of government in 1982, a neo-liberal ‘change of direction’ was announced, aiming at a cutback of financial transfers, a strengthening of individual responsibility, and deregulation. It was, however, only partially realized. As a consequence, the era of Chancellor Kohl brought many

¹ C. Offe, *Disorganized Capitalism*, Cambridge: Polity, 1985; Martin Rhodes, ‘The Welfare State: Internal Challenges, External Constraints’, in: M. Rhodes, P. Heywood & V. Wright (eds.), *Developments in West European Politics* (London: Macmillan, 1997), p. 57-74. See also: F.-X. Kaufmann, *Herausforderungen des Sozialstaates* (Challenges of the Welfare State), Frankfurt: Suhrkamp, 1997, and D. Döring (ed.), *Sozialstaat in der Globalisierung* (The Welfare State in the Globalization Process), Frankfurt: Suhrkamp 1999.

changes but displayed a considerable continuity in social policy.² However, scientific analyses produce controversial results. Some suggest continuity because the basic institutional structures have remained virtually unchanged and social contributions have remained persistently high. Others point out that numerous smaller cuts and measures add up to a qualitative transformation which will have far-reaching consequences in the near future.

The Schröder administration has been in office since the end of 1998. It comprises the *Sozialdemokratische Partei Deutschlands* (SPD, Social Democratic Party of Germany) and *die Grünen* (Green Party). It revoked some of the cuts in the social net made by its predecessor. It also announced far-reaching reforms concerning pensions, the public health service and labour market policy. However, a fundamental change in social policy is not to be expected even now, because the Government will encounter many problems if it tries to introduce its reforms too quickly. It will have to confront the sluggishness of the political system and the social security system.³ There is enough going on within social security, however, to make predictions on its future development hazardous. For that reason, the following account will concentrate on the *status quo*.

2 The German welfare state model – an overview

2.1 History and typology

The German model of social security has a history that spans more than a hundred years. From the days of Bismarck and through the various changes of political regimes, essential characteristics have remained constant. Above all, it was conceived as an insurance for employees and not as a universal support for all citizens. According to a popular classification by Esping-Andersen,⁴ Germany is a conservative welfare state. In this type

- social rights are tied to class and status

2 J. Schmid, 'Mehrfache Desillusionierung und Ambivalenz. Eine sozialpolitische Bilanz (Multiple Disillusionment and Ambivalence. An evaluation of social policies)', in: G. Wewer (ed.), *Bilanz der Ära Kohl* (An evaluation of the Kohl era) (Opladen: Leske und Budrich, 1998), p. 89-111.

3 This position is postulated from a historical and institutionalist perspective in the comparative welfare state research, e.g. M.G. Schmidt, *Sozialpolitik* (Social policies), Opladen: Leske und Budrich, 1998, and J. Schmid, 'Wohlfahrtsstaaten im internationalen Vergleich: One Bad Way? (An international comparison of welfare states: One Bad Way?)', in: J. Lüdtkke & S. Lamnek (eds.), *Sozialpolitik zwischen Globalisierung und Hedonismus* (Social policies between globalization and hedonism) (Opladen: Leske und Budrich, 1999), p. 93-114.

4 G. Esping Andersen, *The Three Worlds of Welfare Capitalism*, Cambridge: Polity 1990.

- social inequality and status differentiation are relatively great, and
- tendencies toward social segmentation (especially **between** labourers, employees and the poor) are recognizable.

Constitutionally, Germany is conceived as a *Sozialstaat* (social state). Its moral horizon is composed of diverse values, such as economic security, liberty, equality, and justice. These values give shape to its social security system. In Article 20, paragraph 1, and Article 28, paragraph 1 of the *Grundgesetz* (constitutional law), the so-called *Sozialstaatsgebot* (welfare state rule) defines the Federal Republic as a 'social and federal' or 'social and constitutional' state. These stipulations belong to the unalterable principles of the constitution.⁵

Apart from these legal norms, there exist a number of guiding principles that reflect certain notions on political order and social ethics. These principles are important because they provide orientation and legitimization to the actors in the field of social security. One of these principles is the triad of liberty, equality and solidarity (or social justice). It establishes and regulates a complex mesh of reciprocal duties and considerations. It also helps distinguishing between collective and individual responsibilities. Finally, it constitutes the ethical foundation for redistributive measures and examples of barter justice.

Within social security, responsibilities are allotted in accordance with the principle of *subsidiarity*, which implies 'giving priority to the lower unit'. It defines the relation between individual responsibility and collective responsibility and, also, the relation between lower and higher executive organizations. It explains, for instance, why in the management of social security, 'lower' welfare unions are given pre-eminence over 'higher' municipal or State agencies. It also explains why these welfare unions are supported by public means.

2.2 Organizing principles

Complementary to the *Grundgesetz*, the German social security system is shaped and organized **in accordance with** three principles:⁶

- the principle of insurance

5 For a systematic debate about the normative base, the structures and benefits of the German system of social security see: H. Lampert, *Lehrbuch der Sozialpolitik* (Manual of social policy), Berlin: Springer 1994, L.F. Neumann & K. Schaper, *Die Sozialordnung der Bundesrepublik Deutschland* (The social system of the Federal Republic of Germany), Frankfurt a.M.: Campus, 1990, and N. Blüm & H. F. Zacher (eds.), *40 Jahre Sozialstaat Bundesrepublik Deutschland* (The welfare state of Federal Republic of Germany over the last forty years), Baden-Baden: Nomos, 1989. A short overview provides M. Wilson, 'The German Welfare State. A conservative regime in crisis', in: A. Cochrane & J. Clarke (eds.), *Comparing Welfare States* (London: Sage 1993), p. 141-168.

