Tomorrow's Welfare State

British-German Trades Union Forum Conference Report

2003

Anglo-German Foundation
Deutsch-Britische Stiftung

FRIEDRICH EBERT STIFTUNG
London Office

Deutsch-Britisches Gewerkschaftsforum
British-German Trades Union Forum

Tomorrow's Welfare State

Conference Report

2003

Second British-German Trades Union Forum

12/13 June 2003

Tomorrow's Welfare State

Conference Report

August 2003

Anglo-German Foundation for the Study of Industrial Society

Friedrich-Ebert-Stiftung, London Office

Anglo-German Foundation for the Study of Industrial Society

Through its work in Germany and in the United Kingdom, the Anglo-German Foundation (*Deutsch-Britische Stiftung*) seeks to foster dialogue and co-operation between the two countries. It supports research projects, seminars and conferences promoting the exchange of experience and ideas in the social, political and economic areas.

Friedrich-Ebert-Stiftung, London Office

The LONDON OFFICE of the Friedrich-Ebert-Stiftung *(Friedrich Ebert Foundation)* was established in 1988 to promote better political understanding in British-German relations and to support a continuing dialogue between the two countries on economic, social and legal affairs, and on European and domestic policy.

Text compiled by Christopher Pick

Anglo-German Foundation for the Study of Industrial Society/
Deutsch-Britische Stiftung für das Studium der Industriegesellschaft
34 Belgrave Square, London SW1X 8DZ
Tel: +44 (0)20 7823 1123
Fax: + 44 (0)20 7823 2324
E-mail: info@agf.org.uk
Website: www.agf.org.uk

Friedrich-Ebert-Stiftung, London Office
Friedrich Ebert Foundation
609 The Chandlery
50 Westminster Bridge Road
London SE1 7QY
Tel: +44-(0)20-7721 8745
Fax: +44-(0)20-7721 8746
E-mail: feslondon@dial.pipex.com
www.feslondon.dial.pipex.com/

Contents

Foreword

Britain and Germany matter a great deal to each other, so it is not surprising that their relationship is enriched by a number of discussion forums that foster the regular exchange of information, ideas and experience between experts and opinion-formers. Pre-eminent among these is the Königswinter conference, now over half a century old. More recently, Königswinter has been supplemented by other initiatives such as the German–British Forum and the German–British Environment Forum.

While not entirely absent from these networks, the trade union movements of the two countries have not played a prominent role in any of them. It was to fill this gap that the Friedrich Ebert Foundation and the Anglo-German Foundation organised in 2002 the first British–German Trade Union Forum, designed to offer to a group of full-time and lay trade union officials from the two countries a short period of intensive discussion of some of the important issues and challenges they face.

Delegates to the first Forum (held in Britain in May 2002 on the topic of 'Flexicurity') were unanimous in their view that the occasion had been very valuable, and should be repeated. Hence the 2003 Berlin Forum which is the subject of the present report.

A reading of the British and German media might suggest that the sole concern of trade unions with regard to the reform of the welfare state is to protect the sectional interests of their members, and to cling doggedly to the status quo. This report explodes that myth. It demonstrates the high quality of the discussion the Forum exists to promote, and it advances the claim of trade unions to a full role in the development of new approaches to the delivery of public services in Britain and Germany.

Gero Maass
Director
Friedrich Ebert Foundation, London

Keith Dobson
Director
Anglo-German Foundation

Executive summary

The second British–German Trade Union Forum brought together some 41 representatives of German and British trade unions to discuss the nature and scope of 'tomorrow's welfare state'. Participants came from unions active in a wide range of blue- and white-collar occupations and brought to the (frequently vigorous) debates extensive experience of both policy-making and grass-roots activism. The Forum was shrewdly guided by John Edmonds, in one of his last duties before retiring as General Secretary of GMB. John Edmonds, who is well known for his commitment to Europe, is also a trustee of the Anglo-German Foundation.

The meeting was timely, for the consensual assumptions that have governed social policy for many decades in both the UK and Germany are being vigorously challenged. The most influential and most powerful impetus for change is coming not from the parties and think-tanks of the right (out of power for some years in both countries) but from the heart of the two centre-left governments. Fundamental questions are being asked about the nature and funding of the welfare state: should all citizens benefit equally? should benefits be targeted to help the most disadvantaged sectors of society? what role is there for the private sector in delivering services and in providing benefits? how far should individuals be expected to secure their own future, and how much should they look to the state to provide? can the solidarity principle (whereby those in work fund the welfare state through taxes and social security contributions) be maintained, especially in times of economic recession and increasingly unfavourable demography?

In Germany the Chancellor launched a package of labour-market and social welfare reforms under the title Agenda 2010 in March 2003. Likewise, through a wide variety of measures – such as the quasi-independent foundation hospitals, the targeting of benefits, charging for higher education, and the private funding of infrastructure projects – the Blair government in the UK has made crystal-clear its commitment to restructuring the delivery of the welfare state. Both governments are meeting fierce opposition from their own parties and from the trade union movement, which is campaigning to maintain what it perceives to be the core values of the welfare state.

