

SOCIAL DEMOCRACY READER 3

Alexander Petring et al.

Welfare State and Social Democracy



AKADEMIE
FÜR SOZIALE
DEMOKRATIE

FRIEDRICH
EBERT 
STIFTUNG

ISBN 978-3-86498-103-6 2nd updated edition



Published by

Friedrich-Ebert-Stiftung

German Edition: Political Academy, Bonn November 2012

English Edition: Division for International Cooperation, Berlin November 2012

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Printed by: Mauser + Tröster GbR, Mössingen

Layout and composition: DIE.PROJEKTOREN, Berlin

Translated by: James Patterson, proofread by: Sabine Dörfler

Cover photo: Yuri Arcurs, fotolia/Frédéric Cilon, PhotoAlto

The authors of the individual sections take full responsibility for the contents of this publication.

The opinions expressed are not necessarily those of the Friedrich-Ebert-Stiftung.

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FOREWORD to the second German edition

For social democrats the welfare state is not a side issue, but a requirement of democracy. It ensures equal freedom – full freedom.

It is in the welfare state that social democratic ideas about freedom are made real. It encompasses not only protection against the arbitrary intrusion of the state or society – for example, freedom of conscience and opinion. Full freedom also means freedom from need and fear, the material conditions of a self-determined life.

Equal freedom: that is the constant standard that social democratic social policy sets itself. The goal and the direction are clear. Concrete measures need to be re-evaluated as times change and the traditional social democratic approach must be reaffirmed. This Reader is intended to contribute to this reaffirmation.

It describes the fundamental connection between welfare state and democracy; demonstrates what notions of justice characterise the welfare state; and explains the different kinds of welfare state within the framework of which different countries organise social solidarity. It addresses popular criticisms of the welfare state and points out real challenges; provides an overview of the different parties' social policy programmes and discusses in detail the different areas of the welfare state, including work, pensions, health care, education/training and taxation. This Reader is not intended to furnish answers set in stone, but an invitation to take a broad view of the issues and to develop one's ideas.

Welfare State and Social Democracy is the third volume in the series of Social Democracy Readers. It builds on the Reader Foundations of Social Democracy, in which the basic values of social democracy are explained, the social models of (economic) liberals, conservatives and social democrats are compared and the differences between libertarian democracy and social democracy are presented. It interfaces with the volume Economics and Social Democracy, which examines how a modern, values-based social democratic economic policy can be successfully applied.

Social policy issues at the European and the global level are becoming increasingly important. However, this volume focuses on the welfare state in Germany. The international perspective is central to the volumes *Europe and Social Democracy* and *Globalisation and Social Democracy*.

The financial market and economic crisis brought home in no uncertain terms how vital the welfare state is. Particularly in the crisis its power and importance were self-evident. It functioned as an automatic stabiliser, shored up domestic demand and helped to prevent poverty and safeguard jobs.

We would like to thank Alexander Petring, Tobias Gombert and Thomas Rixen. Alexander Petring drafted the main part of the Reader. Tobias Gombert and Thomas Rixen, besides their own contributions, provided generous editorial and didactic support. Our thanks also go to Diana Ognyanova and Marius Busemeyer, who were behind the chapters *Health care* and *Education and training*; Michael Dauderstädt and Claudia Bogedan for their advice on the general approach to the Reader; and Eva Flecken, Knut Lambertin and everyone who contributed to making it work. A big thank you for their work, their commitment and their outstanding cooperation. Any shortcomings there might be are entirely down to us.

The symbol of the Academy for Social Democracy is a compass. For the Friedrich-Ebert-Stiftung, the Academy offers a framework to enable people to clarify their points of view and attitudes. We would be delighted if you took advantage of what we offer to help you find your own political path. It is the very lifeblood of social democracy that people constantly engage and get involved with it.



Dr. Christian Krell

Director

Academy of Social Democracy



Jochen Dahm

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Social Democracy Readers

November 2012

FOREWORD to the International Edition

In the decades since the Second World War the conversion of economic progress into social progress through the redistributive activities of the »welfare state« has been a hallmark of the advanced economies of the West. For most people, the broadening and deepening of the welfare state is indeed synonymous with social progress. However, there are vast differences in terms of philosophical underpinnings, institutional architecture and redistributive outcomes between the different »worlds of welfare capitalism«, namely the Anglo-Saxon liberal, the Continental conservative and the Scandinavian social-democratic models of the welfare state.

Over the past two decades all welfare states have come under attack and experienced considerable reform pressure. In part, this had to do with the ideological onslaught of neoliberalism and the »race to the bottom« induced by increasing global competition. In part, it was also due to the challenges arising from demographic change (aging societies), persistent high levels of unemployment, social change (erosion of traditional family structures) and rising public debt in much of the OECD. To ease what was considered to be an increasingly unsustainable financial burden and a constraint on competitiveness, contraction of social safety nets in combination with labour market reforms and regressive tax reforms substantially increased inequality in Western societies.

However, as a result of the financial and economic crisis of 2008/2009 a change in mindset can be observed. The superior coping capacity of countries with more comprehensive social protection systems and more regulated labour markets, such as Germany, has led to a reassessment of the social, political, but also the economic value of the welfare state, triggering a renewed interest in answers to the challenges of organising solidarity and justice within societies.

Welfare State and Social Democracy deals in a comparative manner with underlying values and principles, alternative institutional architectures as well as the key policy areas (tax system, unemployment insurance/basic income security, pension systems, health care, education/training) of modern welfare states. It does so, on the one hand, by comparing social democratic to other political approaches, and the other hand by comparing the German experience to that of other OECD countries. As the third volume in a series of Social Democracy Readers, it also builds upon the two previous volumes, *Foundations of Social Democracy* and *Economics and Social Democracy*.

The Social Democracy Readers were originally published in German for use in political education inside Germany. Therefore, most of the experiences related or the examples used reflect politics and society in Germany or other OECD countries. Nevertheless, these experiences and examples mainly serve to illustrate principles, political models and courses of action which also have relevance in other socio-political contexts. Underlying the international work of the Friedrich-Ebert-Stiftung is the conviction that the core values and ideals of social democracy know no borders, whether geographical, cultural or linguistic.

I therefore wish the international edition of the Social Democracy Readers a large and committed readership.



Christiane Kesper

Director

Division for International Cooperation

1. INTRODUCTION

The welfare state is part of the very core of social democracy. It ensures that basic rights are not merely formal, but can be actively realised.

Generally speaking, the welfare state is at the forefront of discussion in every part of the political spectrum. That makes perfect sense because how one conceives of the welfare state also expresses what one thinks about democracy and one's basic values. This Reader is intended to help people to find their own point of view in these debates, as well as to clarify and be able to present it.

Chapter 2: Welfare state and social democracy

The basic values of social democracy are freedom, justice and solidarity. They form the basis of the conception of the welfare state that shapes this Reader. The fundamental relationship between the welfare state and social democracy therefore stands at the beginning of this volume (Chapter 2).

Chapter 3: Justice in the welfare state

This clearly shows that one cannot talk about social policy without talking about issues of distribution: in accordance with what principles should, for example, education and training, career opportunities and income, power, security, rights and duties be distributed? Because what is at issue are the key questions of life distribution must take place in accordance with justice. But what is just? What does justice mean in individual domains? Is there a principle that applies to both the framing of unemployment insurance and the education and training systems or health care policy? Chapter 3 deals with these justice issues.

Chapter 4: Materials, structures and architecture of the welfare state

Different forms of welfare state have developed internationally. They all make use of the same materials and structures. Their architecture and the consequences for the residents of particular countries are clear, however. These architectures are considered in Chapter 4.

Chapter 5: Challenges facing the welfare state

The welfare state is often the victim of popular or even populist criticism. Chapter 5 tries to make sense of these criticisms, presents the challenges facing the welfare state in Germany and gives some first indications of how they can be dealt with.

Chapter 6: Social policy posi- tions of the parties

The relevant concepts and challenges having been elucidated, Chapter 6 is devoted to the social policy positions of the parties represented in the Bundestag, what welfare state models they stand for and what reform measures they propose.

It is the aspiration of social democracy to guarantee equal freedom. The goal, therefore, is clear. However, the concrete forms the individual areas of the welfare state should take have not yet been laid down.

Five core areas can be identified as making up a modern welfare state: because the welfare state must safeguard against life's major contingencies and ensure human dignity, health, unemployment and pension insurance are elementary components of the welfare state.

Because the welfare state is aimed at the participation of all citizens education/training policy is also part of a modern conception of the welfare state. This is because education/training is a prerequisite of an awareness of democratic rights, but also decisive for the distribution of material resources. Education means participation and opportunities.

Another element of a modern welfare state is tax policy. It should be discussed under social policy not only because social security benefits are funded from taxes and contributions, but also because taxes are a key instrument for influencing the distribution of incomes and wealth in a society.

2. WELFARE STATE AND SOCIAL DEMOCRACY¹

In this chapter:

- the relationship between the welfare state and democracy is discussed;
- the social democratic conception of the welfare state, based on freedom, equality and solidarity, is explained; and
- the role of the welfare state in the provision of basic political, civil, economic, social and cultural rights is presented.

*Germany: a social
federal state*

»The Federal Republic of Germany is a democratic and social federal state.« This is the first sentence of Article 20 of the German Basic Law or Constitution, which includes the principle of democracy, the principle of the welfare state and the principle of the rule of law and which, according to the will of the so-called »fathers and mothers of the constitution«, should have equal validity.

*Organisation of
the welfare state: a
question of justice*

While the principle of democracy and the rule of law are explained in more detail in many places in the Basic Law, the welfare state principle is not specified. This is hardly surprising given that the most important criterion for organising the welfare state is justice.

*What is just? –
an ancient quarrel*

People have quarrelled about the meaning of justice since the dawn of time. Most of the present volume is devoted to reflection on what constitutes a just welfare state, the benefits and disadvantages of the existing welfare state and the search for alternative design options.

Welfare state denotes a democratic state that, in accordance with its constitution, not only guarantees basic rights and personal and economic freedoms (state under the rule of law), but also takes legal, financial and material measures to equalise social differences and tensions (up to a point). The principle of the welfare state to that extent is related to the goal of justice under the rule of law and is laid down in Articles 20 and 28 of the Basic Law. (Das Politiklexikon 2006: 282)

Before looking at the different areas and aspects of social policy in more detail, however, we should first consider the fundamental relationship between democracy and the welfare state.

¹ The ideas of Kneip (2003), Preuß (1990), Scanlon (2005), Kaufmann (2003) and Ritter (1991) were referred to in the preparation of this chapter.

It often seems that social policy is just one policy domain among many. It stands out from the others mainly because it makes up the largest part of the federal budget and directly (through the receipt of benefits) or indirectly (through funding via taxes and contributions) all citizens are affected by social policy decision-making. The fact that this does not do justice to social policy is indicated by the mention of it in the Basic Law. But what is the special relationship between democracy and the welfare state?

*Social policy –
a policy domain just
like any other?*

Democracy means that all citizens have the same right to freedom and political participation. All people have the same dignity and merit equal respect. This seems to be merely a commonplace or platitude. Aristotle, however, the influence of many of whose ideas remains strong today, took the view that there are people who cannot live in freedom: he thought that there are people who are slaves by nature. Furthermore, he thought that women should not be equal to men. Women's suffrage provides an eloquent reference point with regard to the development of ideas on equal political rights. In Germany, women obtained the right to vote in 1919, but in Switzerland this happened as late as 1971. The notion of political equality is therefore no platitude and in many respects is even a relatively recent development.

*Democracy:
no platitude*

Equality with regard to dignity, respect and self-determination is therefore a prerequisite and condition of democracy. As the examples show, however, it is by no means a matter of course. It must also be supplemented by other instruments. Self-esteem and self-determination require basic material provision. Without food and shelter, even the greatest formal freedom is worth little. The welfare state therefore serves to create the conditions for the realisation of freedom and democracy.

*Welfare state: basis
for the realisation
of real freedom and
democracy*

Besides goods such as food and shelter there are other goods and resources that have to be ensured if democracy is to be more than an empty word: education/training and information. Protection against the risk of poverty and ensuring education/training must not be considered an act of charity or the solidarity of the virtuous. Genuine democracy is not possible without social policy. A democratic state needs the welfare state.