6 These are ideal typical principles, which can hardly be applied in their pure form. In the social security system of the Federal Republic it is mixed forms that dominate.

- the principle of provision
- the principle of care.

The principle of social insurance implies the protection of the majority of citizens against social contingencies. Therefore, in contrast to individual or private insurance, social insurance is compulsory. Individual contributions, with the exception of contributions to pension insurance, are not only calculated according to the principle of equivalence but also according to social criteria. According to the principle of equivalence contributions are calculated in relation to the costs of a potential claims settlement. However, in social health insurance family members who are not gainfully employed are co-insured without further costs. Co-insured people are entitled to the same provisions as the insured, independent of the amount of contribution paid (which is wage-related). Social insurance is thus based on the principle of solidarity. This aspect is reinforced by the fact that the state grants subsidies when the funds available for social insurances from contributions are not sufficient.

In the case of the provision principle there is no contribution, and therefore no mutuality. Benefits are financed from tax revenues. Entitlement to benefits is based on preliminary delivered services of those people. This includes:

- benefits for civil servants (illness, disability and age), and
- benefits both for the war-disabled and for surviving dependants.

The care principle, which is reflected in the Bundessozialhilfegesetz (Federal Social Security Act) of 1961, acknowledges that not only group-specific emergency situations but also specific individual emergency situations must be taken into account and, if possible, rectified by suitable supportive measures. Therefore, entitlement to benefits and the actual granting of benefits are geared to individual circumstances. However, care is only supplementary. In other words, it is provided when relatives who are liable to provide maintenance are not able to do so. Because it is financed from taxation, this type of care is, in effect, a socially motivated transfer leading to a correction of the income distribution.

2.3 General problems and deficits

The social security system functions on the basis of the triad of wage labour, regular employment and full employment. On the one hand, this triad is the financial basis of the system, on the other hand it supplies the criteria for the granting of benefits. If this basis fails, fewer people pay and financial deficits arise, and the provision of benefits falters. This is especially true during protracted periods of mass unemployment. It is also true if one considers the lack of employment opportunities for women. In these cases there is the danger of impoverishment and lack of care. Other social disadvantages then accumulate. Conversely, the reliance on the triad of wage labour, regular employment and full employment may lead to

a surplus of support for those who do not need it and a preferential treatment for the well-to-do as, for instance, in the case of housing subsidies and children's allowance.

Further shortcomings in the provision of benefits are the result of the organizational fragmentation into different insurance systems. This fragmentation is the result of historical development. Some of these systems have taken on a life of their own and are partially to blame for blocking reforms. Moreover, they are dominated by the principle of causality, which implies that services are established on a legal basis and on organizational competence, and not according to specified goals (principle of finality).

Finally, German social security is confronted with the consequences of German unification. The old social security system of the Deutsche Demokratische Republik (DDR, German Democratic Republic), which was based on full employment through planned economy and a comprehensive social policy, was abolished and the social system of the Federal Republic was transferred to eastern Germany. This led to massive practical and administrative problems, especially in respect to the *Sozialleistungsrecht* (legislation of social benefits). The financial burden was enormous. According to estimates by the *Bundesministerium für Arbeit und Sozialordnung* (Federal Ministry of Labour and Social Affairs between 1992 and 1996 no less than DM 230 billion (€117.6 billion) of the unemployment and pension insurance funds flowed from the old into the new federal states.⁷ In addition, extensive financial transfers are taking place which are financed through taxes. In view of the considerable structural economic deficits and weaknesses as well as the necessary investments in the public infrastructure of eastern Germany, these transfers will only take effect in the long run. Along with the general loss of competitiveness of Germany, these burdens severely limit the margins for distributive policies.

3 The social security system in Germany

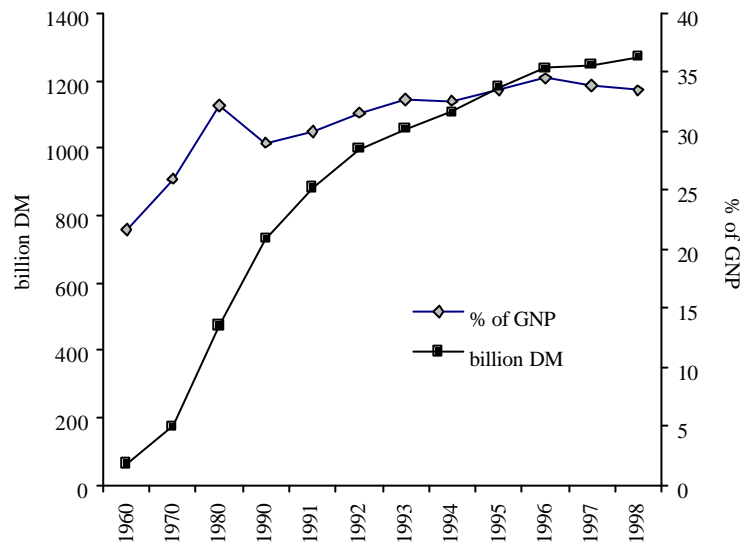
3.1 Extent, financing and benefits

The German social security system is both one of the oldest and one of the most expensive in the world. Looking at the total expenditure (social budget) one can

⁷ See A. Meusch, 'Stichwort Soziale Sicherheit', in: Werner Weidenfeld & Karl-Rudolf Korte (eds.), *Handbuch zur deutschen Einheit* (Manual on German Unification) (Frankfurt a.M.: Campus 1993), p. 695-709; W. Schmähl (ed.), *Sozialpolitik im Prozeß der deutschen Vereinigung* (Social policies and the process of German Unification), Frankfurt a.M.: Campus, 1992.

see the structure and importance of social policy in the FRG and its dramatic rise in the last decades.