These arguments were reflected in the Forum's opening session. Four prominent speakers – from Germany Michael Sommer, Chairman of the Deutsche Gewerkschaftsbund (German Trade Union Federation) and Franz-Josef Lersch-Mense, Federal Executive Secretary of the SPD, and from the UK Keith Sonnet, Deputy General Secretary of Unison, and David Triesman, General Secretary of the Labour Party – tackled the topic 'Under Pressure: What Remains of the Welfare State?' Their contributions revealed a major faultline, with, on one side, those who support a relatively 'traditional' welfare state (Sommer and Sonnet) and, on the other, those (Lersch-Mense and Triesman) who argue that far-reaching reforms are essential if the welfare state is to survive. Lively debate followed around several crucial topics:

- the assumption that the private sector delivers more efficiently than the public
- the distortions inherent in the current welfare state (e.g. inequitable provision for women) *and*

- the notion of plurality – that the public sector cannot deliver everything, and that who does the delivery is not anyway inherently important.

The next two sessions were devoted to issues at the heart of the welfare state: health and pensions. Delegates started by dividing into national groups for an in-depth briefing on the situation in the other country, and then reassembled for a comparative discussion. While both health and pensions differ radically in the two countries, important areas where each can learn from the other were identified. In health these included:

- the development in Britain during the past decade of evidence-based medicine and the focus on assessing outcomes and offering patients effective treatments, which are starting to be adopted in Germany
- the role of the GP as gatekeeper to other medical services, which the German government is keen to develop
- the right of the citizen in Germany to medical treatment – there is no equivalent right in Britain
- differing health costs and health outcomes.

Points raised in relation to pensions included:

- the low level of payments in Britain in comparison with Germany, and the general absence of poverty among elderly people in Germany
- the arbitrary nature of the state pension in Britain – individuals' contributions are fixed, but there is no guaranteed income at retirement
- the much greater reliance in Britain on occupational pensions, and the corresponding difficulties when companies cannot (or will not) maintain good-quality schemes as a result of demographic pressures and declining investment income.

In the final session delegates looked forward in an attempt to define the role of trade unions in tomorrow's welfare state. Three topics dominated the discussion: the opportunities, and threats, posed by a European welfare state; the importance of the trade union movement in combating the worst effects of globalisation and privatisation; and the part that young people can play.

There was general recognition that both countries' social systems were radically different and could only be made compatible by means of deep structural changes. The concept of a European welfare state was generally welcomed, as was the European Constitutional Convention's definition of the EU as a comprehensive social market economy guaranteeing full employment. However, there were grave doubts about whether a European welfare state could ever be realised, and fears that, if it were, it would take a neoliberal, 'safety-net' approach, providing basic benefits for the poorest in society rather than a guaranteed standard of living for everyone.

Trade unions' traditional role of protecting people is increasingly important as global companies become more powerful than national governments and as private companies run more and more of the services formerly carried out by the public sector. However, the trade union movement is weak at European level, where many of the most important decisions are now taken, in comparison with the private sector.

Delegates were worried at how few young people get involved in trade unions. While some delegates argued that this reflects society's increasing emphasis on individualism, many believe that young people do care deeply about social issues, but do not recognise the trade union movement as a vehicle for putting their commitment into practice. Trade unions need to find ways of harnessing the commitment and vigour of young people, for the way young people commit to solidarity will determine the future of Europe.

Session 1
Under pressure: what remains of the welfare state

A *tour d'horizon* by four leading trade union and political figures from the two countries launched the Forum.

Michael Sommer, Chairman of the Deutsche Gewerkschaftsbund (German Trade Union Federation), painted a generally pessimistic picture of the challenges facing the social state in Germany. Several factors have contributed to the current paralysis of the German economy:

- the cost of reunification: 30 billion Euros have been shifted to eastern Germany, without significant benefits;
- the age gap. While investment in infrastructure generally stimulates an increase in the birth rate, this is not happening in Germany;
- the world recession. Many people are saving rather than spending since they fear that state health and social security benefits are likely to be reduced.

Michael Sommer criticised the German government for its welfare reform plans, which are designed to overcome the crisis by reducing benefits, so hitting the people worst affected by the crisis. This solution – the same as that pursued by Helmut Kohl's Christian Democrat administration – ignores the issue of social justice, which lies at the heart of the social state. He argued that the major characteristics of the social state should be:

- social justice – people with low incomes should receive the support they require;
- equity – social security should not be funded by the labour force alone;
- flexibility – the social security system must be effective for a wide variety of groups besides those in employment, e.g. older people, people with disabilities, people with children, those undertaking retraining.

Michael Sommer concluded with a strong defence of the principle of *Mitbestimmung* (co-determination), which has underpinned the social state. If this is undermined, he said, then the decay of the social state in Germany cannot be arrested any longer.

Keith Sonnet, Deputy General Secretary of Unison (one of the largest unions in the UK, and the principal UK union for public service workers), defined the British welfare state as a hybrid of the US model (a safety net for the disadvantaged) and the European (universal provision). He argued that the chief objective of the contemporary welfare state should be to tackle poverty and raise wealth. Unison is committed to the public provision of welfare services and minimum income standards that provide people with sufficient money to live.