*A democratic state
needs the welfare
state!*

The connection between democracy and social protection was always of central importance for social democracy. For example, the »Meeting of German

*Social democracy:
social and political
questions linked at
an early stage*

Workers' Associations« as early as 1868 declared that »political freedom [is] the indispensable condition of the economic liberation of the working classes. The social question, accordingly, is inseparable from the political one, its solution is determined by it and it is possible only in a democratic state.« Over the course of 150 years, this connection has been constantly reconsidered and has now been included in the SPD's programme:

»The welfare state is a major achievement of civilisation in the twentieth century. It supplements civil rights and freedoms with social rights. That is why for us democracy and the welfare state go hand in hand. The welfare state has liberated millions of people from the constraints of their social origins, protected them against the hardships of the market and opened up for them opportunities to lead a self-determined life. It is a decisive basis for a dynamic economy, able to create prosperity. ... In order to renew this promise of security and social mobility in our time we are developing the welfare state into the preventive welfare state.« (SPD Hamburg Programme 2007: 55, 56)

*Concept of the
preventive welfare
state – see the social
democratic model in
Chapter 4*

The notion of the preventive welfare state mentioned here is related to the successful welfare state policies of the Scandinavian countries, with their so-called »social democratic« variety of welfare state, which is discussed in more detail in Chapter 4 (Materials, Structures and Architecture of the Welfare State).

*Welfare state: more
than a subsistence
guarantee*

Research on democracy over the past few decades has shown repeatedly that democracy requires a material and non-material underpinning that goes beyond a mere subsistence guarantee. For example, the level of political participation – taking part in elections, involvement in political parties and other forms of political activity – is closely related to the mentioned resources.

*Requirement of
active (political)
participation*

The unemployed, those on low incomes and those lacking education or training in practice exercise their political rights less frequently. Equal recognition of civil rights and liberties and of political rights – in other words, the basic requirement of democracy – goes hand in hand with at least comparable social and economic life circumstances.

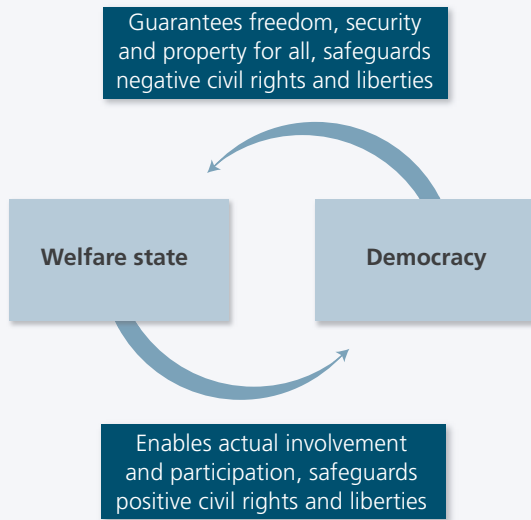


Figure 1: Relationship between welfare state and democracy

Many debates on the welfare state revolve around the costs it entails. It is also sometimes claimed that social policy hinders economic growth. Against the background of the inseparability of democracy and the welfare state many arguments appear simply absurd: democracy is not a matter of cost. Freedom and democracy cannot be measured in terms of economic growth.

Furthermore, many points of criticism repeatedly raised against the welfare state do not stand up to closer examination. For example, the countries with the biggest welfare states are also among the richest democracies.

Also, there is no evidence to support the claim that a far-reaching welfare state cannot be soundly financed and therefore inevitably leads to a high level of public debt. Although there are countries with high public debt and a large welfare state, there are also countries with high social spending and low public debt.

The question of the funding of the welfare state leads to another popular point of criticism of the welfare state: social policy means redistribution. And redistribution means that those who have a lot give some of it away and those with little receive something. Some now regard this process as an unjustifiable act of paternalism or even as expropriation.

Does the welfare state cost »too much«? Can democracy cost »too much«?

Countries with strong welfare states: often economically successful

Welfare state means redistribution

*Justification: only
the rule of law can
guarantee property*

In fact, the state intervenes in the distribution of incomes. What values have priority here is fairly obvious. Because property rights are worth little without the democratic rule of law, which safeguards these rights. And the democratic rule of law is, in turn, conditional on citizens' enjoying decent and self-determined lives.

Intervening in the distribution of income arising from the market by means of taxes and contributions is therefore necessary to ensure freedom, security and property for all. It is not a question of trampling over people's property rights but merely of denying them absolute priority.

*Social democracy:
negative and posi-
tive freedom*

From a social democratic standpoint, the freedom that protects the individual against encroachments by the community – negative civil rights and liberties – and the freedom actually to pursue one own desires and goals (positive freedom) must be striven for and realised equally.² Anyone who talks of paternalism and expropriation in connection with social policy and redistribution, however, should at least note that not everyone can share in enjoying the freedom that he wishes to protect.

*»Freedom means the possibility of a self-determined life. Every person is competent and capable of exercising freedom. Whether a person is able to live in accordance with this is determined in society. People must be free from degrading dependencies, and from need and fear and must have the opportunity to develop their potential and play a responsible role in society and politics. Only persons who enjoy adequate social safeguards can exercise their freedom.«
(Hamburg Programme 2007: 15)*

*Inextricably linked:
welfare state and
democracy*

In a democracy, social policy is not just one policy area among many, but inextricably linked to it. At least, that is the case when, by democracy, one understands not only the formal existence of civil rights and liberties, elections and independent courts, but also actual involvement and participation on the part of all citizens in social and political life. This is also the core of social democracy. It is a matter of the realisation of fundamental rights. The Reader on the Foundations of Social Democracy describes it as follows:

² On the relationship between positive and negative freedom see also Reader 1: Foundations of Social Democracy (2008), pp. 96–98.

»If negative civil rights and liberties are to have more than merely formal validity and are to be effective for all, positive civil rights and liberties must be granted. That means that the wealthy have to accept social redistribution ... Without the social redistribution of wealth, usually organised by the state, civil rights and liberties cannot be realised for all.« (Reader 1, Foundations of Social Democracy: 98)

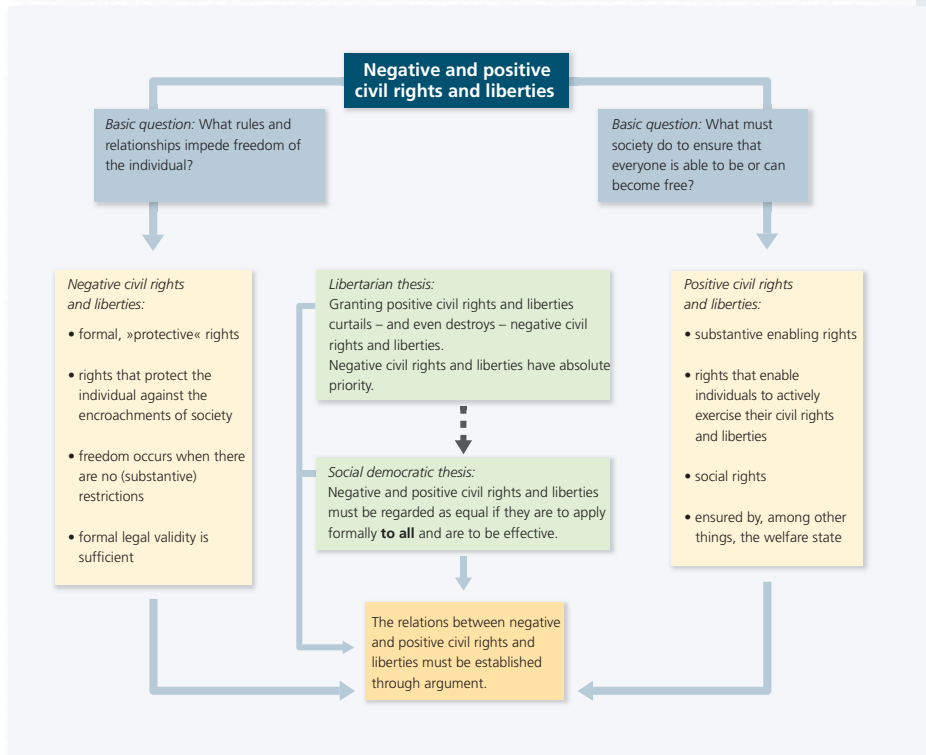


Figure 2: Negative and positive civil rights and liberties

3. JUSTICE IN THE WELFARE STATE³

In this chapter:

- the four principles of distributive justice and their relations to one another are considered: equality, performance-based justice, needs-based justice and equality of opportunity;
- the general principles of gender and intergenerational justice are examined;
- in an excursus, Erhard Eppler looks at everyday usage of the concept of »justice« in politics.

*How can distribution
be made fair?*

Further reading:

*Reader 1: Foundations of Social
Democracy (2008),
Chapter 2.2.*

Justice is a criterion in accordance with which behaviour towards others can be described and evaluated. So-called »social justice«, similarly, refers to behaviour towards others, except that in this instance the actor is the state or society. What is at issue, therefore, is what distribution criteria the state should use.

The basis of state (re)distribution has already been mentioned: starting from the assumption of equal dignity, all citizens should have the same opportunities to lead a self-determined life and to participate in politics.

*»Justice is based on the equal dignity of all. It means equal freedom and equal life chances, regardless of origin or gender.«
(Hamburg Programme 2007: 15)*

*The same for
everyone?*

But how is that to be achieved? Should all citizens receive the same? Or should all citizens get the same in terms of outcomes? Or should the individual needs of all citizens be met to the same extent? Or should performance and merit be the basis of distribution? Or should it be opportunities rather than goods that are distributed equally?

*Four principles:
equality, equal
opportunities, per-
formance and need*

In what follows we shall examine in more detail what exactly these principles of equality, performance-based justice, needs-based justice and equal opportunities consist of and in which areas of the welfare state their application is justified. The concepts of justice in question here are the core principles of distributive justice.

³ The ideas expressed in Becker/Hauser (2004), Gosepath (2004), Kersting (2000); Petring/Henkes (2007), Döring (1998), Kersting (2001) and Lessenich (2003) were invaluable in the preparation of this chapter.

Two principles of justice in particular must by all means be taken into account here: gender justice and intergenerational justice. Distributive justice concerns the general issue of whether and how the state should deal with differences between people. In simple terms, different principles should be applied in different domains.

Overarching principles: Gender and intergenerational justice

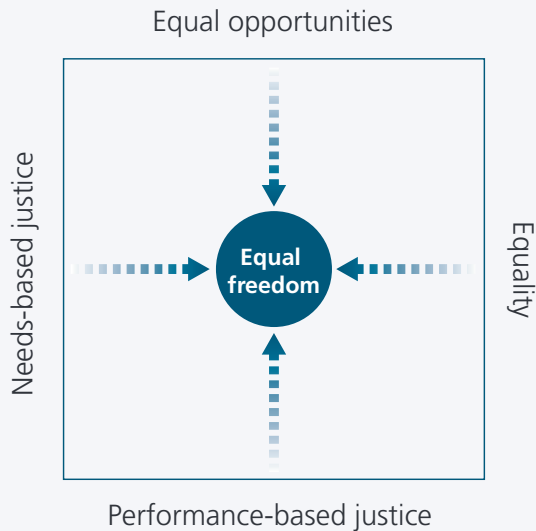


Figure 3: Four concepts of justice

Equality between men and women and the principle that action should be taken in the present to safeguard the basis of life of future generations are not limited to individual political domains, however. They must be fundamental guidelines of (social) policy.

Further reading:

Friedrich-Ebert-Stiftung (ed.) (2009a), Thematic portal: Women-Men-Gender, www.fes.de/gender.

Friedrich-Ebert-Stiftung (2009b) (ed.), Alter, Arbeit, Armut? Altersarmut von Frauen verhindern!, Berlin 2009.

Christine Färber, Ulrike Spangenberg, Barbara Stiegler (2008), Umsteuern: gute Gründe für ein Ende des Ehegattensplittings, Friedrich-Ebert-Stiftung (ed.), Bonn.

Gender Justice

Eva Flecken

Is it fair that mothers participate in working life less than fathers? Is it fair that women workers earn less than male ones? Is it fair that schoolboys are increasingly getting worse grades than schoolgirls?

These are only some of the questions that have to be asked within the framework of gender justice. Gender justice involves systematically taking into consideration the realities of life of women and men in every policy area. Gender justice, in many respects, cuts across the four core principles of distributive justice, in particular with regard to equality of opportunity and equality of outcome.

Although the identification of gender injustice is nothing new, the differences between the genders have not diminished fundamentally. In socio-political terms, the issue is also topical because debates on parental leave for men (frequently referred to in Germany as »Wickelvolontariate« or »nappy-changing internships«) and bad parenting will not die down. Instead, the flames are constantly being fanned and prominent opinion-formers are stirring things up even more.

The feminist agenda has changed in recent years and its focus has shifted. Today the emphasis is on equal rights based on partnership and less on radical demands of the kind still necessary in the 1970s. However, despite the structural changes and developments undergone by feminism, feminist demands remain a political issue.