Figure 1. Social budget of the Federal Republic of Germany, 1960-1998



In absolute terms, the expenditure on social security has multiplied by twenty in forty years. **In relative terms**, the share of social security expenses of the GDP has risen from 21.7 % in 1960 to 33.5 % in 1998.

The shares of the different institutions contributing to the social budget (1998) are as follows:

- the insured: 30.9%
- the employers: 33.4%
- the public purse: 34.4% (e.g. DM 102.7 billion for the pension insurance)
- others: 1.3%.

These figures show an important structural **characteristic** of the German social security system. The main benefits are financed by the compulsory insurance schemes, most of **which** are funded by (**continually** increasing) wage-related contributions.

German social security is **divided** into the four classical **types** of insurance. **Because of the historical context**, they came into being in an order which differs from the usual order in other countries:

- health insurance (1883)
- accident insurance (1884)
- pension insurance (1889)

- unemployment insurance (1927)

In 1994 legislation was passed on nursing care insurance, making this insurance a compulsory part of the social insurance system. The [relevance of the different types of insurance](#) in terms of expenditures is indicated in table 1.

Table 1: [Expenditures on social security](#) in the Federal Republic of Germany, 1998⁸

Category	million DM	million €	% of social budget	% of GDP
Social budget	1,272,058	650,393	100	33.5
1 <i>Social security (general system)</i>	836,394	427,641	65.8	22
1.1 Pension insurance	398,294	203,644	31.3	10.5
1.1.1 • workers' pension insurance	199,111	101,804	15.7	5.2
1.1.2 • employees' pension insurance	172,256	88,073	13.5	4.5
1.1.3 • miners' pension insurance	26,927	13,768	2.1	0.7
1.2 Nursing care insurance	30,659	15,676	2.4	0.8
1.3 Health insurance	245,909	125,731	19.3	6.5
1.4 Accident insurance	20,952	10,713	1.6	0.6
1.5 Employment promotion	133,287	68,149	10.5	30.5
1.6 Child benefit	137	70	0.0	0.0
1.7 Educational maintenance grant	7,156	3,659	0.6	0.2
2 <i>Special Systems</i>	10,016	5,121	0.8	0.3
2.1 Old-age benefits for farmers	6,810	3,482	0.5	0.2
2.2 Pension schemes	3,205	1,639	0.3	0.1
3 <i>Civil service system</i>	92,683	47,388	7.3	2.4
3.1 Pensions	63,836	32,639	5	1.7
3.2 Family allowance	13,364	6,833	1.1	0.4
3.3 Grants	15,483	7,916	1.2	0.4
4 <i>Employer's contribution</i>	89,594	45,809	7	2.4
4.1 Sick pay	42,901	21,935	3.4	1.1
4.2 Company pension schemes	27,786	14,207	2.2	0.7
4.3 Supplementary pensions	14,647	7,489	1.2	0.4
4.4 Other employers' contribution	4,260	2,178	0.3	0.1
5 <i>Compensations</i>	15,626	7,989	1.2	0.4
5.1 Social compensation	10,972	5,610	0.9	0.3
5.2 Equalization of burdens	339	173	0.0	0.0
5.3 Indemnification	4,003	2,047	0.3	0.1
5.4 Other compensation	312	160	0.0	0.0
6 <i>Social help and services</i>	103,610	52,975	8.1	2.7
6.1 Social assistance	50,137	25,635	3.9	1.3
6.2 Juvenile welfare	30,940	15,819	2.4	0.8

⁸ Source: *Sozialbudget 1998* (Social budget 1998), Bonn: Bundesministerium für Arbeit und Sozialordnung (Federal Ministry of Labour and Social Policy), 1999.

6.3	Training grants	1,646	842	0.1	0.0
6.4	Rent allowances	7,556	3,863	0.6	0.2
6.5	Public health service	3,341	1,708	0.3	0.1
6.6	Asset formation	9,990	5,108	0.8	0.3
7	<i>Indirect payments</i>	124,135	63,469	9.8	3.3
7.1	Fiscal measures	74,335	38,007	5.9	2.0
7.2	Housing subsidies	49,800	25,462	3.9	1.3

Social insurance provides income equalization and/or non-cash benefits

- if a defined contingency occurs, for example a person is given a medical certificate of incapacity to work
- the person is a member of the insurance and
- contributions have been paid regularly.

Insurance benefits in the case of pensions are determined primarily by the principle of equivalence, according to which large contributions mean large benefits and *vice-versa*. The principle of equivalence, however, is supplemented by the principle of solidarity. For example, pension insurance benefits are granted to surviving dependants. Sometimes periods of contribution exemption are granted (as for education) and, in some cases, reduced contributions are taken into full account. Another constitutive feature of social insurance is that it is based on the causation principle. According to this benefits are granted when the contingency arises from clearly defined causes.

The benefits of social insurance can be divided into cash benefits, which have the function of a substitute income, and non-cash benefits and services. For example, in the case of pensions and unemployment, cash benefits dominate, but in health insurance income benefits account for about 8% of total expenditure, while the costs of non-cash benefits account for the remaining 92%. Thus health insurance finances doctors' fees, medical treatment and nursing care provided by private suppliers.

3.2 Maintaining living standards

3.2.1 Pension insurance

The German pension system was introduced in 1889. In 1957, it was radically redesigned by the Rentenreform (Act on the Revised Regulation of Pension insurance for Workers and Act on the Revised Regulation of Pension insurance for Salaried Staff). In 1972, there was a further important pension reform when a flexible retirement age was introduced. The Rentenreformgesetz (Pension Reform Act) of 18 December 1989 was aimed at securing funding for pensions in the long term, because in the coming decades the ratio of pensioners to pension insurance contributors is bound to develop unfavourably due to the increasing life expect-

tancy and the lowering of the pension age. The new measures aimed at a reduction of expenditure and on prolonging the average working lifetime. At the same time, however, new entitlements were introduced for women raising small children.