Since taking power in 1997, the Labour Government has made considerable progress: the amount of money spent on public services has increased significantly, and public-sector employment has also increased. Two ideas underpin the Government's measures:

- work is the best route out of poverty – hence the many programmes to encourage employment;
- financial support should be targeted – while the Government should provide basic benefits for everyone, it should spend more on specific groups, e.g. people with disabilities.

Recent research suggests that the Government is right to put employment at the heart of its approach: work is the best means of escaping poverty. However, anti-poverty measures are essential if the inbuilt inequalities in the labour market are to be overcome:

- many jobs do not pay enough to meet people's basic living requirements;
- specific groups are at a disadvantage: for instance, earnings of full-time female workers are 81 per cent of those of full-time male workers; more than one third of women who work part-time earn below the national minimum wage;
- high unemployment, low wages and lack of training disadvantage young workers, who are being put under increased pressure to enter the labour market in low-paid low-skill jobs.

Additional pressures on the Government to develop and extend its anti-poverty programmes are:

- the extent of child poverty: an estimated 2.4 million children (20 per cent of all children) live in families requiring income support – double the number in 1979;
- the pensions time bomb: the weakening of employers' commitment to providing pensions will cause problems as workers reach retirement age.

Despite the national minimum wage introduced by the Government, too many jobs remain poorly paid. In practice welfare payments to poor families subsidise low wages.

The issue of the privatisation of public services is becoming increasingly important. A growing proportion of Unison members engaged in providing 'public services' are now employed in the private sector. The government is committed to delivering high-quality services. High employment standards in the public sector, Keith Sonnet argued, make it possible to provide high-quality services. But the government's support for privatising and contracting out services – which leads to reduced wages, holidays and pensions – works against this.

Franz-Josef Lersch-Mense, Federal Secretary of the SPD, started by committing his party unambiguously to the social state, which he defined as extending beyond social security to the autonomy and self-determination of its stakeholders. However, the social state is facing considerable pressures – from demography, from weak economic growth (partly, but not exclusively, caused by reunification), and from high unemployment – all of which impact on the cost of social security. The SPD's Agenda 2010 is an attempt to reach a balance between the state's traditional social security functions and some of its other highly important tasks, e.g. care of children and investment in education and infrastructure. This challenge, he argued, cannot be met without adapting the current social security system, which has remained unchanged since the beginning of the Federal Republic. In good economic times the state was able to guarantee its citizens a particular standard of life in old age or ill health. It cannot continue to do this now that the national (and international) economy is weaker; the state should now focus on preventing poverty.

Issues that will be discussed within the SDP, culminating in the Party Conference in November 2003, include:

- what level of social security and social care should the state provide for its citizens?
- what are the limits to the principle of solidarity in the social security system?
- how much income redistribution should take place within the framework of the social security system?
- should social security be financed through taxation or through social insurance contributions by employers and employees? If benefits are to be increased, employees must expect to pay higher contributions.

David Triesman, General Secretary of the Labour Party, argued that critics of the British and German governments' proposals to reform the welfare state should recognise the distinction between values and modalities. Values, such as social justice, remain constant. However, modalities – e.g. the way in which public services are provided – must change in response to changing circumstances: the welfare state is dynamic, not static.

The circumstances in which the UK welfare state was founded, immediately after a war in which central command policies were both essential and universally accepted, have led to a major democratic deficit today. The great institutions of the British welfare state may be popular, but they are not embedded in democratic choice-making:

- other forms of public ownership, such as public benefit corporations, need to be found to replace the traditional, restrictive model;
- scientific and technological advances have a fundamental impact on what can be provided and who can provide it. The institutions of the old welfare state cannot innovate quickly enough or take the associated investment risks;
- choice is a feature of a healthy civil society. It is no longer possible to expect people to be told what to do by officials of a centralised state.

We must move to an 'ensuring' role for the state in which it takes responsibility but moves away from a narrow decision-making base to a pluralistic model in which a wide range of providers, some from outside the public sector, have a role to play. If we fail to modernise in this way, the enemies of the welfare state will step in to provide a distorted free-market version that will abandon the values on which the welfare state is based.

General discussion

These introductory contributions stimulated lively debate among delegates. For ease of reading, the ebb and flow of discussion (in this and later sessions) is reproduced here in note form; speakers are not named except for additional contributions made by panel members. As is to be expected, many contributors made overlapping points; such repetitions have been ignored here.

- The role of the welfare state and of government is always discussed in terms of managerialism, not values. In the UK there seems to be an overwhelming belief among government that the private sector automatically delivers better services than the public sector. But experience demonstrates the contrary – the private sector fails to deliver value for money, and the fragmentation of the public sector leads to a failure in strategic planning. That failure in turn plays into the hands of those who want to get rid of the public sector altogether.