This is particularly justified with regard to the German welfare state: for example, old-age poverty still affects women more and joint spousal tax declarations in reality work against women's employment. However, it also appears that things are changing with regard to gender injustice: in some areas – such as the education system – boys now appear to be doing worse.

Both genders are therefore confronted by injustices. Mutual offsetting would appear inadvisable both economically and socio-politically, since two wrongs do not make a right.

Rather attention must be directed to the fact that modern societies are characterised by multidimensional gender injustice. Single fathers are as familiar as single mothers with the problems besetting child care. Male nurses suffer just as much from criminally low wages as female nurses. The issue of gender justice is thus more complex but also more topical than ever.

Pluralistic societies demand not only more complex strategies of distributive justice, but also in general a more nuanced view of the principles of justice. That also applies to gender justice.

Intergenerational justice deals with the distribution of goods between young and old, on the one hand, and between current and future generations, on the other. A classic instance of a lack of intergenerational justice is the destruction of the environment. Increasingly, however, the concept is being used in relation to the funding of the welfare state and rising public debt. In this context it is not uncontroversial, for example, when it is used as a pretext for other political purposes, such as cuts in the education and social security systems.

The SPD's Hamburg Programme, for example, formulates a more comprehensive notion of intergenerational justice: »A sound financial policy for us means that we do not live today at the expense of future generations. However, the consolidation of public budgets must not involve leaving behind a dilapidated infrastructure for coming generations. Our responsibility towards future generations means that we must reduce public debt and, at the same time, invest more money in education/training, research and infrastructure« (Hamburg Programme 2007: 46).

Further reading:

Friedrich-Ebert-Stiftung (ed.) (2006), Generationengerechtigkeit. Thematic module of the FES Online-Akademie, www.fes-online-akademie.de.

Peter Bofinger (2009), Gerechtigkeit für Generationen. Eine gesamtwirtschaftliche Perspektive, Friedrich-Ebert-Stiftung (ed.), Bonn.

Björn Böhning und Kai Burmeister (ed.) (2004), Generation & Gerechtigkeit, Hamburg.

3.1. Equality

In the nineteenth century, legal and political equality were demanded

As a principle of justice, equality demands that there be no differences between the members of a society with regard to their legal, political, social and economic position. The leitmotif of the French Revolution (1789) was the demand for »liberté, égalité, fraternité [solidarity]«. Since the nineteenth century the workers' movement has been committed to the legal and political equality of all. In other words, the workers' movement was not only about workers' emancipation, but also equal freedom for all:

»The struggle for the emancipation of the working classes is not a struggle for class privileges and monopolies, but for equal rights and equal obligations.« (Programme of the assembly of the German Workers' Associations, Nuremburg 1868, quoted in Dowe/Klotzbach 2004: 157–158)

Formal equality has largely been realised

The greatest progress has been made with regard to legal and political equality or »equal rights«. If one works on the basis of the principle that like should be treated as like and unlike as unlike, the line of argument is obvious: political participation and self-determination must be granted to all in equal measure. Differentiation in accordance with, for example, gender cannot be justified because gender cannot justify differences with regard to dignity, political participation and self-determination.

There must be a distinction between instrument and outcome

Discrimination as an instrument is therefore to be distinguished from inequality of outcome. Precisely for this reason it can be necessary to give preferential treatment to disadvantaged persons. Equality is realised primarily in the legal sphere. In reality, however, one may frequently observe deviations from the principle of equality.

»Legal equality still does not mean equal status. In particular in the professional and working world old disadvantages continue. Reconciliation of family life and work remains overwhelmingly a problem for mothers, women earn less than men, women lose their jobs more easily and are more frequently at risk of poverty.« (Hamburg Programme 2007: 10)

When we come face to face with inequality, therefore, we expect a justification. On the assumption of equal dignity, an equal right to a self-determined life in freedom and an equal right to political participation reasons must be given for any inequalities.

Reasons must be given for any inequalities

But does this apply not only to political and social rights but also to distribution of income and wealth? At first sight, applying the principle of equality seems simple, but a number of questions arise. Should equality apply to persons or households? Is it a question of income equality or equality of life situation («conditions of life»)? And what about the temporal aspect of establishing equality: should it take place at a particular time, at certain stages of life, continuously?

What are the dimensions of equality?

Conditions of Life Approach

Knut Lambertin and Christian Krell

The **conditions of life approach** is a concept – developed among others by **Gerhard Weisser** – that takes into account the multidimensional character of poverty and wealth. Gerhard Weisser (1898–1989) was a minister, a social scientist, professor at the University of Cologne, an active Protestant and a committed social democrat. From 1954 to 1970 he was chair of the Friedrich-Ebert-Stiftung.

The assertion that »(re)distribution is about conditions of life« (»*Verteilt werden Lebenslagen*«) is the core of his approach to distribution policy. He starts from the assumption that when thinking about distribution policy one has to take into consideration not only material magnitudes, but all aspects of human need, including scope of action, social networks and cultural level. For him, not only socioeconomic dimensions counted, but also the opportunities for wellbeing that went with them – and these depend on more than material things.

With his conditions of life approach Gerhard Weisser was able to synthesise theoretical work and a practical orientation. He not only influenced the SPD's Godesberg Programme, but also the Social Assistance Act and the government's poverty and wealth reports.

His ideas are also to be found in the SPD's 2007 Hamburg Programme, in the demand for »equality in the distribution of income, wealth and power« and the exhortation about participation and equal life chances.

*Equality of material
outcome...*

One possibility would be to interpret equality as equality of material outcomes. Regardless of what and how much one has achieved all would receive the same material amount from the state.

*... cannot be the sole
measure*

Serious counterarguments can be marshalled against such a model. Consistent realisation of the goal of equality cannot be reconciled with a market economy and it also comes into conflict with the individual rights (for example, property rights) characteristic of modern democracies. More importantly, however, it would not be fair to take equality as the sole principle of distribution.

Performance and need are two other principles in accordance with which goods and resources can be distributed. Can these criteria, therefore, justify inequalities?

3.2. Performance-based Justice

*Example: equal
wages for equal
work*

For most people, the most appropriate principle of justice in accordance with which differences of distribution can be justified is performance-based justice. Performance-based justice – or the performance principle – demands that equal achievements and unequal achievements should be treated unequally. A typical example of this maxim of justice is the demand for »equal wages for equal work«.

»Social democracy – to refute a prejudice that keeps on being levelled against it – has always regarded differences in the distribution of goods and resources as legitimate, as long as this is based on a specific need or performance or on perceptible, recognisable and assessable differences in attainment.«
(Thierse 2005: 14)

*How can
performance be
measured?*

However, it is often not so easy to say how performance or merit can be assessed. Is it the same as the outcome of a particular activity? Or with the effort – that is, the trouble taken and the exertion – that accompanied the activity? Furthermore, what role does talent play in the assessment of performance? Should particular gifts – given to one at birth and thus not achieved – be rewarded or not?

»Only God, who knows what secrets dwell in the hearts of men, would be able to make the necessary distributions. If human beings had to do the work, the distributive mechanism would be seized early on by some band of aristocrats (so they would call themselves) with a fixed conception of what is best and most deserving, and insensitive to the diverse excellences of their fellow citizens.« (Walzer 2006)

Surveys and experiments show that the majority of people understand performance (or achievement) as a combination of three factors: outcome, effort and talent, of which outcome and effort are the most important.

Individual talent, in contrast, is considered by most people to be relevant to the evaluation of performance only in combination with effort.⁴ The level of exertion, effort and diligence in particular cannot be easily judged from outside, however.

Clearly, it is not easy to apply the performance principle consistently. The least complex solution is to leave it to the market to define performance. This has consequences of its own, however. The market does not necessarily reward performance in terms of individual effort and enthusiasm.

Instead, it is oriented primarily towards outcome. As a result of this, by the way, the income differences that people consider to be justified by individual performance are much lower than actually existing differences (Miller 2008: 112).

There is an even more fundamental problem: many activities – in particular within the family – are unpaid (care, child raising, nursing). Because such activities are still disproportionately carried out by women there is a twofold injustice:

1. The activities of many people are not remunerated.
2. It is above all women who are affected by this injustice.

The application of this principle of justice is most clearly evident with regard to unemployment and pension insurance. In both instances, the level of benefit depends on the level of accumulated contributions: with regard to pensions it is the contributions made in the course of working life, while in the case of unemployment insurance benefit level is determined by the average wage of the last year of employment.

*Performance:
Outcome, effort
and talent?*

*Evaluation of per-
formance by the
market ...*

*... is oriented
primarily towards
outcome*

*Problem: the
market does not
take account of
all activities*

*Application of the
performance princi-
ple: unemployment
and pension insur-
ance*

4 For an interesting overview of attitudes to justice, see Chapter 4 in Miller (2008)

In the health care system, performance-based justice has only limited application. Performance-related allocation of health services takes place indirectly due to the existence of statutory and private health insurance schemes, which in turn is wage dependent.⁵

*Application in the
education system*

This principle is also applied in the education/training system. On top of the basic provision, only those who meet performance criteria are entitled to further state education or training. But while in the other areas we have dealt with (previous) income is the performance indicator, in the education/training system it is primarily grades and final examinations that determine entitlement to further access.

3.3. Needs-based Justice

*»From each accord-
ing to his abilities, to
each according to
his needs«*

Needs-based justice was what Karl Marx called for in his quarrel with the Gotha Programme: »From each according to his abilities, to each according to his needs!« However, he did not consider this to be a political task. He took the view that this principle would be realised of its own accord in the later stages of communist society, as a result of which the concept of justice would become superfluous.

*Individual desires
as measure?*

What kind of understanding of need or want would be suitable to serve as a basis for the allocation of goods in a modern society? Perhaps they could be taken to be synonymous with individual desires. Many people might feel the need for a villa with an enormous park around it. However, the limits of its applicability would rapidly be reached due to scarcity of resources.

*Need: what is
necessary for a
decent life*

The alternative is to understand as needs the conditions necessary for a decent life in a given society. Adam Smith's conception of necessary items (what he called »necessaries«) was along these lines:

*»By necessaries I understand not only commodities which are indispensably necessary for the support of life, but whatever the customs of the country render it indecent for creditable people, even the lowest order, to be without.«
(Smith 1978 [1776]): 747)*

⁵ There is a detailed discussion of the principles of justice applied in the various domains of the welfare state in the relevant sections of Chapter 7.

The goal of needs-based justice therefore is predominantly the adequate, average or minimum coverage of basic needs. But even if such a definition means that the abovementioned villa cannot be considered a basic need, there is no hard and fast dividing line. What exactly are the goods required by a decent life? Clearly, this depends entirely on the circumstances of each particular society. Today, telephone, television and internet would be considered basic goods, while up into the 1960s none of them were.

*First problem:
the material
dividing line*

But it is not only because of technical and lifeworld changes that problems arise or adjustments have to be made. What about the entitlements of people whose neediness is not the result of mishap, accident or other reasons beyond their responsibility? In other words, what about people who are entirely responsible for their regrettable situation? Is the state responsible in this case to the same extent as in a case in which the person in need has tried everything to avoid harm?

*Second problem:
where does state
responsibility end?*

The application of needs-based justice can be even more difficult in relation to goods that are not divisible. This is the case with regard to donated organs, for example. How do you decide who gets a life-saving transplant when more than one person needs it?

*Third problem: how
does one allocate
indivisible goods?*

Obviously, the basic idea of needs-based justice, with reference to a decent life, is in keeping with the thinking that led to the inclusion of the welfare state principle in Germany's Basic Law. It is thus easy to see that here too it is not always simple to apply it in practice.

*Needs-based justice
as an expression of
the welfare state
principle*

However, it does operate in a number of key areas of the German welfare state. In the health care system, application of this principle is relatively clear. The treatment of illnesses takes place largely in accordance with need – even if in some areas there are limitations due to the principle of performance-based justice.

*Application in the
health care system*

The principle of needs-based justice is most evident in relation to so-called unemployment benefit II (Arbeitslosengeld II – ALG II), which replaced income support. The underlying idea here is clearly basic insurance intended to guarantee a decent minimum living standard for all.

*ALG II: Principle of
basic insurance*

*Controversial issue:
the level of need*

The difficulties involved in implementation are also evident here. The level of benefits is the object of regular – and heated – debate: some consider benefit levels too low to ensure a decent standard of living, while others take the view that benefits are so high that they no longer provide an incentive for people to look for work.