German pension insurance is based on a contributions system (Umlageverfahren) as opposed to capitalization. Some other features are also characteristic of the current system:

- the old age, disability and surviving dependants' pensions are meant to secure an adequate income. Pensions are therefore index-linked, which involves a quasi-automatic and legally fixed adjustment of pensions to current net wages and price levels annually
- pension insurance of workers is adjusted to match that of salaried staff
- rehabilitation measures (restoration of health and fitness for work) are given precedence over other measures.

There are three factors that determine the amount of a pension, as one can see below (Table 2).

Table 2: The pension formula⁹

	<i>Personal earnings points</i>
P	Insured income (up to the contribution assessment limit) for each calendar year, divided by the average income of all insured persons, then totalled over all years during which contributions have been paid, and multiplied by the age factor.
	<i>Pension type factor</i>
T	A factor depending on the intended purpose of the pension.
	<i>Current pension value</i>
C	The monthly pension that an average earner would receive after paying contributions for one calendar year (currently DM 47.65 (€24.36) in western Germany and DM 40.87 (€20.90) in eastern Germany).
P x T x C = Monthly pension	

The group of insured persons is divided into those who are liable to compulsory insurance and those who take out voluntary insurance. The largest group of compulsorily insured persons are employees, including apprentices and trainees. In pension insurance, as opposed to health insurance, the level of income has no influence on the duty for compulsory insurance for employees.

Pension insurance institutions include twenty-three state insurance institutions, the Bundesknappschaft (Federal Miners' Insurance), the Bundesbahnversicherungsanstalt (Railway Employees' Insurance Fund), the See-Unfallversicherung (Seamen's Social Security) and the Bundesversicherungsanstalt (Federal Insurance Office for Salaried Employees). The money for pension insurance comes mainly

⁹ Source: *Social Security at a glance*, Bonn: Bundesministerium für Arbeit und Sozialordnung, 1999 (www.bma.bundesregierung.de).

from contributions. In 1996, these were set at 19.2% of earned income, half being paid by the employer and half by the employee. In addition, the state grants subsidies to pension insurance, and the Bundesanstalt für Arbeit (Federal Employment Office) pays contributions for recipients of wage compensation payments.¹⁰

Pension insurance distinguishes three categories of benefits: rehabilitation, pensions, and health insurance contributions of pensioners. These categories of benefits have the following order of precedence: if the capacity to work or to exercise one's profession is reduced or prematurely lost, then vocational rehabilitation is of primary importance. In the usual case or, in other words, if working life ceases because pensionable age has been reached, (**partial**) compensation is made for the absence of an earned income by the granting of a pension.

3.2.2 Health insurance

The Gesetz, betreffend die Krankenversicherung der Arbeiter (Law on **Workers' Health Insurance**) of 1883 was the first protection of this kind and **took** the form of a statutory health insurance. Since then, it has been further elaborated **upon**: material benefits and the social coverage were widened. With the Kassenarztrecht (Law on Associations of Statutory Health Insurance Funds and Substitute Private Health Insurance, 1955) the structural foundations of the system – especially the dominance of physicians and their associations – were laid. Since the end of the 1970s most political **efforts** have been aimed at **cost-reduction**; yet they have brought no lasting success in preventing the rise of expenditure to the extent required. Even the Gesundheitsreformgesetz (Law on the Structural Reform in the Health Service, 1988) did not achieve the expected success of contribution stability.

Finally, on 21 December 1992, the much disputed Gesundheitsstrukturgesetz (Law on Safeguarding and Structurally Improving Statutory Health Insurance, or 'Health Structure Law') was passed. Two measures were taken:

- the acceptable increase in the total **amount** of fees for medical and dental services for 1993-1995 was limited to the growth rate of the income of the insurance members
- a **check on** market access **to** the outpatient sector was introduced. **As of 1999, licences to practise** within the public health service are granted **according to statutory ratios based on** forecasts of demand.

These measures improved control over statutory health insurance but did not eliminate its shortcomings altogether¹¹.

¹⁰ See e.g. D. Döring, 'Is the German Welfare State Sustainable?', in: P. Koslowski & A. Follesdal (eds.), *Restructuring the Welfare State. Theory and Reform of Social Policy* (Berlin: Springer, 1997), p.38-61, or Friedrich-Ebert-Stiftung, *Social Security in the International Development Cooperation*, Bonn 1997, chapter 2, and the literature mentioned in footnote 5.

¹¹ For a broader debate see N. Bandelow, *Gesundheitspolitik*, Opladen 1998.

The German health system is highly fragmented. At present, there are over 1,200 financially and organizationally independent health insurance funds. The local health insurance funds, the craft guild health insurance funds, the farmers' health insurance schemes, the company health insurance schemes and the alternative health insurance schemes **are particularly worth mentioning**. As a rule, the various funds and schemes are amalgamated **into** associations **at** federal and state level.

Health insurances are financed primarily through contributions, employees and employers each paying half. This covers the group of obligatorily insured persons, *i.e.* employees whose regular earned income does not exceed the contribution assessment limit which, as a rule, is fixed **annually**. Furthermore, there are contributions from pensioners and the pension insurances, students and other people entitled to insurance. **For those in receipt of unemployment benefits** payments come from the Federal Labour Office. In principle, the contribution rate is variable and is oriented according to the expenditures of the funds.

Health insurance funds are self-administering. **General** meetings and boards of the local health insurance funds, for example, are composed of employers and members' representatives on **a** basis of parity. The principle of self-administration does not, however, guarantee unlimited autonomy. The legislature **specifies** the framework of benefits, influences the financing and is responsible for the legal basis of the health insurance funds.