- The welfare state inaugurated by Bismarck in Germany in the 1880s and by Beveridge in the UK in the 1940s has worked well for many years. While it is not possible to argue in principle against new forms of delivery, the burden of proof is on those proposing new ideas. It seems that change is being introduced for its own sake, based on the assumption that private provision is superior to public. Many of the current ideas are old profit-oriented ones in new clothing.

- Neo-liberal ideas prevailed in Britain and Germany for 15 to 20 years – now it seems that the centre-left parties in power in both countries are embracing free-market objectives rather than challenging them. We need to find a European perspective on current problems and build a European welfare state. Sadly the British government, despite its pro-European rhetoric, is continuing to block employment legislation.

- The public/private issue is too abstract. In Germany the welfare state is unfair to women, the unemployed and the poor. We need to discuss how public benefits can compensate for these distortions. German trade unions should be involved in a long-term campaign to modernise public services.

- **Keith Sonnet**: We all share the same values and aspirations – the battle is over modalities. In the UK the post-war consensus on the roles of the public and private sector finally broke down with the election of Margaret Thatcher in 1979. The trade unions spent much of the 1970s and 1980s opposing right-wing modalities; when they were successful, this was because the unions and the Labour Party took a united stance. The fear now is that the changes being introduced in Britain are undermining the role of the state and the public sector; the changes will lead to the private financing of public services – with disastrous consequences for their quality – and will legitimise the attacks a future Conservative government will make on the role of the state.

- **Franz-Josef Lersch-Mense**: The German government will not privatise fundamental services such as education and water. However, some privatisations, such as the post and telecommunications, have been successful – job losses are the result of technological change, and would have happened regardless of ownership – and public buildings constructed with private finance usually cost less than those built by the state. The British experience is useful in demonstrating that privatisation must be accompanied by regulation. Agenda 2010 is not merely a cost-saving exercise – it represents a comprehensive programme to modernise the social state.

- It seems odd that the British Labour Party is dealing with attacks from the right by moving to the right. Reforms, e.g. to the National Health Service, are being implemented without any evidence that they will work. For example, it was asserted that the new diagnostic treatment centres will operate more efficiently if they are run by the private sector, but there is no evidence for this; and the government's own reports show that hospital cleanliness has declined since services were contracted out. Efficiency should be judged in terms of outcomes rather than inputs, e.g. who runs the service.

- **David Triesman**: It is essential that the public sector, with its particular ethos, continues to provide a very large proportion of public services. But it cannot do everything. We need to analyse its capacity – we cannot refuse to deliver services simply because the public sector cannot deliver them – and its efficiency – if private finance solutions are not effective, they will not be used. The government must ensure that equal opportunities and fairness are built into its strategy. But there is no need to assume that what has been done in the past must be right – we need to find new, co-operative funding models that can involve the public more effectively.

- The European Constitutional Convention's definition of the EU as a comprehensive social market economy guaranteeing full employment is a major achievement. This brings a unique opportunity to create a European welfare state.

- The welfare states in both Germany and Britain need to be reformed. In Britain, there has been no dialogue between trade unions and government. Germany has the opportunity to ensure that the process of reform is carried out through a better, more consultative method.

Session 2
Health services – finance and modernisation

Delegates met in two national groups for an introductory briefing on the situation in the 'opposite' country.

The situation in Britain – briefing by Bob Abberley, Assistant General Secretary, Unison

The main characteristics of the NHS are:

- funded by taxation and free at the point of use;
- general practitioners (GPs – family doctors) are independent contractors;
- the bargaining structure is UK-wide;
- run by the Secretary of State for Health, reporting to Parliament. However, the devolved parliament/assemblies in Northern Ireland, Scotland and Wales now have responsibility for the NHS in their region (so this briefing focused on England);
- a totemic role in British political life – winning 80 to 90 per cent approval ratings despite its failings.

The situation when Labour came to power in 1997 was critical. The NHS

- was grossly underfunded;
- lacked capacity (beds, equipment, buildings etc);
- was short of clinical staff.

In addition it had been subject to constant reforms, the most important of which was the introduction during the 1990s of the 'internal market', i.e. the purchaser/provider split.

The new government was committed to modernising the NHS and to bringing UK spending on health up to the EU average. Modernisation started with a 'social dialogue' with stakeholders, including trade unions. This resulted in the publication in 2000 of the ten-year National Plan, whose mantra was investment in return for modernisation. The Plan's positive aspects included:

- star system for hospitals, with the top-rated gaining 'earned autonomy';
- creation of the National Institute for Clinical Excellence to spread best practice;
- creation of specialist collaboratives, e.g. in cancer, heart disease, geriatrics;
- NHS University for non-professional staff;

- strong commitment to anti-violence and anti-racism.

Problems with the Plan included:

- the 'concordat with the private sector', accepted by the unions, whereby the private sector would be used in the short term to plug gaps in NHS capacity;
- reliance on the Private Finance Initiative (PFI) to fund hospital-building, although, as unions believe, this is not cost-effective.