*Human dignity
cannot be qualified*

However, the latter is first and foremost not a matter of justice but an argument based on efficiency. And human dignity cannot be qualified on the grounds of efficiency, of whatever kind. Strictly speaking, the controversy should only concern whether benefits are adequate to ensure participation in social and political life.

3.4. Equality of Opportunity

*Equal opportuni-
ties: an overarching
principle*

Equal opportunities as the fourth of the principles of justice dealt with here is distinct from the other three in one essential point: equality of outcome, contribution- or performance-based justice and needs-based justice in many situations contradict one another.

*Equal opportuni-
ties: precondition
of the performance
principle*

Equality of opportunity, by contrast, not only reconciles contribution- or performance-based justice with equality of outcome, but in a way it is a necessary condition for application of the two principles. But first things first.

*Point of reference:
a level playing field*

The first notable thing about equality of opportunity is that, in contrast to the other concepts, it refers to a certain kind of good. This principle does not concern the distribution of goods and resources in general, but expressly concerns the equal distribution of opportunities. In other words, a level playing field.

*What affects the
initial conditions?*

If this equality is ensured, then subsequent inequality in the distribution of income, status and other things is fair. The performance principle can be applied because the initial conditions are the same for all. What are the starting conditions for a self-determined life, which initially are very unequally distributed both between people and at the different points of a person's life? Inequality of opportunities arises, for example, as a result of differences of innate abilities, different opportunities enjoyed by parents, gender-specific role allocation and different education and training paths.

In the case of equal opportunities, however, one faces the problem that even when situations characterised by equal opportunities have been established they can rapidly become unequal once again. Modern theories of equal opportunities are therefore geared towards »equality of life chances«. In this conception, justice demands not only one-off interventions by the state but continuous correction in order to establish and maintain justice.

Equality of life chances

But here too the question arises of what exactly has to be equally distributed in order to bring about equal opportunities. One proposal is to link this to the causes of inequality. Unequal life situations based on individual purposes do not justify state intervention.

Differentiation with regard to causes: individual purposes ...

Inequalities that, in contrast, are the result of talents and abilities that cannot be affected – »nature's lottery« – should entail state action to compensate. This distinction sounds plausible, but in practice clear-cut distinctions between fair and unfair causes of inequality are seldom possible.

... or »nature's lottery«

»On the one hand, we must, on pain of violating equality, allow the distribution of resources at any particular moment to be [...] ambition-sensitive. [...] But, on the other hand, we must not allow the distribution of resources at any moment to be endowment-sensitive, that is, to be affected by differences in ability of the sort that produce income differences in a laissez-faire economy among people with the same ambitions.« (Dworkin 1981: 311)

Others have therefore proposed focusing on the distribution of »capabilities«. Everyone should be provided with competences that put them into a position to be able to pursue their life plans. In order to ensure the life chances of an individual person, social policy should not seek to reduce inequality subsequently. Rather it is one of the key tasks of the welfare state to provide people with the means to avoid involuntary and permanent social disadvantage or even exclusion.

»Capabilities«

Given that under this principle of justice fair initial conditions are so central, it goes without saying that education/training policy will be one of the key areas of application. Public provisions, ranging from day-care centres for children whose parents are in full-time employment (so-called »Kitas«, in Germany) to vocational training, show clearly that the state considers it to be its task to provide access to education/training for all.

Key domain of equal opportunities: education/training policy

Germany: opportunities not equal – see Chapter 7.5.: education/training

Results such as those published in the PISA studies in recent years show that equality of opportunity is still a rare commodity in the German education/training system (see Chapter 7.5.: education/training)

3.5. Summary

Eppler: there is no absolute social justice

Erhard Eppler formulates the matter clearly: »Politically, it makes no sense to agonise about absolute social justice. There's no such thing« (see Chapter 3.6.: Excursus: Erhard Eppler on the concept of justice).

Politics needs a compass

Pursuing a single concept of justice in accordance with which to organise every area of politics and society is not only illusory but also profoundly undemocratic. The fact is that people's views on what is fair often diverge.

Social justice: key task of politics

The debate on the different principles has shown that different degrees of importance are attached to particular maxims of justice in different policy areas. Nevertheless, politics needs a compass it can call on when making decisions.

What does that mean for social democracy?

- Equal dignity and equal opportunities with regard to a self-determined life and political participation require fair distribution of society's resources.
- The question of fair distribution can be discussed on the basis of the four principles of equality, contribution- or performance-based justice, needs-based justice and equal opportunities.
- These principles must be weighted differently in different areas. Equality, contribution- or performance-based justice and needs-based justice limit one another. Equality of opportunity is an overarching principle. It is the condition for the application of the other principles, especially contribution- or performance-based justice.

3.6. Excursus: Erhard Eppler on the Concept of »Justice«

Erhard Eppler was born in 1926. Among other things he was a member of parliament and a government minister, as well as chair of the SPD's Basic Values Commission between 1973 and 1992.

»It may be true what we often hear preached: justice cannot be defined, cannot be guaranteed, cannot be measured and above all cannot be enforced.

Whether the punishment for attempted murder imposed by the judge is just is viewed differently by the public prosecutor and the defence lawyer. Even whether there was a murder attempt can reasonably be disputed. Will a higher court return a fair verdict? Whether annual accounts are correct can be checked, recalculated and determined. What is absolutely fair cannot. To work out the balance of accounts people are needed who can count and who know what goes in and what does not. Absolute justice, beyond any possible doubt, is not available to humankind.

That applies even more to what we call »social justice«. We will never achieve it because we will never be able to agree on what it is. A fair distribution of income would look a lot different to a self-employed carpenter than to a recipient of so-called Hartz IV benefits [benefits for the long-term unemployed, officially known as unemployment benefit II – see above], a director of a savings bank or an assistant secretary in the government.

Pretty much everyone agrees that total justice, in the sense of the same pay for all work, would not be fair or good for the economy. But should members of company boards receive twenty times, one hundred times or only five times more than a skilled worker? Thirty years ago, directors' wages were generally twenty times higher – in the meantime, in many instances they are more than one hundred times higher. The usual justification given is the »incomparably greater responsibility«. But in that case, why does the Chancellor of Germany earn only a fraction of what a bank director considers to be his »reasonable entitlement«? Does the Chancellor have less responsibility? No wonder smart economists tell us: stop prattling on about justice and accept what the market allocates to people. If the market needs fewer unskilled workers than are looking for work, then wages will fall. And if capable managers are rare, their wages will rise. What the market decides is unambiguous and precise: it's pointless going on about it.

Further reading:

Erhard Eppler
(2009), *Der Politik aufs Maul geschaut*,
Verlag J. H. W. Dietz,
Bonn.

In any case, the market rewards the industrious and the capable and punishes the lazy and the idle.

But that makes sense only to people who insist that everything has to be scientifically demonstrable, definable and measurable. People also have feelings, hopes and needs. Furthermore, beyond such needs as eating and drinking, there are also needs for recognition, attention, security – and justice. There is a ›hunger for justice‹. This finds expression less in clever treatises on the nature of justice than in a subtle sense of unfairness. It is true that this feeling is subjective and that it manifests itself differently in everyone. However, it is strong, elemental and indestructible. It gets people going and if it is violated, humanity is violated.

This can be seen as early as kindergarten or primary school. Teachers with a reputation for unfairness because they pay more attention to one child than to others are likely to see their authority crumble. However, it is only human to develop more of a liking for a charming, clever and, moreover, keen child than for a lazy, overweight and, especially, uninterested one.

When children get older they learn that nothing is ever completely fair in this world, or to be more accurate: not really as fair as they think it should be. An older sister, say, will always find reasons why she should stay up a bit longer, why she must have a particular book or bicycle and doesn't have the time to help out in the garden.

Even primary school children have to live with the fact that their friend's dad drives a big Mercedes, while their own drives an ancient Golf. Or that their friend is learning to ride and not them, even though they are crazy about horses. They don't think it's fair, but it doesn't stop them from being friends. However, they would be furious if their friend's mother wanted to stop them going round to play because she thought they ›weren't good enough‹. Children learn that they have to – and can – live with a certain amount of unfairness. But within limits.

Society works the same way. It learns to live with thousands of minor and not so minor injustices. Not everyone gets what they want out of life. Naturally, a millionaire has more options available in preparing his daughter for her exams than a binman. But the latter only gets angry if he feels that the millionaire's daughter passed only because the teacher did not want to upset her powerful father. That kind of injustice is simply unacceptable.

Politically, there is no point getting hot under the collar about absolute social justice. There is no such thing. What matters politically is the borderline between acceptable and unacceptable injustice. Virtually no one got too upset when a manager earned twenty times as much as his workers. When the figure reached two hundred times, however, the majority of people felt that this is intolerable, in particular when this manager lays workers off in order to increase yield. Secretaries did not mind that their boss earned a lot more than them, but when they found out that he pays less tax than them because he knew about the loopholes, they started to get angry.

Now that three-quarters of the population believe that things are unfair in Germany and most doubt that things will ever get better, clearly the line between acceptable and unacceptable has been crossed. It is no accident that polls revealed this in 2008, as the market fundamentalist era came to an end. When it is not only the poor and the disadvantaged that complain about injustice but almost all those who do not consider themselves to be rich, then there is danger ahead. No society can put up with this for long. Social justice is therefore not just the obsession of social romantics but a key political task, and indeed a never-ending one.« (Eppler 2009: 47–50)

4. MATERIALS, STRUCTURES AND ARCHITECTURE OF THE WELFARE STATE

In this chapter:

- the building materials of the welfare state – services and monetary and in-kind benefits – are described, together with their significance for different domains of the welfare state;
- the architecture of the basic varieties of welfare state – the liberal, conservative and social democratic welfare states – is presented; and
- the consequences of the architecture of the welfare state for the population are shown.

The German welfare state: not set in stone.

Key components of the German welfare state, such as pension and unemployment insurance, are over 100 years old. Over all that time many regulations have not changed or only barely. One possible outcome of this, although it is not inevitable, is that many regulations and features have come to be considered unalterable.

International comparison is valuable

It quickly becomes apparent when one looks at neighbouring countries that there are other ways of ensuring social security. That is the case even if the available means – services and monetary and in-kind benefits – are the same everywhere. Sticking with the house-building analogy, these materials can be differently deployed, depending on the plans.

This chapter presents building materials, architectures and consequences

This does not mean only that the houses will look different. There are huge consequences for the inhabitants. In what follows we shall present the building materials in order, then, to describe the different architectures. The consequences of the different forms are discussed in Chapter 4.3.

4.1. Building Materials and Tools of the Welfare State

Social policy encompasses a wide range of materials and tools. The obvious means of state social policy are cash benefits. Unemployment benefit, pensions or child support are paid to the unemployed, pensioners and parents.

But the welfare state has other instruments besides cash benefits or transfer payments. Health care policy, for example, makes services available: diagnosis and treatment by doctors, therapists and care workers. Education/training and family policy also encompass services: teachers provide pupils with education, children are looked after in day-care centres and kindergartens.

Besides cash benefits and services, in-kind benefits make up a third central »building material« of social policy. One example of in-kind benefits are medicines provided within the framework of health care policy.

Taxes and contributions are also to be found in the social policy toolbox. Besides funding, they also have a redistributive effect and a steering effect. What building materials can be applied in the various domains of the welfare state?

Materials: unemployment insurance

Unemployment insurance is a classic earnings replacement benefit. In other words, it replaces income and thus is mainly a cash benefit everywhere.

However, the question arise of whether it would not make sense to offer other services, besides earnings replacement benefits, in order to increase the likelihood of getting a job. In many countries, provisions for training and further training have now become part and parcel of employment office services. However, the quality of what is provided and the resources made available for the purpose from the unemployment insurance budget differ considerably from country to country. There are therefore good reasons not to reduce unemployment insurance to monetary benefits, but to include services in the form of training and further training. (For more details see Chapter 7.2.)

Materials: pensions

Pension insurance, in contrast, is an area of the welfare state in which cash ben-

*First instrument:
cash benefits*

*Second instrument:
services*

*Third instrument:
in-kind benefits*

*Also in the toolbox:
taxes and contribu-
tions*

Classic cash benefit

*Also useful: services
– for more details
see Chapter 7.2. on
work*

Classic cash benefit

efits are very much to the fore. Although in old age the likelihood increases of becoming dependent on health and care services these services are not components of pension insurance.

*Key question:
how should it be
funded? For more
details see Chapter
7.3. on pensions*

The key question with regard to the pension system concerns how it is to be paid for. What is the role of contributions in comparison to that of taxation? And how significant should private old age provisions be? This has consequences in relation to the level of income inequality among pensioners in a given country and the size of the problem of old age poverty. (For more details see Chapter 7.3. on pensions.)

