

Still 'Capitalism with a Human Face'?

Unified Germany in Perspective

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 - ▶ A means for 'transforming' society (re-distribution)?
 - ▶ A caring and providing state?

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- ▶ Tax benefits for children (married couples)
- ▶ Direct benefits for parents
- ▶ Free education
- ▶ Student loans/scholarships
- ▶ Subsidised child-care
- ▶ Subsidised public amenities (swimming pools, public transport etc.)?

Where did the Welfare State come from?



- ▶ Put legal pressure on SPD (1878-90)
- ▶ From 1881 on engaged in the world's first welfare state legislation
 - ▶ Health insurance introduced in 1883
 - ▶ Accident insurance introduced in 1884
 - ▶ Pensions introduced in 1889
- ▶ Truly conservative model!
- ▶ N.B. Similar benefits provided co-operatively by trade unions
- ▶ Unemployment benefits introduced in 1927, but system grossly under-funded

What is 'Soziale Marktwirtschaft'



- ▶ Coined by the Economist Müller-Armack
 - ▶ Commonly associated with Ludwig Erhard (responsible for West German Economy since 47/48)
 - ▶ Concerned with economic *liberty*
-
- ▶ Economy will be 'social' if there is maximal competition
 - ▶ Strict anti-trust legislation, state actively engaged in securing economic freedom (ordo-liberalism)
 - ▶ Not exactly what most people have in mind

Expansion of the Welfare State in the early 50s I

- ▶ 1950s: Economic boom triggered expansion of welfare state
- ▶ Crucial: Reform of pension system in 1957
 - ▶ Old system based on capital stock, millions of very poor pensioners
 - ▶ Erhard and FDP opposed, conflict within cabinet and parliament
 - ▶ New System partly inspired by catholic thought (Wilfrid Schreiber)
 - ▶ Level raised generally (pensions to replace wages)
 - ▶ Increase in wages → automatic increase in pensions
 - ▶ Based on contributions of those who work ('Generationenvertrag')
- ▶ Some of Schreiber's suggestions not taken onboard

Expansion of the Welfare State in the early 50s II

Some of Schreiber's suggestions not taken onboard:

- ▶ Encourage people to invest in additional private pension schemes
- ▶ Base pensions exclusively on contributions (i.e. deficit not compensated by the state)
- ▶ Complete ban on early retirement
- ▶ Additional benefits for those who raise children, additional contributions for those who don't
- ▶ Raise of the normal age of retirement during the 60s (demographic change)

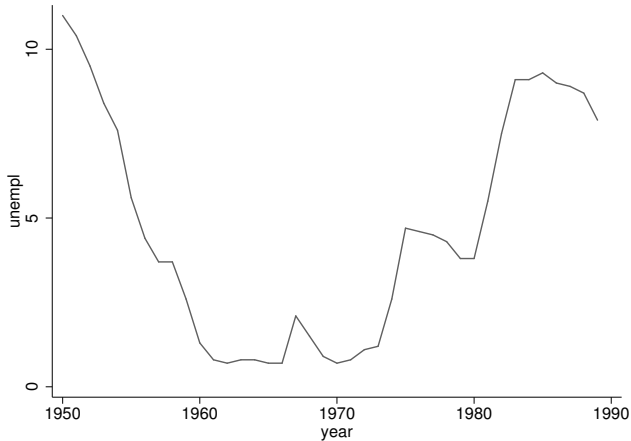
The Welfare State in the 70s

- ▶ Keynesianism legally adopted in late 60s (tiny recession), little practical importance later on
- ▶ Oil price shock hits German (and other economies) in 1973 → price for one barrel from 3 dollars to 12 dollars within one year
- ▶ Revenues falling; state runs deficit; inflation
- ▶ Mass unemployment becomes a permanent problem during early-mid 70s
 - ▶ Increased demand for unemployment benefits
 - ▶ + generally higher contributions (because work force smaller)
 - ▶ Labour becomes more expensive – a vicious circle (unless real wages decline)

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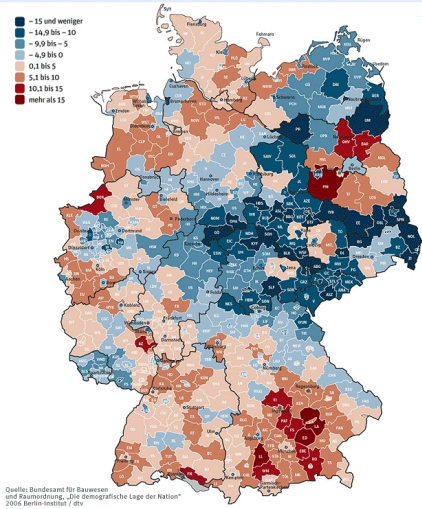
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- ▶ Declining fertility rate since early 1970s