The Plan was welcomed by stakeholders, the media and the public, and has achieved much, notably shorter waiting times for GPs and elective surgery and a reformed pay structure. However, within two years the culture of the Plan – which emphasised collaboration, support and goodwill – changed to hostility and mistrust. The government's belief that its political future is inextricably linked to NHS performance led to

- increasing obsession with targets and a blame culture when these are not met;
- belief in the private sector's ability to deliver (e.g. the new diagnostic treatment centres, which are to be run by the private sector);
- creation of quasi-independent Foundation Hospitals, with powers to borrow against assets.

The government has now adopted a 'provider-neutral' position, accepting private-sector involvement in hospitals and arguing that it doesn't matter who provides the service so long as it is good. Trade unions are only involved in dialogue on pay and conditions, not in a social dialogue; they are not social partners in the European sense of the term.

The situation in Germany – briefing by Ute Klammer, Hans Boeckler Foundation

Health care is funded by on an insurance basis (i.e. from contributions by individuals), not out of general taxation. Statutory Health Insurance (SHI) covers about 90 per cent of the population and is responsible for 60 per cent of all health care expenditure. Three quarters of the population have no choice other than to join; the remaining 15 per cent, although entitled to opt for private health insurance, have chosen to remain in the statutory system. About 9 per cent of the population is privately insured. However, an increasing number of members of the SHI have top-up private health care insurance.

Contributions based on income are the main source of funding. Current contribution rates are about 14.5 per cent of gross income – half paid by the employer, half by the employee. Payments to the funds are income-related, not risk-related (which makes the system one of social insurance, rather than a profit-making enterprise). Unemployed people, pensioners, people on benefits, children and non-working spouses of contributors are also insured.

Contributors pay into one of (in 1999) well over 400 sickness funds. The funds are based on regions, occupations, single companies. Balancing payments are made between the funds to take account of the varying risk-profiles of their members. Since the late 1990s insured people have had the right to choose their fund and switch between funds. Limited competition between funds is possible based on contributions and member benefits.

All insured people have the right to all 'necessary' treatment. (The definition of 'necessary' is vague, as is that of 'health'.) There are no waiting lists (except for a few operations such as organ transplants) and almost no age restrictions on operations.

The system of payments for medical care is complex. For ambulatory care (roughly the equivalent of UK primary care plus the out-patient services provided by hospitals), sickness funds contract with self-governing regional physicians' associations; all physicians who want to treat people insured in the SHI must belong to one of these associations. The sickness funds pays each physicians' association a negotiated amount based on the association's membership. Individual doctors invoice their association in 'value points' for the care they have delivered to individual patients. However, the government has capped doctors' incomes in order to prevent doctors increasing the number of treatments they offer so as to increase their income.

In summary: the German health-care system guarantees general access to high-quality medicine. But it is very expensive (the third most costly in the world according to the World Health Organisation – almost 11 per cent of GDP is spent on health) and the health outcomes are disproportionately poor (41st in the world). (WHO ranks the UK's National Health Service as 26th most costly and 24th in terms of outcomes.)

The main problems with the system are:

- expenditure explosion because of costly high-tech medicine, demographic changes (ageing population), increase in chronic conditions;
- shrinking contributions because of decreasing number of wage-earners, high unemployment, low wages in eastern Germany;
- questionable redistribution – high earners can opt out, old-fashioned subsidies for traditional family model;
- increasing problems of corruption;
- insufficient transparency: system encourages doctors to undertake unnecessary procedures, patients get inadequate information about the costs they cause.

New legislation to modernise health care is under discussion (June 2003). The draft law aims to save € 20 billion health expenditure in 2004 with consequent lowering of contribution rates. Reforms focus on:

- improving the quality of care through training and quality management programmes and a new, independent German Centre for Quality in Medicine;
- increasing flexibility – e.g. hospitals opening for day care, development of integrated health care;
- introducing general practitioner (GP) system, with GP acting as gatekeeper to other forms of treatment;
- financing changes, e.g. maternity benefits to be funded from taxation, long-term sickness benefits removed from state system.

Initial responses from British delegates

- Economic growth masked problems in the German system; current changes are taking place at a time of low growth.
- Reform in the UK started 5-plus years ago – Germany could learn from British mistakes.
- Lack of transparency in the German system: the cost of treatments is not widely known, and doctors' incomes are unpredictable.
- Common theme in both countries of strengthening patient rights – though UK is more advanced. Has this really happened in the UK?
- No waiting lists in Germany, and a much wider range of treatments is available.

Initial responses from German delegates

- Dominant features of NHS seem to be significant underfunding, long waiting lists, shortage of professional staff.
- Private companies deliver part of public health system in UK – in Germany private companies have to demonstrate a degree of social responsibility.
- NHS is taxation-funded – which seems superficially attractive as Germany is trying to find new funding sources. But NHS underfunding may be caused by taxation basis, which can be influenced by short-term political considerations; it is impossible to increase taxation sufficiently to provide proper NHS funding.
- Has UK emphasis on performance ratings and quality control helped to improve services?
- Outcomes (not inputs, i.e. funding) are important. How can trade unions get involved in improving healthcare for patients rather than arguing about funding details?