Materials: health care policy

*Provision of in-kind
benefits and
services: health
cannot be bought*

With regard to the »tools« to be applied the health care system is the opposite of the pension system: while the latter involves mainly cash benefits, health care policy concerns mainly the provision of services and in-kind benefits. In this sense, at least, one cannot buy health.

*Key question: how
should it be funded?
Who does what?
For more details
see Chapter 7.4. on
health care*

The question therefore arises of how the services are to be funded and who should provide them. Public health care systems are often reproached with being inefficient. A division into private and public health care provision, in contrast, harbours the risk of a two-tiered health care system. (For more details see Chapter 7.4. on health care.)

Materials: education/training

Provision of services

Education/training policy is also a domain in which cash benefits do not play much of a role, being based primarily on services.

*Key question: how
should it be organ-
ised? For more
details see Chapter
7.5. on education/
training*

The main question that arises here is how these services are to be organised. Is there public child care? What types of school are there? How much mobility is there with regard to the various education and training paths? (For more details see Chapter 7.5. on education/training.)

Materials: tax policy

*Funding of the
welfare state and
distributive effects –
for more details see
Chapter 7.1. on taxes*

By levying taxes and contributions the state seeks to accumulate revenues, for example, to fund the social security system. A well-developed welfare state, accordingly, depends on high revenues. Low taxes make possible only a Spartan welfare state. Besides the level of revenues, however, the way in which taxes are

raised is also a distinctive feature: different tax systems have different distributive effects. (For more details see Chapter 7.1. on taxes.)

There is therefore a variety of ways of organising social policy in practical terms. Although tools and building materials pretty much of every kind are used, individual countries have different architectures, certain building materials are more prevalent and others still are less so. Chapter 7 of this volume examines the individual domains of social policy in detail and makes specific comparisons between individual countries, in this chapter fundamental and general differences are described. What are the different kinds of architecture?

4.2. Architectures of the Welfare State

The best known and most influential study of the different forms of the welfare state is by Gøsta Esping-Andersen. In 1990, he published *The Three Worlds of Welfare Capitalism*, in which he divides up the Western industrialised countries into three different »worlds«.

The three worlds or architectures get their names from the architects who exerted a decisive influence on the particular form of the given welfare state. These were the dominant political parties and movements that gave characteristic form to the various welfare states.

Gøsta Esping-Andersen was born in 1947 in Denmark. He studied in Copenhagen, wrote his doctorate at the University of Wisconsin-Madison in the United States and then taught and conducted research at Harvard, the Wissenschaftszentrum in Berlin, at the European University in Florence and at the University of Trento. Since 2000 he has been at the University of Barcelona. Besides *The Three Worlds of Welfare Capitalism* (1990), his best known books are *Social Foundations of Post-industrial Economies* (1998) and *Why We Need a New Welfare State* (2000).

He distinguishes between a liberal, a conservative and a social democratic world. Because the three construction principles also exhibit a geographic pattern a reference to that is also introduced. The liberal world is therefore designated »Anglo-Saxon«, the conservative »continental« and the social democratic world »Scandinavian«. But how can these three different architectures be compared?

What are the different kinds of architecture? What are the different kinds of building materials?

Gøsta Esping-Andersen: »The Three Worlds of Welfare Capitalism«

Names derived from the respective »architects«

The three types of welfare state: liberal, conservative and social democratic

*What measure
can be used for
comparison?*

In order to make a comparison some sort of measure is needed. Esping-Andersen uses two criteria: the level of decommodification and the extent of stratification.

*Decommodification:
dependence on the
labour market*

»Decommodification« derives from the word »commodity«. The commodity in question here is labour. Decommodification, therefore, describes the extent to which a person's livelihood is ensured without having to rely on the labour market.

If the labour market is the sole means of earning a living and thus any job has to be taken, regardless of how poorly paid it is, then decommodification is very low. In contrast, if the state provides a legal entitlement to comprehensive social protection that enables a decent life even if work is not possible (for example, because of sickness or old age) or not available (for example, because of the poor economic situation) then the level of decommodification is high.

*Stratification:
describes social
»layering«*

»Stratification«, in contrast, describes a society's social layering. The concept is used in social science to describe and investigate the different social groups. Depending on what the focus is, one refers to strata (lower stratum, middle stratum, upper stratum), classes (working class and capitalists) or milieus (liberal-Protestant milieu, social democratic milieu, Catholic milieu).

Esping-Andersen is not so much interested in describing and investigating the various sections of society, but rather in how the welfare state deals with these strata and whether a particular welfare state's architecture contributes to a certain kind of social stratification. What, then, are the features of the three worlds with regard to decommodification and stratification?

The liberal welfare state

In liberal welfare states the market plays a prominent role. Social rights and social provisions are only relatively weakly developed. Furthermore, social provisions are tied to relatively frequent and intensive means-testing. As a result, the recipients of social provisions often feel stigmatised and have low social status.

*Strong position of
the market*

*State: provides only
a safety net*

The state therefore offers only a safety net and people are strongly dependent on earnings in the labour market. The level of decommodification is therefore low. Funding of social provisions is through taxation. Contributions through which individual entitlements are acquired are rare in this type of system. Because

there are no contribution-related provisions the level of social security provision is relatively uniform (uniform rates).

The welfare state makes no distinction between different occupations or different levels of income that people may have achieved. Because there is only minimal social security provision, however, and the main goal is to avert poverty, those who can afford it turn to private providers (for example, private pension insurance, private schools). The liberal welfare state thus leads indirectly to a stratification between rich and poor. The United States, the United Kingdom and Australia are the main representatives of the liberal welfare state.

Main features of the liberal welfare state:

- comparatively low uniform rates with regard to cash benefits
- tax-based funding
- low de commodification
- stratification through private insurance and services

The conservative welfare state

Esping-Andersen on occasion calls the conservative welfare state also the corporatist⁶ welfare state. For example, just as corporatism carried on the tradition of the different (social) estates, the conservative welfare state distinguishes between different occupational groups.

The civil service law in Germany, with its attendant privileges, is one of the best examples of this. The principle may also be discerned in other occupations, however: for example, for tax consultants, lawyers, notaries, vets, pharmacists and accountants there are so-called professional pension schemes that, among other things, provide such persons with their own pension insurance. Anyone who is a member of the relevant professional association is also a member of the insurance scheme.

This means that both the self-employed and members of these professional groups who are employees are not covered by statutory pension insurance. In other countries with a conservative welfare state, such as Italy and France, there are also profession-specific differences, for example, with regard to unemployment insurance.

State provision makes no distinction between incomes and occupations – there is often additional private provision, however

Welfare state according to social status

Example: the German civil service law

⁶ Corporatism derives from the Latin word »corporatio« which means »corporation«. In a nutshell, it describes a social model in which cooperative negotiation processes between different social groups – for example, employers and employees – play a central role.

*Funding via
contributions*

The conservative principle can be discerned even within statutory insurance schemes that make no distinction between professional groups because the welfare state is funded largely through contributions. On the basis of the equivalence principle (provisions must be related to individual contributions) the level of many social provisions reflect previous income (unemployment insurance, pensions).

*Level of provision
»conserves«
previous status*

Social provisions, in other words, »conserve« previous status. State social provisions in conservative welfare states are on average higher than in liberal welfare states, but they are not uniform for all.

*Inequality because
of the assessment
ceiling*

Contribution-based funding in almost all conservative welfare states entails assessment ceilings (at varying levels): in other words, a level of income up to which contributions have to be paid. This is another source of unequal treatment because the assessment ceiling in many cases is linked to the difference between statutory and private insurance (in Germany this is most striking in the case of health insurance – see also Chapter 7.1. on taxes).

*Orientation
towards the male
single-earner*

Finally, there is another feature of the conservative welfare state architecture whose traces, although somewhat attenuated over the past decade, are still discernible. In contrast to the other types, the conservative welfare state is oriented towards the male single-earner model.

*Consequence: low
employment rate
among women*

Tax incentives (joint spousal tax declaration), lack of infrastructure for all-day child care and comparatively few part-time jobs – as well as the unfamiliarity of the working mother role model – mean that the employment rate among women in conservative welfare states is significantly below that in the liberal or social democratic welfare states.

*Manifold
stratification*

Stratification is therefore deeper in the conservative welfare state and runs along a number of division lines: occupational group, income and gender. Typical representatives of this type of welfare state are Germany, France, Austria and Belgium.

The main features of the conservative welfare state:

- cash benefits strongly dependent on previous income
- poorly developed public services
- funding largely contribution-based
- strong stratification by occupational group, income and gender

The social democratic welfare state

The social democratic welfare state architecture is similar to that of liberal welfare states with regard to funding in that it is largely funded through general taxation rather than contributions. On the provision side, however, three differences should be emphasised.

First, the welfare provision of social democratic welfare states tends to be higher than in liberal countries.

Second, the level of provision, in contrast to conservative welfare states, also tends to be similar for people with very different levels of income. This is due not least to the fact that many social provisions – such as unemployment benefit – are subject to tax.

Third – and at present this is perhaps the most important difference – universal state services (in other words, services accessible to all and for which no or very low contributions are payable) constitute an important pillar of the social democratic architecture. Especially in the area of child care and other care there is a well developed net of state – or municipal – services.

This has far-reaching consequences. First and foremost, reconciliation of work and family is ensured, primarily for women, because there is a reliable, high quality infrastructure in the area of child and other care. The high standards in this respect mean not only that women's employment rate is higher, however, but more besides.

The state also employs more people. Public employment in social democratic-leaning countries therefore tends to be higher. The state is therefore in a position to exercise direct influence on the employment situation and the quality of child and other care. At the same time, because public services are accessible to all, poverty rates among single parents are much lower.

Also tax funded

Higher provision

*More equal
distribution of
benefit levels*

Universal state

*Better reconciliation
of job and family life
– women's employ-
ment rate higher*

*The state has more
of a role as an
employer, with
positive effects*

Comprehensive social services and uniform cash transfers mean that the level of decommodification is highest in countries of this type and social stratification is limited. The main countries that have applied this architectural principle include Sweden, Denmark and Norway – in other words, the Scandinavian countries.

Main features of the social democratic welfare state:

- services are an important component of social policy
- cash benefits are very uniform
- funding through high taxes
- high level of decommodification
- high income equality and low stratification

4.3. Consequences of Welfare State Architectures

Even though no country in the world perfectly represents any of the three types we have described, most countries can be categorised fairly unambiguously in accordance with one of the three construction principles. As has already become clear with regard to particular points, the way in which a welfare state is constructed has discernible consequences.

Features of the three welfare state architectures

	Liberal	Conservative	Social democratic
Decommodification	low	medium	strong
Stratification	medium	strong	weak
Poverty rate	high	medium	low
Women's employment rate	medium	low	high
Public employment	low	medium	high
Taxes	low	medium	high
Contributions	low	high	low

The consequences are especially clear when one compares the different types with one another. For example, the poverty rate in social democratic-leaning Scandinavian countries is lower than in liberal and conservative countries. Women's employment rate is highest in social democratic-type countries. These results are achieved primarily by means of social provisions that in many areas take the form not only of cash benefits but also services. Correspondingly, the proportion of public employment in these countries is higher than in continental Europe.

Naturally, such structures do not come without a cost. Funding is primarily through taxation; social security contributions play a subordinate role. The tax burden in social democratic countries is therefore greater than in liberal and conservative countries. However, this does not mean that economic performance suffers, as many representatives of the liberal and conservative positions never tire of asserting.

In fact, there is no discernible negative connection between economic growth and a country's tax burden. In particular, we can assume that spending on child care and education, but also on intensive training and further training for the unemployed yield higher returns than tax cuts in the medium and long terms. High quality social services, accessible to all mean that far fewer people end up in a situation of permanent dependence on the state. The social democratic welfare state is therefore a preventive welfare state.