3.2.3 Unemployment insurance

As a branch of social security, unemployment insurance was introduced forty years later than other important schemes. It was newly constituted in 1952 by setting up, under public law, a Bundesanstalt für Arbeit (Federal Office for Employment Placement and an Unemployment Insurance). In 1969, under the Grand Coalition Government (of CDU and SPD), the unemployment insurance system was reformed towards more active labour market policies and training schemes.

Besides the Ministry of Labour, the main institution is the Federal Employment Office in Nürnberg and its regional and local offices. The unemployment insurance is also self-administering.

Contributions to the unemployment insurance have to be paid by employees with a regular employment contract or in professional training, and by their employers. At present, the contribution **rate stands at** 6.5%. Civil servants, school pupils, students in higher education, and employees who work less than 18 hours a week are not obliged to pay. The contribution **rate is** fixed by the Federal Government **in view of** the current financial situation of the Federal Employment Office. If the Federal Employment Office incurs a deficit, then the Federal Government is obliged to **cover** this by means of loans and subsidies.

The amount of unemployment **benefits is based** on the average weekly pay on which contributions were levied in the last 52 weeks before becoming eligible to

claim (the assessment period). Unemployment benefit is 67% of net earnings (for married people with at least one child, and 60% [for others](#)). Unemployment assistance for people not covered by the benefits above is 57% of net earnings for families with a child [for whom tax relief can be claimed](#), and 53% [for others](#).

3.2.4 Accident insurance

Accident insurance was introduced in 1884. Many of today's accident regulations are based on the Unfallversicherungsgesetz (Reich Insurance Code) of 1911. In February 1993, [the revised Reichsversicherungsordnung, 1. und 3. Buch](#) (Accident Insurance Revision Law) came into force. Other important steps concerning accident insurance are the Gesetz über Betriebsärzte und Fachkräfte für Arbeitssicherheit (Law on Company Doctors and Specialists in Industrial Safety, 1976, in the amended version of April 12th, 1993) and the Berufskrankheiten-Verordnung (Regulation on Professional Diseases, 1976, as amended on December 18th, 1992).

The most important aim is the prevention of industrial accidents (Reich Insurance Code, Section 146). Therefore, the professional associations have adopted a series of regulations for the prevention of accidents:

- institutions, regulations and measures [to which companies have to conform](#)
- [codes of conduct to be respected by the insured](#)
- a mandatory medical examination of insured persons before starting [to work](#), if the [work](#) involves any [substantial risk of](#) accident or health hazards.

[Responsibility for employees in the private sector rests with the professional associations. The Federal Employment Office is responsible for the unemployed.](#) Funding takes place through contributions which, in this case, are paid by the firms. The contribution rate depends on the [likelihood of accidents](#) and on the total of wages and salaries in a [particular](#) enterprise.

Benefits granted by accident insurance can be divided into two [basic](#) types:

- benefits for accident prevention and
- benefits to cover [actual](#) accidents.

3.2.5 Nursing care insurance

The Gesetz zur Absicherung des Risikos der Pflegebedürftigkeit (Nursing care insurance) is the most recently established system of social security. Its legislation was passed on [April 29th, 1994](#), and came into force in several stages. The payment of contributions began in January 1995. Benefits covering home nursing became [available](#) from April 1st 1995; benefits covering inpatient care [from](#) July 1st 1996.

Nursing care insurance is compulsory, with contributions of 1.7% of salary. Institutionally and organizationally, it is integrated within the health insurance system on the principle that ‘nursing care insurance comes after health insurance’.

If someone requires long-term care he or she will be assigned one of three care levels in order to determine the benefits to be received:

Care Level I is classed as ‘considerable need of care’. Help is needed at least once a day with personal hygiene, eating, or with a minimum of two activities out of one or more types of activity; help is also needed several times a week with household chores.

Care Level II is classed as ‘severe need of care’. Help is needed at least three times a day with personal hygiene, eating or getting around. In addition, help is needed several times a week with household chores.

Care Level III is classed as ‘extreme need of care’. Round-the-clock help is needed every day, help with personal hygiene, eating or getting around, as well as help several times a week with household chores.

Table 3: The home care benefits system¹²

<i>Home care benefits</i>	<i>Category I</i>	<i>Category II</i>	<i>Category III</i>
Monthly long-term care allowance	DM 400 (€205)	DM 800 (€409)	DM 1,300 (€665)
Maximum monthly total for non-cash long-term care benefits	DM 750 (€383)	DM 1,800 (€920)	DM 2,800 (€1,432)
Maximum for hardship cases	–	–	DM 3,750 (€1,917)

3.3 Other fields of social support

3.3.1 Supplementary benefit

Supplementary benefit was introduced in the Federal Republic in 1961. The term ‘supplementary benefit’ is synonymous with such emotionally charged terms as ‘welfare’ and ‘poor relief’ which was the current term at the beginning of this century. Supplementary benefit is granted in cases of (mainly individual) hardship if no other social benefit or family support is available. This benefit is not aimed at any specific groups; every citizen in need is entitled to it.

Since the mid-1970s the number of recipients and the amount of spending on supplementary benefits has risen drastically. There are three main reasons for this development:

¹² Source: *Social Security at a glance*, Bonn: Bundesministerium für Arbeit und Sozialordnung, 1999 (www.bma.bundesregierung.de).

- the increased unemployment rate (especially long-term unemployment)
- the increased number of elderly people and people in need of nursing care and
- the increased number of re-settlers and asylum seekers.