General discussion

- The patient/doctor relationship is radically different. In Britain, the patient is a time-burden for GPs, since GPs are funded per capita, whether or not they see their patients. In Germany the funding system encourages doctors to carry out lots of treatments. German doctors see far more patients than their UK equivalents, and face-to-face contact time is less.

- The well-organised lobby of doctors and pharmacists in Germany has blocked the past 30 years' attempts to reform health care. Concepts of identifying best practice and assessing outcomes are not at first base in Germany.

- In general both systems deliver good-quality care. The crucial issue is, how to access healthcare in a way that doesn't involve perverse incentives (to give too little or too much treatment).

- Germany needs more standards of competence. The new Centre for Quality in Medicine should exert tighter control.

- The two funding systems are radically different – it is impossible to cherry-pick the best bits from each. In Germany the issues for trade unions are how to ensure equitable access to healthcare; how to make the system more democratic and transparent; and how to involve employees.

- The German system must be made more efficient: through preventing patients seeing several doctors about the same condition, increasing health prevention

- The two keys to NHS reform are increased capacity (more nurses, doctors) and improved work practices; and the massive increase in training for non- and semi-professional staff, which will ultimately undermine the NHS' hierarchical organisation and will prove very challenging for professionals.

Session 3
Pensions – the future mix of public and private provision

The situation in Germany – briefing by Ute Klammer, Hans Boeckler Foundation

The core pension (the first pillar) is provided by a social insurance system that applies to all employees, who cannot opt out. Funding is mainly by social security contributions (i.e. payroll tax), currently 19.5 per cent of salary, paid half by employer, half by employee; however, taxation funding has increased (from one quarter to almost one third of expenditure) in recent years. Civil servants and some self-employed professionals pay into a parallel scheme. The core pension is designed to secure a specific standard of living in old age, related to previous income, not merely to prevent poverty: until recently a worker who had paid full contributions (i.e. for 45 years of work) would receive a pension of 70 per cent of salary. There is relatively little redistribution towards people on low incomes or those who have not worked continuously. Women receive three years' credit per child, and the minimum requirement for a pension (five years' contributions) is relatively low. However, many women only receive a small pension (because they have not worked much) and rely on their husband's pension, and on survivor's benefit after his death. The official retirement age is 65, although in practice many people retire at about 60.

Occupational pensions represent the second pillar. These are not compulsory (either for companies or individual workers) and are largely found in large industrial concerns in former West Germany, less so in smaller companies and the service sector. There are very few occupational pensions in former East Germany. Across western Germany, about 50 per cent of men and 10 per cent of women receive an occupational pension. The older systems are benefit-defined; the more recent systems are contribution-defined, and so are less favourable.

Private savings (mainly life insurance, not necessarily exclusively for old age) form the third pillar.

In 2000, the average pensioner household received 73 per cent of its income from the state pension; 21 per cent from occupational pensions; and 6 per cent from savings.

Despite two major recent reforms (in 1989–92 and 1997–99), the pension system faces major financial and conceptual problems:

- demographic change (increasing life expectancy, low birth rates) resulting in a growing dependency ratio;
- fall in contributions because of high unemployment;

- high costs because of reunification (eastern German workers receive a pension based on their notional salary in western Germany);
- heavy burden of contributions;
- inequality of women – women's work patterns means that they receive much lower pensions than men;
- survivors' [widow/widower's] pensions are disincentive for women to work;
- the scheme for civil servants and self-employed professionals does not contribute to the redistributive elements of the core scheme;
- the second pillar increases inequalities – almost no occupational pension schemes in eastern Germany, plus low coverage and benefits among western German women.

The Government implemented a third reform in 2001. The main elements were:

- pensions to fall from maximum of 70 per cent of earnings to 64 per cent by 2030;
- major cuts in disability pensions;
- more restrictions on survivors' pensions;
- part-time working parents to receive larger pensions;
- introduction of a minimum benefit for elderly people (but via the social assistance scheme, not the pension scheme);
- new state-subsidised second- and third-pillar pension schemes (however, initial take-up is lower than hoped for, especially among low-income households);
- improvements to occupational pensions to help women and those who change jobs.

Further reforms will be necessary to stabilise the pension system. Changes under discussion include:

- increasing the official retirement age to 67;
- further cuts in pensions;
- making individual savings in a second- or third-pillar system compulsory;
- increase in funding from taxation to pay for the redistributive elements of the pension system.

The situation in Britain – briefing by Bryan Freake, Pensions Officer, Amicus

The system mixes state and private provision (largely through company pension schemes). At present pensioners receive 63 per cent of their income from state benefits (including means-tested benefits), 25 per cent from occupational pensions and 12 per cent from personal pensions and savings; however, income from occupational pensions is very unevenly distributed. Historically the development of good company schemes for organised labour and for higher earners has meant that for many people the state pension was no more than a safety net. However, recently the fragile foundation of company pensions has been revealed.

State pension age is currently 65 for men and 60 for women. The retirement age for women will gradually increase to 65 between 2010 and 2020. About one third of companies have a retirement age of 60, and many pension schemes with a retirement age of 65 allow people to retire at 60 with an unreduced pension. Recently, however, many schemes have raised their retirement age and have removed early retirement rights.