Unemployment in West Germany 1950-1990



Expected pattern of population change

Bevölkerungsentwicklung 2004 bis 2020 in Prozent



Reforms in the 80s

- ▶ First cuts in the last year of Schmidt's government
- ▶ Kohl had ambitious agenda for cutting back the welfare state, but no dramatic measures were taken
- ▶ Pensions linked to net, not gross wages; reduced credits for education
- ▶ Minimal de-regulation of the labour market; higher contributions
- ▶ *Early retirement* – a 'time-bomb'
- ▶ Reduction of expenditure (as percentage of GDP)
- ▶ All efforts came to naught with unification

What is GDP?

- ▶ GDP = Gross Domestic Product
- ▶ A (somewhat rough) measures for the strength of an economy

GDP

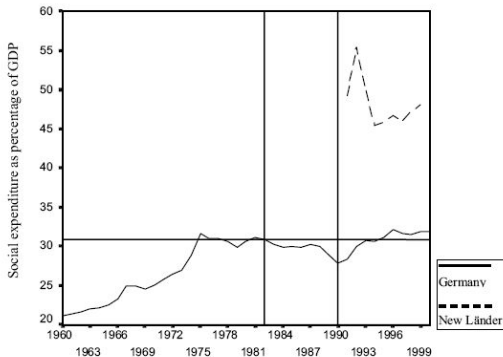
- ▶ Consumption
 - ▶ + Investment
 - ▶ + Government spending
 - ▶ + Exports
 - ▶ - Imports
-
- ▶ Unexpected economic boost?

What happened during the 90s?

- ▶ Social security systems (as opposed to direct tax-transfers) bore a lot of the burden
- ▶ Policy not very consistent
 - ▶ Extension (East Germany, long-term care insurance)
 - ▶ Austerity (Maastricht)
 - ▶ As in the past, opposition (SPD) often involved
- ▶ By and large, welfare expenditures exploded
- ▶ New attempts to cut down costs in mid-late 90s (made Kohl even more unpopular)

Social Expenditures in Germany

TOTAL SOCIAL EXPENDITURE AS PERCENTAGE OF GDP IN GERMANY,
1960–2000



The vertical lines denote the beginning of the Kohl government and of German unification respectively. The horizontal line (bench)marks the level of total social expenditure when Kohl first took office.

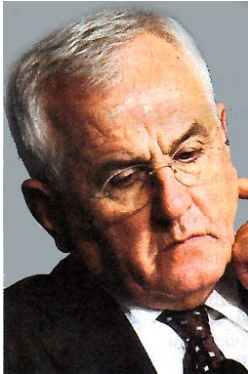
What did the Schröder government do? I

- ▶ SPD wins 98 election campaigning for the support of the 'Neue Mitte'
- ▶ 'Counter-reformation'
 - ▶ Pension-dampening factor suspended
 - ▶ Cuts to invalidity pensions repealed
 - ▶ Sick pay restored, mandatory insurance extended to (some) 'pseudo self-employed'
 - ▶ Co-Payments by patients reduced
 - ▶ Other measures

What did the Schröder government do? II

- ▶ 'Öko-Steuer' – extra surcharge on fuel, revenues used for pension payments (reduced contributions)
- ▶ Child allowances raised several times
- ▶ Replacement rate for public pensions to be decreased stepwise (2030)
- ▶ Private, non-mandatory pension scheme ('Riester Rente') to fill gap
- ▶ Hartz-Commission appointed in 2002 to reform employment services
- ▶ Outcome: Biggest welfare reform since the 1950s

Who is afraid of Peter Hartz?



- ▶ Hartz: Working class background, manager, VW head of personnel (executive board)
 - ▶ Image: Successful reformer (5,000×5,000)
 - ▶ Chair of a commission (not all suggestions finally implemented)
 - ▶ Loved waffle, hated by the public, later involved in major corruption scandal
- ▶ Schröder loved commissions (Rürup. . .), tried to bypass parliament and party

What happened after 2002?

- ▶ Schröder surprised almost everyone by giving up chairmanship & embarking on a huge reform project ('Agenda 2010')
- ▶ Many Hartz measures implemented with the CDU/CSU's support
 - ▶ New structure (and name) for employment services
 - ▶ Closer co-operation between local councils and employment services
 - ▶ (In theory) much stricter criteria for what jobs are 'acceptable'
 - ▶ Benefits/incentives for 'Mini Jobs' and 'Me PLCs'
 - ▶ Most importantly, Reform of unemployment benefits/social assistance (Hartz IV)

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- ▶ (Effectively split the SPD and lead to government's downfall)

What is Hartz IV?