The number of people receiving supplementary benefits in Germany in 1998 was 2.9 million (excluding asylum seekers), compared to 1.49 million in 1970. [More details are shown in the figure below.](#)

Table 4: The supplementary benefits system: number of persons (x 1,000) and expenditure (x 1,000,000)¹³

Supplementary benefits	1997		1998			
	Persons	DM	€	Persons	DM	€
Benefits to help in subsistence	2,893	xx	xx	2,908	xx	xx
Benefits to help in particular situations	1,411	} 44,546	22,776	...	} 45,043	23,030
(Of this help to nursing care)	(328)			...		
Asylum seekers receiving regular benefits	487	5,188	2,653	416	4,379	2,239
Total	4,791	49,734	25,429	...	49,422	25,269

Increasing poverty and correspondingly increasing expenditures for social assistance, combined with debates on 'black sheep' exploiting the social security system, [are at the centre of the German](#) political arena. The efforts towards reform should be dominated by two considerations:

- [supplementary benefits must cover real needs and guarantee a humane living-standard](#)
- [so far, social assistance has been a passive measure: it should, however, be transformed into an activating instrument towards participation in the labour market.](#)

Supplementary benefits are given mainly by local authorities. In addition, independent welfare organizations give help to people who are unable to support themselves [by their own means](#). They also deliver a variety of social services – not only for the poor. Supplementary benefits are financed [from](#) taxes.

Supplementary benefits can be divided into two types:

- benefits to help in subsistence and
- benefits to help in particular situations.

[The first type includes, for example,](#) benefits for food, living accommodation, personal hygiene and heating. [Usually, these benefits are granted as monthly cash payments.](#) Help in particular situations can be claimed by people who have sufficient income to [support](#) themselves but need assistance to meet extra costs for such matters as training, preventive health care, assistance during sickness [or](#) help in [rehabilitation](#).

¹³ Source: *Bundesamt für Statistik* (Federal Agency for Statistics) (www.statistik-bund.de).

The amount paid to a family in need depends on the number of family members and on their respective ages.¹⁴ Any other source of family income will also be taken into account. At present, the standard payment for the head of a household in western Germany averages DM 539 (€276); the standard payment for his or her spouse is 80% of this amount. Depending upon their age, children will receive between 50 and 90% of the payment made to the head of household.¹⁵ If one takes a standard situation of a family consisting of a single grown-up and two children, several benefits accumulate to nearly DM 2,400 (€1,227) per month (in 1998).

3.3.2 Families and children

Families with children can claim benefits according to the number of children: DM 250 (€128) each for the first and second child; DM 300 (€153) for the third child, and DM 350 (€179) for the fourth and each further child. Child benefit is paid regardless of parents' income. Besides this, under the new system of family compensation, child benefit takes the form of tax relief or an tax allowance for children.¹⁶

Another measure to be mentioned is the child-raising allowance of up to DM 600 (€307) per month for each child. Child-raising allowance is as yet subject to income limits.

There are several other measures to support families and children; of the most important are grants for students and pupils (*Bundesausbildungs-Förderungsgesetz*).

4 One year of social politics – the new Government

Immediately after taking up office, the cabinet of the SPD and the Green Party under Chancellor Schröder passed a law introducing corrections in social insurance and improvements of the protection of the rights of employees. Furthermore the new Government took decisive steps to fight unemployment and to regulate the labour market. The main measures of the first year are as follows.¹⁷

14 The amount depends on local conditions, too. For further details see: *Social Security at a glance*, Bonn: Bundesministerium für Arbeit und Sozialordnung, 1999.

15 Certain groups of people who have additional needs can receive supplementary payments (*Mehrbedarfszuschlag*) ranging from 20 to 60 per cent of the respective standard payments.

16 This is typical for the German family policy, where many forms of assistance take the indirect way via tax reductions for spouses and children. Another way of support for this social clientele is participation in the benefits of the social security without paying own contributions.

17 Compiled of several issues of *Sozialpolitische Informationen* (Social policy information), published by the *Bundesministerium für Arbeit und Sozialordnung* and the publication of the Federal Government *Auf den Weg gebracht. Die ersten Entscheidungen zur Bekämpfung der Arbeitslosigkeit und zur Wie-*

4.1 Measures in social legislation

The suspension of the demographic factor. When the new Government came to power, the pension reform law of 1999 (Rentenreformgesetz 1999) was still valid. This law, which had been passed by the former Kohl Government, had incorporated the 'demographic factor' into the pension formula. This would have led to a permanent slowing down of the increase in pensions and would have lowered the pension level measurably. In its amendment of this law, the new Government suspended the 'demographic factor' until the end of the year 2000 in order to find an arrangement that would be politically and socially more justifiable.

The suspension of the reduction in pensions (legislated by the former Kohl Government). By means of the pension reform law of 1999, normal pensions resulting from the inability to hold a job, as well as pensions resulting from the inability to work were to be replaced by a pension determined by the reduction in earning capacity (*Erwerbsminderungsrente*). This would have led to undue harshness, especially since the status of the labour market was to play no further part after such a pension had been granted.

The first stage of the ecological tax reform. The revenue from the first stage of the ecological tax reform was used to lower the quota for the pension insurance by 0.8% from 20.3% to 19.5% (beginning April 1st, 1999).¹⁸ Other measures concerning the changes in the labour market and their negative consequences for the social security system were also implemented.

4.2 Measures in labour legislation

Protection against dismissal of employees. The new Government retracted the incursions made by the previous Government into the general protection of employees against dismissal. The law for protection against dismissal again applies to all businesses with more than five employees.

The law for maintenance of payments. For the social security of employees, the reimplementation of the continuation of wage payment in case of illness was of utmost importance. Previously, the amount which had be paid in the event of repeated illness had been reduced. The new Government's decision eased the social hardship caused by this reduction, especially for the chronically ill, the pregnant and the handicapped.

derherstellung sozialer Gerechtigkeit (Putting people on the way. First decisions in the fight against unemployment and for a restoration of social justice), Bonn 1999.