State pensions are low and inadequately funded:

- the Basic State Pension (financed by Social Security contributions) for a single person is £77 (€ 100) per week, about 16 per cent of average earnings. Currently 90 per cent of men and 70 per cent of women (a historic high) qualify for the full basic state pension;
- the Second State Pension (S2P – formerly the State Earnings Related Pension, SERPS) is compulsory for all those employees (about 50 per cent) whose employers do not offer a better occupational scheme (see below). Combined employer/employee contributions are low (4 per cent for an employee with average earnings). The maximum benefit for a worker with average earnings is 20 per cent of earnings in excess of the Basic State Pension;
- both these state pensions have been reduced to limit their cost. Until 1980 the Basic State Pension rose in line with earnings – since then it has only risen in line with prices, although contributions are based on earnings. By 2030 the Basic State Pension will be as low as 10 per cent of average earnings;
- the demographic challenge is less marked in the UK than elsewhere. In 2003 there are about three working people for each pensioner; in 2030 there will be 2.5 (in Germany there were 2.7 in 1995, falling to 1.8 in 2020 and 1.4 in 2040);
- the Government is targeting the poorest employees and pensioners, rather than increasing benefits for all, through a variety of measures designed to boost the incomes of pensioners who receive only, or very little more than, the Basic State Pension.

Occupational pensions cover about half of all employees – companies are not required to provide a pension scheme. The main features of company schemes are:

- employees typically pay a fixed contribution of about 5 per cent of salary;
- employers pay whatever is necessary to keep the pension fund in balance – typically about 15 per cent. However, during the mid and late 1990s high investment returns on the pension fund led to surplus funding and enabled employers to take contribution holidays;
- traditionally company schemes were defined benefit schemes, typically offering a benefit of 1.67 per cent of an employee's final salary for each year of service. Benefits were payable at 60, increased in line with inflation and incorporated dependants' and ill health benefits.

A funding crisis has developed since 2000. Increased life expectancy and lower expected investment returns have increased the estimated future cost of providing benefits. Following government reforms, companies have felt compelled to take a short-term view of funding. These changes, accompanied by a sustained fall in share prices, have driven many schemes into deficit. As a result, companies have refused to continue to underwrite schemes:

- employee contribution rates have been raised and benefits reduced;
- the majority of schemes have been closed to new employees. Increasing numbers of smaller employers are discontinuing final salary schemes for existing employees and replacing them with defined contribution schemes. These fix employer liability and so transfer risk to employees. Employer contributions are also lower – typically 10 per cent instead of 15 per cent – which will produce 40 per cent lower pensions in the future.

The British government aims to reverse the 60/40 state/private balance by expanding voluntary pension provision by pension funds and private companies. It plans to simplify regulations and offer tax relief on higher contribution levels. Trade unions argue that this will not lead to a substantial increase in pension saving, and that compulsory contributions – initially 10 per cent of salary from employers and 5 per cent from employees, with tax assistance for the lowest paid – are essential. In addition measures are needed to improve the security of pension schemes and to introduce a new low-risk state scheme. Long-term projections show that total state benefits paid to pensioners will remain at 6 per cent of GDP. Since the number of pensioners is growing, pensioners will not share in increasing living standards unless policies are changed fundamentally.

Initial responses from German delegates

- The German system offers pensioners guarantees. The British system, by contrast, is arbitrary – while contributions are fixed, there is no equivalent income guarantee at retirement. One result is that 2 million pensioners live below the poverty line.
- The British system does not cover risks such as disability.
- The UK's occupational pension system – in which an employer can terminate a fund at will – offers a warning to Germany, which is about to increase its reliance on private schemes.

Initial responses from British delegates

- While there was general envy at the level of pension payments in Germany, it was accepted that the German system was very expensive, and also that women, and anyone with a non-traditional career pattern, lose out in the state system.
- The German system, which is run and financed by the social partners, is more autonomous than the British one, which makes it easier to defend people's existing and future benefits. The vague financing of the British system (for example, the National Insurance fund is now part of the Treasury) and people's lack of awareness of the level of benefits means that it can be attacked more easily.

General discussion

- The current crisis in Germany is the result of reunification – the state pension fund has to pay out for eastern German pensioners. This is damaging solidarity between the generations.

- The German system discriminates against women, and presupposes a patriarchal family structure. Contributions are related to working life; there are no incentives for women to become independent; low-earning women do not find it financially worthwhile to work – but then discover in old age that they do not have their own pension.

- British women also experience discrimination because they earn less, and therefore gain a lower pension. The state system discriminates against women because compensation for staying at home and not working only dates from 1968, and because non-working women were encouraged to pay lower contributions, not realising that this would lead to a lower pension. Women also experience discrimination in company schemes: they earn less; more work for smaller companies, which tend not to provide pensions; and more work part-time – many pension schemes exclude part-time workers. However, the question arises whether company schemes should be concerned with measures to redress disadvantage for women.

- In the UK, women will only benefit if the Basic State Pension (the only scheme that is not earnings-related) is improved, and if employers are encouraged to contribute to company schemes.