Social democratic welfare state ahead of the rest

Tax-based funding

Social spending yields long-term returns

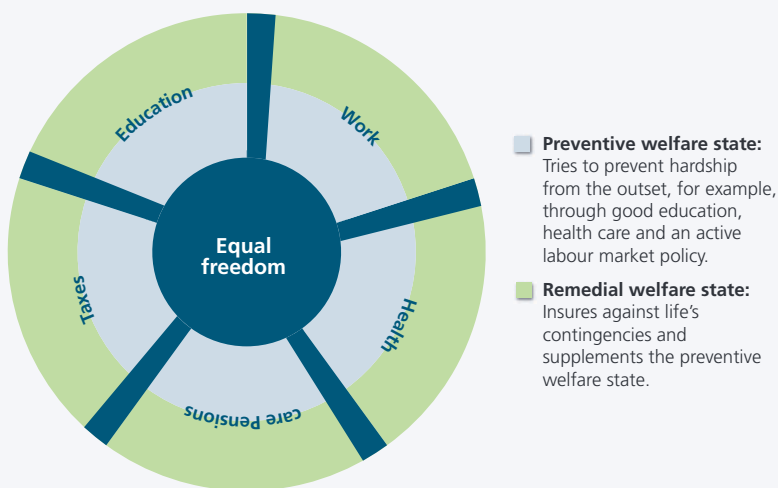


Figure 4: The connection between the preventive and the remedial (or »end-of-pipe«) welfare state

Overall, the social democratic welfare state means that mobility between social strata is greater. Furthermore, in the Scandinavian countries even children from socially disadvantaged families receive a decent education and thus they are able to draw on potential which in Germany, for example, remains unused.

On top of that, poor quality education is linked to an extremely high risk of unemployment. This, in turn, entails subsequent costs in the form of inadequate pension entitlements. A comprehensive welfare state of the social democratic kind can therefore strengthen a country's economic position. It is not possible to bring about a society which offers opportunities to all, makes available key goods and services, avoids striking income inequality and has a dynamic economy unless the state has a strong role. However, it must be mentioned that since the 1980s all types of welfare state have undergone liberalisation. That applies less to the level of social security payments and services, but rather to privatisation processes and the domain of services of general interest and infrastructure (see Höpner/Petring/Seikel/Werner 2001).

What does this mean for social democrats?

- liberal and conservative welfare states are unable to ensure their citizens equal freedom and participation to a sufficient degree
- the social democratic welfare state meets these challenges better and more reliably primarily because of its well developed public infrastructure
- public spending on social benefits is not an economic handicap for countries with social democratic welfare states. On the contrary, these countries are characterised by more dynamic economies

Analogous to the various architectures of the welfare state, different variants of capitalism have also developed: for example, **coordinated** and **uncoordinated capitalism**. They differ with regard to enterprise financing, the organisation of labour relations and the school and training system, as well as with regard to relations between enterprises (see Reader 2: Economics and Social Democracy, Chapter 3.2.).

Preventive Welfare State

Matthias Platzeck

»In recent times, as a result of a number of undesirable developments, the ›old‹ social issues of poverty and unemployment are entering into increasingly dangerous combinations. We can observe massive failings with regard to education and training; increasingly poor nutrition, leading to such diseases of civilisation as obesity and diabetes; problems of addiction and unnecessarily early physical degeneration; tendencies towards social seclusion on the part of certain groups of immigrants; and declining levels of aspiration and widespread despondency and hopelessness. Furthermore, such undesirable developments reinforce one another. [...]

Social vicious circles thus emerge comprising poverty, lack of education/training, dwindling employment opportunities, being a benefit recipient as a way of life and further loss of motivation – and thus diminishing chances of ever leading a self-determined life again. Neither temporary lack of money nor temporary unemployment need necessarily be the major threats they are at present to many people in Germany – that is, not if it was clear that ›once poor‹ does not also mean ›always poor‹ or that ›once unemployed‹ is not the same as ›perpetually unemployed‹. However, precisely this fear is widespread in Germany, right in the midst of our society.

It is evident that the current remedial welfare state does not alleviate such fears. This is exactly what brings it into disrepute. That is why the preventive welfare state relies intensively on high quality education/training and on preventive health care right from the start. It promotes employability and thus prevents poverty. Anyone wishing to draw a pension in Germany in the coming decades inevitably has an urgent interest in the implementation of the model of the preventive welfare state. A preventive welfare state and a well functioning economy are two sides of the same coin. Anyone who wants a prosperous economy must, given the circumstances of the twenty-first century, also advocate a welfare state that invests systematically in people and in the social infrastructure ... [The preventive welfare state] thus expressly means not the abandonment of security and participation, but creates the conditions needed to enable everyone in future to enjoy security and participation. Undoubtedly, the preventive welfare state is an ambitious project that cannot be realised overnight. The determined pursuit of this fundamental course is, precisely for that reason, one of the most important tasks facing social democracy in the twenty-first century.« (Platzeck 2007: 229–232)

5. CHALLENGES FACING THE WELFARE STATE

In this chapter:

- frequent criticisms of the welfare state are presented and classified;
- real challenges in the areas of globalisation, structural change in the economy and work, and demographic and social change are discussed;
- it is shown that these challenges require a different architecture, but not the dismantling of the welfare state.

»During periods in which conflicts over distribution can no longer be solved peacefully, as they were in the old idyllic Federal Republic, ultimately by distributing the fruits of growth in some way or other, when in any case that is no longer certain for the foreseeable future, suddenly issues of fairness and equality take on a new and perhaps different urgency« (Thierse 2005: 13).

New questions of distribution? What has changed?

If Wolfgang Thierse is right, the question arises of what is now different from the »old idyllic Federal Republic«. What is the reason that questions of distribution no longer revolve around growth as a matter of priority? What conditions have brought it about that social policy now confronts different tasks than in previous decades?

Four developments: globalisation, demographic, social and structural change

The most important changes can be linked to four developments: globalisation, structural change in the economy and work, demographic change and social change. These developments are often used to criticise the welfare state as a whole, rather than individual aspects of it.

Criticisms of the welfare state: popular, but ...

For example, it is constantly asserted that the welfare state in Germany is too big and too generous. Former President Roman Herzog felt he had to support the New Social Market Economy initiative⁷ financed by the employers' association of the metal industry and declared: »For many people it is more comfortable to let themselves be kept by the state than to make an effort to achieve something. That is a monstrous injustice to everyone who works« (reported in the Frankfurter Allgemeine Sonntagszeitung, 25 November 2001).

⁷ For the background to this, see Speth (2004).

Recently, even philosopher Peter Sloterdijk felt he had to express his agreement with neoliberal arguments: » Free-market observers of this kleptocratic monster do well to call attention to its dangers: overregulation, which impedes entrepreneurial energy; overtaxation, which punishes success; and excessive debt, the result of budgetary rigor giving way to speculative frivolity, both in private households and at the level of the state.«

*... mostly
unspecified ...*

His remedy against the state behemoth is a »reinvention« of society: »this would be nothing less than a revolution with regard to generosity. It would lead to the abolition of compulsory taxation and their transformation into gifts to the public without the public sector having to become impoverished as a result« (Frankfurter Allgemeine Zeitung, 19 June 2009).

*... or unrelated
to reality*

As shown in Chapter 7.1. (Tax Policy) and in Chapter 4 (Building Materials, Structures and Architectures of the Welfare State) such assertions stand up to closer examination only to a limited extent. First, the German welfare state and tax regime is only medium sized by international comparison. Second, the size of the welfare state and a country's economic performance are not negatively correlated.

*No negative correlation:
economy and
welfare state*

Third, although it is true that in 2007 just under a quarter (24.4 per cent) of taxpayers (with annual incomes of at least 40,000 euros) paid 79.7 per cent of income tax in Germany, this is simply due to the fact that 10.9 million or more than a quarter (28.5 per cent) of all taxpayers had total incomes of no more than 10,000 euros in 2007. Half of all taxpayers had annual incomes below 22,500 euros and paid 3.6 per cent of all income tax (Statistisches Bundesamt 2011a).

*Unequal funding
resulting from
extremely unequal
distribution*

As a result of the state of affairs that Sloterdijk terms »overtaxation«, in recent years wealth inequality in Germany has increased even further. A little more than a quarter of all adults (27 per cent) had no personal wealth at all in 2007 or were in debt, while the richest 10 per cent of the population had net wealth of over 222,000 euros.

*Wealth inequality
has intensified*

The richest 10 per cent of Germans own more than 60 per cent of total wealth. The lowest 70 per cent of the population have only 9 per cent of total wealth (Frick and Grabka 2009). Against this background, believing that the current

*10% possess 60%;
70% possess 9%*

»dangers« are the result of overtaxation and that in future social policy should take the form of alms and gifts is an original take on reality at the very least. Mostly, however, it simply ignores it.

*Criticisms that need
to be taken seriously*

Besides such sweeping criticisms, however, there are also views that need to be taken more seriously. Such criticisms concern social, economic and lifeworld changes in recent decades that have indeed challenged the traditional structures of the welfare state. Before rashly concluding that the welfare state needs to be dismantled, it is worth considering these changed circumstances. As Chapter 7 (Key Areas of the Welfare State) shows, the developments just described require not sweeping, but subtle solutions:

»Restructuring and modernisation instead of the dismantling and condemnation of the welfare state are the answer of the ›creative left‹ to the new challenge. At this crossroads, the differences between the orientations and forces that have so far dominated the debate [in Germany] reveal themselves with exemplary clarity. The right, conservatives and neoliberals, wish to seize the moment to decisively weaken the welfare state and to deprive its advocates of credibility so that they can take a wrecking ball to it. ... [Furthermore, the] populist accusations of the protest-oriented left with regard to any attempt to modernise the welfare state are only one more threat to its existence. They fan belief in the illusion that if only the will was there everything could remain as it is.«
(Gabriel 2008: 305f.)

Further reading:

Christoph Butterwegge (2005), *Krise und Zukunft des Sozialstaats*. Wiesbaden, pp. 75–114.

5.1. Globalisation

Thomas Rixen

In public debate, globalisation is considered one of the most important challenges to the maintenance of a developed welfare state. Social policy cuts are constantly being called for – and often implemented – in the name of international competitiveness.

Globalisation is a multilayered concept that concerns various processes of internationalisation. There are cultural, social, political and, especially, economic globalisation. Economic globalisation has three main drivers: the dismantling of trade barriers, the rise of the emerging economies and technological innovation.

This popularised line of argument, repeated ad nauseum by the usual suspects, is no doubt familiar to most readers. However, it is by no means self-evident that globalisation really does represent a threat to the welfare state.

There are a range of theoretical perspectives on the relationship between the increasing international economic integration and the welfare state. For the purpose of simplification, these will be divided into two groups: globalisation optimists and globalisation pessimists. Both will be presented in what follows. After that we shall briefly sketch how most governments have reacted to the challenge of globalisation so far. Finally, an alternative policy option is discussed, namely the globalisation or at least the Europeanisation of social policy.

Globalisation Optimists

The optimists argue that the welfare state is not at risk from globalisation. They point out that the organisation of the welfare state is a matter of national policy and depends on national political institutions and majority opinion. Even if international competition exerts pressure in the direction of shrinking the welfare state this does not mean that it has to happen, as long as a majority of people desire a developed welfare state (Swank 2002).

The »Compensation Thesis«

Many people go further and argue that globalisation could promote the expansion of the welfare state. They point out that international trade boosts prosperity and thus increases distributive scope with regard to the welfare state. They also argue that without a well functioning welfare state market liberalisation is scarcely possible politically: only if people can be sure that they are socially

Further reading:

Reader 2: Economics and Social Democracy (2009), pp. 19–36.

Stiglitz, Joseph (2006), Die Chancen der Globalisierung, München.

Welfare state depends on political, not economic decision-making

Globalisation leads to the expansion of the welfare state

insured against the risks of international markets will they support political moves towards liberalisation. On this basis, globalisation and welfare state expansion are mutually reinforcing (see Rodrik 1998).

Welfare State as Institutional Comparative Advantage

Representatives of the »varieties of capitalism« approach argue somewhat differently.⁸ They point out that international trade leads to an intensification of the global division of labour, thus rendering further specialisation possible.

It is assumed here that a national economy's institutional set-up – which includes the welfare state – favours this and works in such a way as to enable specialisation in the relevant comparative advantages. The expectation is that, in those countries in which the welfare state is already well developed, an intensification of international trade will lead to its further expansion. In contrast, in the »Anglo-Saxon« (from an economic standpoint) countries it could lead to a contraction. In this view, globalisation does not necessarily endanger the welfare state.

A classic example of a **comparative advantage** is the production of wool and of wine. Natural conditions mean that wine can be produced more easily in Portugal, while in Scotland they favour the production of wool. If the two countries concentrate on these products and engage in trade, instead of trying to produce both, both will benefit.

Globalisation Pessimists

Pessimists, in contrast, stress that social policy measures represent a cost factor for companies operating internationally. Since they are able to choose the countries in which to produce, they will opt for locations in which they can minimise wage costs, taxes and other contributions used to finance the welfare state. The same applies to capital owners who can invest in countries with a lower tax burden (see Scharpf 2000).