¹⁸ Long-term model calculations published in a *Prognos* report of 1995 on the development of pension insurance show figures of between 26.3 and 28.7% for the year 2040. This shows the relevance of these measures.

The minimum wage on building sites. In its law amendment, the new Government also changed the *Arbeitnehmer-Entsendegesetz* (Law regulating migrants), which combats the lowering of social standards and the practice of wage-dumping on German building sites. A regulation was put into place that specifies obligatory adherence to proper labour conditions in accordance with the collective labour agreement for the building trade.¹⁹

Fictitious self-employment. In the last several years, the spreading practice of fictitious self-employment has undermined the social security of those who did not work for normal labour agreements by this trick. On 1 January 1999, a new rule was introduced which is supposed to enable social security bodies to decide more easily whether a dependent labour relation exists or not. If, after checking a case under suspicion, clarification is not reached, the meeting of two out of four criteria of conjecture is sufficient to surmise dependency.

Limited employment: Through the rearrangement of limited employment, every dependent employee is now integrated into the pension insurance system. Before, people earning few than 630 DM stayed outside of the social security system. Among other things, the corresponding law specifies that, starting from 1 April 1999, the employer has to pay a lump-sum toward the national pension insurance (12%) for every employee who works solely in limited employment, as well as a lump-sum (10%) toward national health insurance, should the employee be insured there. Under this new ruling, every employee acquires the legal claim to a pension as of the first Mark earned, as well as being provided with security against invalidity.

These measures, including the establishment of the pension quota of 19.5%, had the effect that the fluctuation reserve, amounting to one month's expenses of the pension system, was reached for the first time since 1994. The restoration of this 'solvency reserve' has created new faith in the national annuity insurance system.

Table 4: Development of the contribution rates (on January 1st of each year)²⁰

	<i>Pension insurance</i>	<i>Unemployment insurance</i>
1991	17.7%	6.8%
1992	17.7%	6.3%
1993	17.5%	6.5%
1994	19.2%	6.5%
1995	18.6%	6.5%
1996	19.2%	6.5%
1997	20.3%	6.5%

¹⁹ The ordinance authorization is an additional means. It supplements the existing practice of stating a general obligation. The supplement was necessary because various problems prevented the effective realization of the *Arbeitnehmer-Entsendegesetz*.

²⁰ *Bundesministerium für Arbeit und Sozialordnung*: several sources.

1998	20.3%	6.5%
1999	20.3%	6.5%
1999, April 1st	19.5%	6.5%
2000	19.3%	6.5%
2001 ²¹	19.1%	6.5%

The reduction of youth unemployment. As promised in the coalition agreement, the new Federal Government quickly went into the offensive against youth unemployment. By the end of the year 1999, roughly 219,000 young people were registered, who had been involved in the programme for the reduction of youth unemployment. In June 1999, the Federal Government decided to extend the immediate programme by a year. The designated grant toward the Bundesanstalt für Arbeit (Federal Employment Office) allows for expenses of upto DM 2 billion (€1.02 billion) for both new and old measures taken by the programme in the year 2000. Of this amount, DM 200 million (€102 million) stems from the *European Social Fund* (ESF).

The reform of labour market policy. The extensive revision legislation is intended to re-conceptualize labour market policy and amalgamate labour market policy and structural economic policy. In addition, the instruments are to be evaluated and further developed, in order to re-integrate the long-term unemployed into the labour process more quickly. Efficiency, flexibility and accuracy are to be the trademarks of future labour market policy, which aim to activate according to the slogan ‘From Safety Net to Trampoline’.²²

4.3 Legislation concerning labour safety

Labour safety rules. Safety rules ensure the safety and health of employees during work, but labour safety is also important for the economic development of businesses. To make labour safety efforts fully effective, businesses should be offered flexible rules and regulations that are geared to their interests and needs. More than ever before, employers rely on professional support by experts in labour safety. This also applies to smaller businesses. In the past years, a legislative foundation has been laid to ensure that all businesses are controlled where safety and health are concerned. This is the aim of the accident prevention rules that have been incorporated in the labour safety law.

Alliance for labour protection. Through the initiative by the federal ministry of labour an ‘alliance for labour protection’ was agreed upon in the building industry. This alliance is a body in which social partners (trade unions and business associations) and those who are actually affected work together in the common interest

²¹ The development of the contribution rates in 2001 is estimated.

²² R. Cox, *From Safety Net to Trampoline*, WiP Occasional Paper No. 2, Tübingen (www.uni-tuebingen.de/uni/spi/polwihp.htm).

of preventing work accidents and occupational diseases. For example, in a joint effort of social partners, producers associations and trade associations, a trade ruling concerning cement and cement products low on chromates was achieved within the building industry, to combat the dreaded 'mason's scabies'.

4.4 The realization of the European guidelines

Regulation of part-time work. The high demand for part-time work still **confronts** a comparatively low supply. According to calculations by the Institut für Arbeitsmarkt- und Berufsforschung (Institute for Labour Market and Job Research), a million new jobs could emerge in the long term if the wish of many employees for reduced working hours were resolutely honoured. The SPD/Green Government has announced **proposals to put this suggestion into practice**. The guidelines for legislative action in this area **have already been** established by a guideline set up by the European Union. The goal of this guideline is to raise the acceptance of part-time work and thus to contribute to the reduction of unemployment. It prohibits the discrimination of part-time work **and aims to make the change from full-time to part-time work** – or vice versa – easier. The same applies to contracts with a time limit.