- The German system successfully prevents poverty among older people. However, in Germany foreign workers and migrants and young people with families carry a disproportionate burden. Young people are increasingly rejecting the idea of social solidarity – they doubt that they will benefit from the system and feel that unemployed people are benefiting too much.

- The significant difference between the two systems is the extent of poverty among older people in the UK, where there are two categories of pensioner, those with a good occupational pension and those who rely on state benefits. The average annual income of a single pensioner is £9,500, 44 per cent of average earnings; however income of the top 20 per cent of pensioners is £19,000 p.a., while the poorest 20 per cent have just £4,600 p.a. The UK government has established a minimum income guarantee for pensioners, but millions of people who qualify for this fail to apply.

Session 4
Conclusions: trade unions and tomorrow's welfare state

The plenary session was introduced by Jürgen Hoffman of the Hamburger Universität für Wirtschaft und Politik (Hamburg University of Economics and Politics). He argued that the very different types of market economy operating in EU member states make an integrated European social state problematic – integration would be based on the lowest common denominator, i.e. the free market. The UK model, characterised by a high proportion of small companies and of service-sector companies and a reliance on investor funding, provokes widespread fear. In Germany, by contrast, the private sector is influential through high-level employers' organisations which work with trade unions in institutions that straddle the public and private sectors. In the UK, many investment decisions are taken with an eye to short-term shareholder value; in Germany the system of supervisory and administrative boards ensures the participation of employees and means that decisions are based on social (e.g. employment) as well as profit objectives. Varying national lifestyles are embedded in these different models of the social state, so the challenge is to develop structures that make them compatible (through, for example, minimum standards) and create a common social model that goes beyond an appeal to values. Trade unions are interested in seizing the many opportunities for action at the European level, although it is unfortunate that the European trade union structures are relatively weak.

General discussion

- The conference has demonstrated the different political relationships and cultures in which trade unions operate in Germany and the UK. Will trade unions be able to adopt a meaningful joint position that contributes to creating a European social model? Most EU members apart from the UK have a common approach to economic and social affairs; the UK's distinctive system has more in common with the US model.

- The British trade union movement is a big fan of the European social model. Every advance for workers since 1979 has come from European institutions. UK companies should demonstrate greater concern for corporate responsibility – if they did this, unions would not argue so vigorously for the public delivery of public services. A European health and pension system will not be possible for many years – in the meantime we need to define fundamental objectives.

- Welfare systems will be increasingly expensive for all member states to maintain, and trade unions will have to struggle to ensure an element of redistribution. It is important to remember that, as employees, we are jointly responsible for economic growth.

- The British and German social states represent opposite extremities of the same broad system with high funding levels, a significant role for trade unions, and a strong ethos of public service. Trade unions must play a central role in defending the system – privatisation will reach its limit, and if things go wrong the state will have to step in.

- Globalisation, demographic developments, and flexicurity (job flexibility plus security) are the chief challenges confronting trade unions across Europe. We need to work out how to meet these challenges and so find common themes for action.

- Many young people fear for their future in tomorrow's welfare state – how can we ensure that they become involved in the political process and strengthen their influence? We have to convince young people of the value of collective insurance rather than reliance on individual efforts. The younger generations in both countries understand the threat of globalisation, but join NGOs rather than trade unions to make their voice heard.

- We must ensure that in striving to create minimum standards across the EU we do not exclude others, e.g. the nations of eastern Europe.

- EU states compete with each other for external investment. As a result global companies exert huge influence and base investment decisions on increasingly hard criteria. National governments have less economic power than international companies, which constrain governments' freedom of manoeuvre, e.g. on taxation levels. In addition the scale of inter-governmental co-operation is increasing enormously. The trade union response to these challenges is very weak – we need to spend more at the European level, otherwise we will be outsmarted: there are 16,000 lobbyists representing commercial interests in Brussels, while the European Confederation of Trade Unions has a staff of 45.

- The Commission and the European Parliament should take more action in developing Europe-wide social policy, rather than waiting for the national governments to negotiate.

- Attacks on the welfare states in both Britain and Germany represent attacks on the philosophy of the trade union movement. Commercial interests want a minimalist welfare state (in which the state confines itself to guaranteeing minimum income levels for the poorest in society, rather than providing comprehensive benefits for everyone) as this brings commercial opportunities to sell insurance and savings policies. European trade unions will find common ground by focusing on the big issues.

In closing the Forum, Jürgen Hoffman looked ahead to future co-operation between trade unions (and individual trade unionists) in the UK and Germany:

- In both countries there is a relative lack of awareness of the European agenda and the opportunities it brings. The smaller European countries are much more active in the European trade union movement.

- Liberalisation has caused states to cede power. We need to work towards a regulated liberalisation in which Europe-wide guidelines are established.

- The accession states will strengthen the Anglo-Saxon model of capitalism and threaten the role of trade unions.

- While young people are committed to the principle of solidarity, they do not commit to the organisations, such as trade unions, that formerly represented the means of expressing such solidarity. The way young people commit to solidarity will determine the future of Europe.