Since enterprises, capital and even many highly qualified workers are internationally mobile, competition arises between governments to impose the least onerous tax rates and social security standards. As a result, according to the globalisation pessimists, a so-called »race to the bottom« ensues, in other words, a dismantling of the welfare state everywhere. For such competitive pressure to arise there is no need for capital and companies to actually abandon a country: it is sufficient merely to threaten to do so.

Certain varieties of capitalism rely on the welfare state

The welfare state enables specialisation

Social policy as a cost factor

Social policy race to the bottom

⁸ See Reader 2: Economics and Social Democracy (2009), chapter 3.2.

The pessimists do not believe that the internationalisation of the economy in itself generates competitive pressure, but rather the liberalisation of capital movements. While the optimists' case makes absolute sense as far as trade in goods is concerned, the pessimists believe that the dynamic of systemic competition develops primarily as a result of capital movement liberalisation.

Decisive: liberalisation of capital movements

The globalisation pessimists predict that the effects can take a while to manifest themselves. Based on the tax avoidance possibilities available with regard to mobile factors of production, the first step is a shift in the burden of the costs of the welfare state towards non-mobile factors of production, in other words, workers. Capital incomes are taxed more lightly than income from work. Since the rich generally have more capital income than the poor the effective progressivity of taxation falls (see Chapter 7.1. on taxation). Funding becomes more unfair and the welfare state no longer achieves its aims. Over the long term, this can lead to the dismantling of the welfare state.

Shift of the costs onto non-mobile factors of production

Responses So Far

In the literature, there is no agreement on whether globalisation has really led to a dismantling of the welfare state. Comparative quantitative studies initially established that up to the mid-1990s there was no lowering of social spending and tax revenues. However, these studies have been criticised because, among other things, they made a poor choice of indicators. It is not possible to tell anything from aggregate or summarised social spending about individual benefits. It could easily be the case that overall spending remains stable but that the number of benefit recipients increases and thus their benefits fall. Qualitative studies have found evidence that during the period in question there were indeed benefit cuts and a narrowing of entitlements. The same applies to the revenue side. The level of revenue says nothing about revenue structure. In fact, there is empirical evidence that the tax burden shifted from capital to labour. Another criticism is that the period of investigation only goes up to the mid-1990s.

Is the welfare state being dismantled? – a variable picture

Competitive Pressure Operates in Practice

In more recent studies, which investigate a longer period, it appears that in the wake of globalisation there has indeed been a fall in social spending (see Busemeyer 2009). All in all, therefore, there is evidence to suggest that governments have reacted to globalisation in practice by reducing social benefits. However, it must not be assumed that this is the sole possible reaction to the challenge

Further reading:
Philipp Genschel (2003), *Globalisierung als Problem, als Lösung und als Staffage*, in: Gunther Hellmann, Klaus Dieter Wolf and Michael Zürn (eds), *Die neuen internationalen Beziehungen – Forschungsstand und Perspektiven in Deutschland*, Baden-Baden, pp. 429–464.

Herbert Obinger and
Peter Starke (2007),
*Sozialpolitische
Entwicklungstrends
in OECD-Ländern
1980–2001: Kon-
vergenz, Divergenz
und Persistenz*, in:
*Politische Viertel-
jahresschrift (Son-
derheft 38)*, pp.
470–495.

Further reading:

Marius Buse-
meyer et al. (2006),
*Politische Positionen
zum Europäischen
Wirtschafts- und
Sozialmodell – eine
Landkarte der Inter-
essen*, Friedrich-
Ebert-Stiftung (ed.),
Bonn.

of economic globalisation. On the contrary, alternatives to the policy pursued so far are imaginable that would secure the welfare state against globalisation. These will be discussed briefly in what follows.

A Solution: Global and European Social Policy?

Given the competitive pressures on the welfare state, the question arises of how the challenge can be met. One intuitively plausible solution would be to raise the institutions of the welfare state to international level. The globalisation of the economy must be answered with the globalisation of social policy. If this succeeded, the mobile factors of production would no longer be able to avoid the costs of the welfare state by moving to another country. However, at present this solution is scarcely feasible politically because of the large differences between welfare states. Furthermore, it is doubtful whether an international social policy would be normatively desirable under current circumstances. Given the close connection between the welfare state and democracy it would entail the democratisation of international decision-making. And that, too, remains utopian.

In the European Union,⁹ things are rather different. The EU does not have competences to establish a welfare state. While the supranational institutions can take binding decisions within the framework of developing the internal market (»negative integration«), its hands are tied in the area of »positive integration«, in other words, social policy regulation of the market (see Scharpf 1999).

Nevertheless, coordination of different social policies does take place on a voluntary basis. Furthermore, the EU has an institutional structure that could be developed in such a way that even binding regulations could be laid down. This does not so much involve the complete harmonisation of social policy, which is unrealistic given Europe's different social policy traditions. Rather it is a matter of establishing binding minimum standards at European level. The SPD is committed to the goal of such a Social Union.

»The European Union must be our political answer to globalisation. [...] The Social Union must have equal rank with the Economic and Monetary Union. [...] We do not want to standardise social systems but to reach agreement with the other member states on a Social Stability Pact.« (Hamburg Programme 2007: 26, 28)

⁹ The issue of »European social policy« is dealt with in Reader 4, Europe and Social Democracy, Căcilie Schildberg et al. (2010)

5.2. Structural Change in the Economy and Work

A key feature of the first decades of the Federal Republic of Germany was the steady growth of the industrial sector. The number of those employed in this area increased constantly into the 1970s – and wages grew with it. Rising wages meant that the population had to spend a lower proportion of their income on accommodation and food and thus had more money for consumer goods.

It was during the 1960s that many German (and other European) households first acquired such things as refrigerators, washing machines, toasters and cars (one might call it the period of »primary acquisition«). Rising incomes meant increasing demand for the products of the industrial sector. In these domains substantial productivity growth was also possible, leading to falling prices and even higher demand. A self-reinforcing process of productivity gains, rising demand, production growth and further productivity gains came into being. The number of those employed in the industrial sector continued to increase, as did incomes and demand.

Furthermore, there was positive feedback between the traditional sector (agriculture, crafts) and the modern industrial sector: worker shortages in the modern industrial sector could be made good from the traditional sector, while the traditional sector benefited from the innovations of the modern sector.

First decades of the FRG: steady growth of the industrial sector

1960s: period when people first acquired many consumer goods

Further reading:
Burkart Lutz (1989), Der kurze Traum immerwährender Prosperität. Eine Neuinterpretation der industriellkapitalistischen Entwicklung im Europa des 20. Jahrhunderts, Frankfurt am Main/ New York.

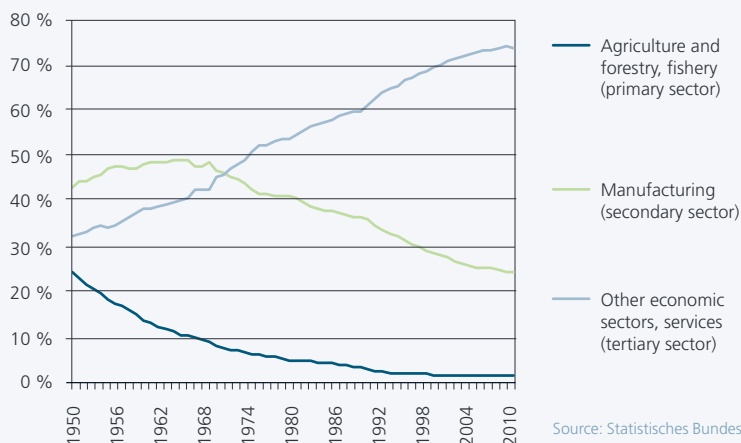


Figure 5: Labour force in Germany, by economic sector¹⁰

¹⁰ Up to 1990, former territory of the Federal Republic; 1950 to 1959 not including Berlin and Saarland.

Note: In 1966, for example, around 10 per cent of all workers were employed in the primary sector, just under 49 per cent in the secondary sector and around 41 per cent in the tertiary sector.

*From the 1970s:
falling employment
in the industrial
sector*

In the 1970s and 1980s, the situation changed. The phase of »primary acquisition« was over. Consumers were more interested in quality than quantity. Demand therefore ceased to grow, even though price cuts were still possible due to productivity gains. Accordingly, employment ceased to grow in this sector, at first stagnating and then slowly beginning to decline.

*Increasingly impor-
tant: the service
sector*

Demand turned increasingly to services. This sector grew in importance from the 1970s, as also indicated by the increase in employment. However, the gains in this sector in Germany lagged behind the decline of the industrial sector. It is therefore well worth examining this sector in more detail. Finally, there was a similar shift in the first half of the twentieth century: from agriculture to industry. What is the difference between the two transformation processes?

*Labour-intensive
services: productiv-
ity can increase only
up to a point*

»Services« covers a wide range of things. Some services are provided primarily for companies, while others are chiefly for private households. There are professional services and basic services, which can be provided by the low skilled. Common to all labour-intensive services, however, is the fact that the potential for productivity increases is limited. Although, for example, waiters, doctors, carers or teachers can take care of more guests, patients or students at the same time, in that case service quality deteriorates very quickly.

Labour-intensive services, therefore, are not susceptible to productivity increases to the same extent as production in the manufacturing sector. Rising wages and, at the same time, falling prices – in other words, the cycle characteristic of the so-called »golden age« – do not come about as a matter of course. If wages rose in the service sector in the same manner as in the industrial sector, employment growth among those with low qualifications would be curtailed.

*More unequal
wages – job losses?*

One alternative is rising wage inequality and indeed in recent years this has been increasingly common. However, from a fairness perspective this is hard to justify. The fact that productivity cannot be increased easily is not the fault of the employees, but due to the nature of the work. Neither alternative – rising wage inequality or job losses – is particularly attractive

A third alternative could be to concentrate on more professional services. Simply swapping an industrial job for a services job, however, is not so simple. They are different and in some cases require higher qualifications. For the present and the future this means that training and further training will play an increasingly important role in the labour market.

*New demands
facing training and
further training*

However, it is not only education/training policy that faces a challenge from these changes (see Chapter 7.5. on education/training). Traditional areas of social policy are also coming under pressure. Many jobs in services simply do not provide »normal employment« in the traditional sense. »Normal employment« is based on a permanent employment contract, a fixed pattern of working time oriented towards full-time employment, wage or salary based on a collective agreement, mandatory social insurance and the employee's personal dependence on and subordination to the employer. Employment in the service sector, in contrast, generally means part-time work, self-employment or fixed-term employment.

*Traditional financ-
ing structure and
new career profiles
at odds*

Because many social security systems are still oriented towards a permanent and, as far as possible, uninterrupted career profile – for example, pensions and unemployment insurance – it is becoming more and more difficult for many employees to acquire sufficient entitlement to social security cover.

*Consequence:
inadequate social
insurance*

Further problems derive from the fact that the level of trade union organisation in many parts of the service sector is lower, there are comparatively few works councils and many employers are not members of an employers' association. Accordingly, collective agreement coverage is lower and scrutiny of regulatory compliance is more difficult.

*Lower level of trade
union organisation –
collective agreement
coverage*

Structural change therefore leads to different and, overall, higher educational/training requirements and different career profiles and plays a part in the development of more unequal wages. The social policy areas most affected by these changes are education/training, unemployment and pension policy.

*Structural change
affects primarily
education/training,
work and pensions*

5.3. Demographic Change

Cause for celebration: higher life expectancy

We have every reason to be happy about one principal cause of population ageing: today, people are living longer. Average life expectancy at birth in the old Federal states between 1980 and 2002 rose from 69.9 to 75.6 years for men and from 76.6 to 81.3 years for women.

Decline in the birth-rate

A second cause is the declining birth-rate, which was particularly marked between 1965 and 1975. After a small increase in the number of births up to 1990 the birth-rate then fell constantly up to 2007. In 2007, the average number of children per woman was 1.37 in Germany.

Consequence: old-age dependency ratio increasing

These two developments together mean that the ratio between the economically active and those in retirement will decline continuously in the coming decades.