- ▶ Under the old system
 - ▶ Unemployment benefits: (60/67 per cent of last net income for up to 32 months, contribution based, not means tested)
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- ▶ Hartz IV
 - ▶ 'Unemployment Benefit I': limited to 12/18 months
 - ▶ 'Unemployment Benefit II': tax-financed, means-tested & unrelated to previous income; fixed at level of social assistance
 - ▶ Standard rate for single adults 391 (2014) Euro + housing, social insurance payments + some benefits (pregnancy etc.)

Is the system changing? I

	1960	1970	1980	1985	1991 (East)	1995 (East)	2000 (East)
Total social expenditure	21.1	25.1	30.6	30.0	28.4 (49.2)	31.2 (45.9)	31.9 (48.5)
Family and marriage	3.6	4.7	4.9	4.2	4.0 (7.0)	4.0 (5.1)	4.8 (6.0)
Health	5.8	7.3	10.0	9.8	9.9 (15.0)	11.1 (14.4)	10.9 (14.2)
Employment	0.6	0.8	1.6	2.0	2.7 (13.7)	3.1 (9.9)	3.1 (9.4)
Old age and survivors	9.2	10.3	11.9	12.0	10.7 (12.8)	11.6 (15.4)	11.9 (17.2)
Other contingencies (e.g. social assistance)	1.9	2.0	2.3	1.9	1.1 (0.7)	1.3 (1.2)	1.2 (1.6)

Is the system changing? II

	1960	1970	1980	1985	1990	1995	2000
Total contributions	54.3	57.3	61.1	63.6	66.3	63.9	60.7
– paid by insured persons	19.1	20.4	22.0	24.7	26.1	26.6	26.3
– paid by employers	35.2	36.9	39.1	39.0	40.2	37.2	34.4
Grants	43.4	40.9	37.5	34.9	32.0	34.7	37.7
Other revenues	2.3	1.9	1.4	1.5	1.7	1.5	1.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(% of GDP)	(22.8)	(26.6)	(31.9)	(31.1)	(29.5)	(31.8)	(32.7)

- ▶ Aggregated public debt 2 044 000 000 000 Euros
- ▶ Excessive by Maastricht standards
- ▶ In 2013, down for the first time since 1950

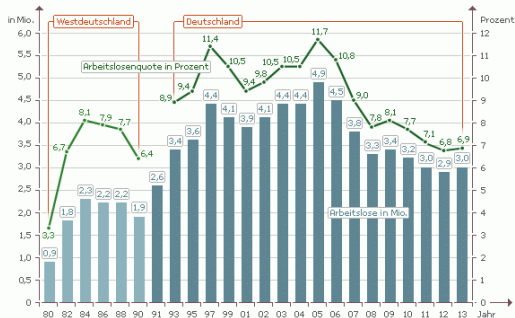
Is the system changing? III

- ▶ Basically, slow and incremental changes
- ▶ The structure and quality of employment has not changed by much
- ▶ But: Riester-Rente a significant, Hartz IV a revolutionary change to the system
- ▶ Maybe even more revolutionary: Elternzeit (since 85, but really cool since 2001) and *Elterngeld*: 67 per cent of net income (up to 1800 Euros) for 12-14 months
- ▶ Investments in schools and child-care
- ▶ Unemployment down . . .

Unemployment 1980-2013

■ Arbeitslose und Arbeitslosenquote

In absoluten Zahlen und in Prozent aller zivilen Erwerbspersonen, 1980 bis 2013

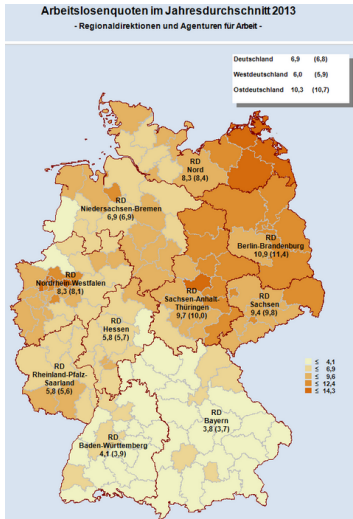


Quelle: Bundesagentur für Arbeit (BA): Arbeitslosigkeit im Zeitverlauf 02/2014
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currently largest
 number of
 people in
 employment ever

Regional Unemployment November 2008



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- ▶ **But: health, pensions, care for the elderly:** Too little, too late? Rising inequality? Recent U-turns?

Class questions

1. Why is the welfare state reformed at such an incredibly slow speed?
2. How are welfare state issues and political parties linked in Germany? How has this changed since 1990?
3. Is rising inequality inevitable?