Business decision participation. According to the new Government, new **steps** are also necessary **to expand employee participation. This applies to decision-making on a national as well as a European level.** Europe is growing together economically. National borders have long since stopped being obstacles for businesses operating on a Europe-wide and even global **scale**. The realization of a European Corporation (as a legal framework for firms) that is under consideration, could be used as an example for more flexible national rules. **Although there has, as yet, been no political agreement reached in Brussels,** fourteen members have reached a compromise.

5 The influence of the European integration and possible trends

The above mentioned examples **of** current activities by the new Federal Government **prove** the significance of the European Union for social security. The authority of the European Union in social and labour market policy has been strengthened through the Maastricht treaties. The **various** political levels are becoming more intertwined. Complex arrangements of policy formulation and implementa-

tion are coming about that concern national actors and programmes as well.²³ There are several conceivable scenarios, with different implications.

Analogous to the history of the nation states, there is the possibility that a further expansion of socio-political activities will occur, as well as the harmonization of benefits and structures in the member states. In the long run, this path would lead to the development of a European Welfare State.

Another possibility is that the present level of European integration will lead to a blockade of socio-political activities. As a result of the **present** political and economic entwining, the nation states suffer a certain loss of sovereignty, without the European Union actually gaining anything of equivalence. **This** undermines the existing barriers against the ‘social dumping syndrome’ and could lead to considerable cuts in the social security systems.

Finally, one can consider the Western European countries, along with their different welfare state models, as laboratories for socio-political possibilities. In this context, socio-political reforms are based deliberately on trans-national processes of diffusion and imitation, that are driven ahead by the – admittedly **unplanned** – political, economic and informational growing together of Europe.²⁴

6 Perspectives of social security

Over and above the current measures, two concepts **are emerging within** the German discussion. Both these concepts amount to a fundamental institutional reorganization of social security

On the one hand, *welfare pluralism* is propagated **which implies** an addition to the national bureaucratic or market support structures. **Terms** such as ‘welfare mix’, ‘third sector’, ‘non-profit organizations’, ‘new subsidiarity’ and also the most recent American contributions toward **the notions of** communitarism and civil society, pose an analogy to this **concept**. Specifically, this **concept** is about re-

23 For labour market policy see *e.g.* Ch. Roth & J. Schmid, ‘European Labour Market Policy and National Regimes of Implementation’, in: P. Klemmer (ed.), *Preventive Labour Market Policy in Europe. Experiences and Learning Perspectives* (London 2000, in print), and for welfare associations see: J. Schmid, ‘Europäische Integration und die Zukunft der kirchlichen Wohlfahrtsverbände in Deutschland (European integration and the future of the welfare organizations of the Churches)’, in: K. Gabriel (ed.), *Herausforderungen kirchlicher Wohlfahrtsverbände. Perspektiven im Spannungsfeld von Wertbindung, Ökonomie und Politik* (Challenges for the welfare organizations of the Churches. Perspectives and tensions between values, economics and politics) (Berlin: Springer 2000, in print)

24 Concerning the aspect of diffusion or respectively the applicability of solutions from other countries *e.g.* R. G. Heinze, J. Schmid & Ch. Strünck, *Vom Wohlfahrtsstaat zum Wettbewerbsstaat* (From welfare state to competition state), Opladen: Leske und Budrich, 1999.

specting and supporting a fully differentiated socio-political level of representation between the market and the state, as well as the resuscitation of self-help, honorary posts and *public spirit*.

On the other hand, *basic social security* for every citizen is the next focus within the socio-political debate. Guaranteed minimum income can take different forms. One possibility is a basic pension, which fends off poverty in old age by decoupling pensions from gainful employment. Alternatively, guaranteed minimum income can be conceived as a 'negative income tax' which lets citizens who have an average or high income carry the same tax burden as before, but grants an income increase to those with lower incomes or no income. This increase, which is limited by a threshold amount, is enough to cover the necessities of life with or without wage labour.²⁵

Calculations concerning the expenditure for such an alternative form of security have shown the following: 'After balancing all of the financial components of a negative income tax, the net amount of costs to be expected under the assumed general conditions are – depending on the final design – somewhere in the vicinity of DM 65 billion (€33.2 billion) to DM 173 billion (€88.5 billion). A part of the cost would already arise by realizing the verdict by the constitutional court concerning tax exemption on the subsistence level'.²⁶

In Germany, these issues have attracted keen attention and fervent discussions. It must be pointed out that this has much to do with the structure and self-image of the German state as a 'social security state'.²⁷ This model of the social security state, organized through insurances for permanently employed persons, demonstrates its strength through high benefits and a dynamic development, yet it also displays shortcomings with regard to people who simply do not have a 'normal' biography. Besides the long-term unemployed, this applies especially to women who are unemployed or only sporadically employed, youngsters with no work experience, and the poor. Unfortunately, it is exactly these problem groups which, in the wake of economic and social-structural changes, are going to increase in number. This prospect gives extra pungency to the questions of the stability and continuity of the German welfare state which were raised at the beginning of this contribution.

25 On recent debates see: Heinze, *Vom Wohlfahrtsstaat zum Wettbewerbsstaat*, and Schmid, 'Wohlfahrtsstaaten im internationalen Vergleich'.

26 V. Meinhart, D. Teichmann & G. Wagner, '„Bürgergeld“: Kein sozial- und arbeitsmarktpolitischer deus ex machina ('Civil allowance: no deus ex machina for social and labour market problems)', in: *WSI-Mitteilungen*, 47 (1994), p. 630. Also: Neumann & Schaper, *Die Sozialordnung der Bundesrepublik Deutschland*, p. 224ff.

27 B. Riedmüller & Th. Olk (eds.), *Grenzen des Sozialversicherungsstaates* (The limits of the social insurance State), Opladen: Westdeutscher Verlag, 1994.