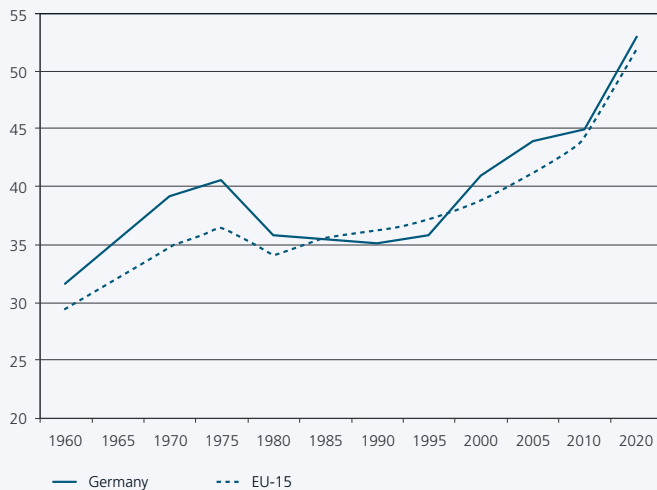


Figure 6: Development of old-age dependency ratio, 1960–2020

Note: In 1965, in Germany there were around 35 people aged over 60 per 100 people between the ages of 20 and 59. In 2010, by contrast, there were 45 people over 60.

The measure of this – the so-called old-age dependency ratio – describes the ratio between the economically active population and pensioners.

Further reading:

Erika Schulz and Anke Hannemann (2007), *Bevölkerungsentwicklung in Deutschland bis 2050: Nur leichter Rückgang der Einwohnerzahl?*, DIW Wochenbericht No. 47/2007, vol. 74.

The **old-age dependency ratio** describes the ratio between the over 60s and those between 20 and 59 years of age.

Arithmetically, in 2005 there were 44 pensioners for every 100 economically active persons – in 2020, the figure will be 53 pensioners.

Given the pay-as-you-go pension scheme the funding problem is evident: old-age provision for a growing number of pensioners must be funded from the current contributions of the economically active. The possible consequences of this, mentioned so often in the public debate, are higher contributions for those in work, lower pensions or higher debt.

But how big is the challenge to which these changes have given rise, in reality? If one expresses the rise in the old-age dependency ratio in percentage terms, for the 15 years between 2005 and 2020 an increase of around 20 per cent comes out at an annual 1.4 per cent. In the 15 years between 1993 and 2008 average economic growth in Germany was 1.5 per cent.

If we assume a similar growth rate for the next 15 years pension cuts can be avoided by investing growth gains in pension insurance. Even if this alternative is improbable these figures clearly reveal the magnitude of the challenge. Undoubtedly, reform is needed. But the threat of inevitable crisis with regard to pay-as-you-go funded pensions appears exaggerated.

It is not only state pension systems that are affected by population ageing. The health care system is also experiencing rising costs due to longer periods of retirement. Like the pension system, the health care system is funded largely from the contributions of the economically active. Another foreseeable consequence of population ageing will be a rise in the volume of care insurance.

Prognoses indicate that demographic development will reach its peak in Germany around 2040. In other words, the ratio between the economically active and pensioners will be at its most unfavourable at that point. In the coming decades, as a result of the developments described here pension and health care insurance will experience funding constraints.

If part of the growing national income is invested in the social security system and, at the same time, a larger proportion of the population pay contributions, these challenges can definitely be met. Chapter 7.3. (Pensions) and 7.4. (Health care) discuss in more detail possible responses to the challenge of an ageing population.

*2005:
44 pensioners for
every 100 workers –
2020 around 53*

*How big is the
challenge?*

*Summary: need for
reform, yes – but it
has been over-
dramatised*

*Challenges in the
health care and care
system*

*Peak of develop-
ment in 2040*

*Solution: invest
rising national
income in the social
security system –
details in Chapters
7.3. and 7.4.*

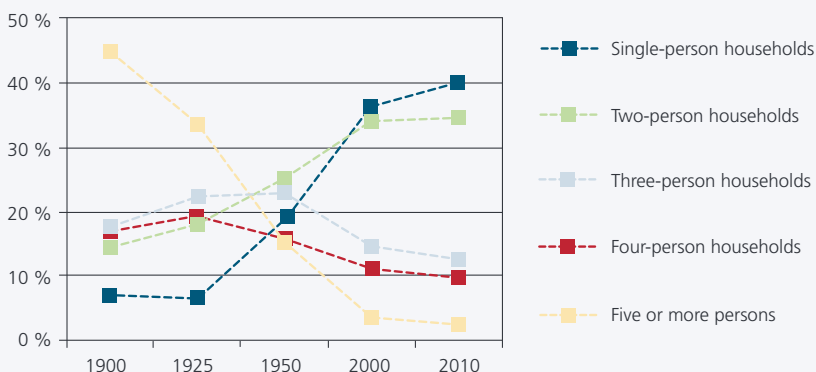
5.4. Social Change

Life plans are different – more freedom and self-determination

Besides the changes in the economic structure and the age structure, there has also been a change in people's values in recent decades. Ways of life and life plans are different from those of 50 or 100 years ago. Life is less and less shaped by social conventions. The degree of individual freedom and self-determination has increased. The changes are diverse and predominantly welcomed as an increase in personal freedom.

A good example of this is provided by changes in household size. At the beginning of the twentieth century, households of five or more people were the norm. Single-person households, by contrast, were a rare exception. At the beginning of the twenty-first century, the situation has been reversed: now around 40 per cent of all households are single-person households and not even 4 per cent of households contain more than 4 persons (see Figure 7).

However, these figures do not reflect an increasing preference for living between »one's own four walls« (in fact, the opposite is the case: in 1972 around 20 of 25 year-olds still lived with their parents, while in 2003 it was 30 per cent – cf. Meyer [Siegen] 2006). The reasons are much more to do with the falling birth-rate, but also the erosion of traditional institutions, such as marriage.



Source: Authors' calculations based on Statistisches Bundesamt (2012b).

Figure 7: Household size in Germany, 1900–2010

Note: In 1900, around 45 per cent of all Germans lived in households with five or more people, around 17 per cent in households with four persons, around 17 per cent with three, around 15 per cent with two and around 7 per cent alone. Today, around 40 per cent of people live alone.

For example, the number of marriages has fallen constantly since 1960. More and more couples – even those with children – remain unmarried: »living in sin«, as it used to be known pejoratively. Furthermore, the number of divorces has risen constantly during the same period – even though fewer marriages were contracted.

Marriages and divorces between 1960 and 2010

Year	Marriages (1,000 inhabitants)	Divorces (1,000 inhabitants)
1960	9.4	1.0
1970	7.4	1.3
1980	6.3	1.8
1990	6.5	1.9
1995	5.3	2.1
2000	5.1	2.4
2005	4.7	2.4
2010	4.7	2.3

Source: Statistisches Bundesamt (2012c).

The German welfare state, which in many areas is still oriented towards a traditional model of the family with a male breadwinner, has yet to adapt to these changes. This applies, for example, to pensions. Given the strong link between pension level and contributions the pension system is not set up to cope with the rising number of women living alone without a continuous working career. Furthermore, an increasing number of single mothers are under particular threat of poverty.

The **at-risk-of-poverty rate** is the rate of persons who have to cope on less than 60 per cent of the median income. Median (as distinct from the average) means: half of the population earns more than this calculated amount and the other half earns less.

In 1996, 14 per cent of families with children were single-parent. In 2009 it had already risen to 19 per cent. Only 10 per cent of these are single

Fewer marriages

*Problem: orientation
towards male
breadwinner*

*Risk of poverty
acute for single
parents*

*Reconciling work
and family life –
addressed in detail
in Chapter 7.5.*

*Older people are
more likely to be
poor – women in
particular*

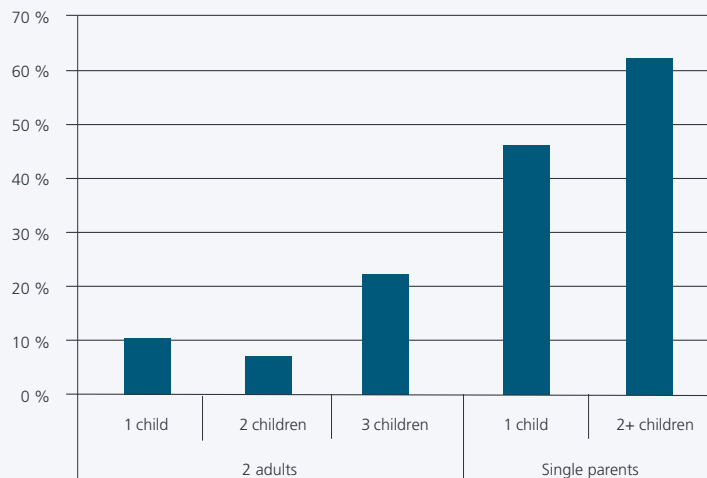
*Risk of old-age
poverty*

fathers. The proportion of single fathers even fell between 1996 and 2009 from 13 per cent to 10 per cent. For 31 per cent of single parents transfer payments such as Hartz IV or income support were the main source of income for supporting the family (Statistisches Bundesamt 2010 a).

One important way of improving the situation is better jobs and child rearing. Chapter 7.5. (Education/training policy) addresses this issue, among other things.

Social change is also affecting the income situation of the old. Here again it is those living alone who are under particular threat from poverty in comparison to the population as a whole. Of those aged between 65 and 74 in 2002, 26.8 per cent received less than 60 per cent of the median income – for women living alone the rate was 29.3 per cent (DIW 2004). The income situation of women living alone is therefore even worse.

The income situation of old people living in a two-person household corresponds to the average of the population as a whole. A tax-funded rise in minimum pensions could counteract the problem of old-age poverty. For more on this see Chapter 7.3.



Source: Statistisches Bundesamt ((2012c)

Figure 8: At-risk-of-poverty rate by family structure and number of children under 18 years of age in 2010

Note: An individual child living in a family with two adults has an at-risk-of-poverty rate of 10.5 per cent. If two or more children are brought up by only one person, however, the at-risk-of-poverty rate rises above 62 per cent. That means that in this case 62 out of every 100 children have to be raised on less than 60 per cent of the median income.

What does this mean for social democrats?

- globalisation, structural change in the economy and work, demographic development and social change confront the traditional German welfare state with challenges, but they are not insoluble
- problems arise especially from the fact that the German welfare state is still oriented towards a conservative family model based on a male breadwinner and also that funding and the payment of benefits are still predominantly tied to employment status
- the various challenges call for specific answers, which will be described in the following chapters. Summarising, these answers point in the direction of successful social democratic welfare states. This means a stronger link between benefits and citizens rather than employment status and more tax-based rather than contribution-based funding

6. SOCIAL POLICY POSITIONS OF THE PARTIES

Tobias Gombert

In this chapter the programmes of the five political parties represented in the German parliament are

- compared with regard to their social policy provisions;
- categorised with regard to the three welfare state models; and
- examined in terms of their underlying concept of justice.

*Party programmes:
promise of the
future*

Party programmes contain promises about the future. They hold out the prospect of a certain future to which the respective party is committed and wishes to champion and from which it derives its legitimacy. This can work only if it is able to convincingly outline the desired future on the basis of an analysis of the past and the present and a viable way forward. At best, party programmes can therefore give some indication of a party's compass.

*What is the
benchmark?*

Social policy is shaped to a considerable extent by the fact that it must be closely defined. While especially conservative and (economic) liberal parties describe it in narrowly circumscribed terms as a temporary safeguard for those in need through no fault of their own, for left-of-centre parties social policy is more comprehensive, seeking to achieve far-reaching equality (of opportunity) through the redistribution of social resources. Furthermore, an interpretation of the parties' social policy positions from the standpoint of the *theory of social democracy* (on this see Meyer [Dortmund] 2005 and Social Democracy Reader 1) must first identify the set of concepts and standards it uses. To begin with, then, the assessment standard to be used must be mentioned briefly, based on which we can then examine the concept of the welfare state the respective parties are linked to or how they would like to further develop the welfare state.

*Benchmark: types
of welfare state –
details in Chapter 4*

In this case the three types of capitalism described by Esping-Andersen are applied as benchmarks, complete with their specific organisation of the welfare state and prevailing concepts of justice:

- the continental European, conservative type;
- the Anglo-Saxon, liberal type;
- the Scandinavian, social democratic type.

A more detailed explanation of the types of capitalism and their underlying notions of justice is given in Chapter 4 of this book.

In the following examination of the party programmes, based on this model, we shall investigate the extent to which the parties are continuing to pursue the path of a »continental European conservative welfare state«, as has been the case so far in Germany, or whether they are revising it or wish to develop it differently, and what conception of social justice the parties wish to implement.

6.1. Principles for Germany – Party Programme of the CDU¹¹

In 2007, the CDU adopted a new party programme. Basically, it takes the »social market economy« as a successful model for the future. »The CDU is the party of the social market economy ... The CDU rejects socialist and other forms of collectivism. This also applies, however, to an unrestrained capitalism reliant solely on the market and with no solutions for the social issues of our time. The social market economy remains our model even in the reunified Germany and the age of globalisation« (see p. 46f).¹²

Their understanding of the welfare state is therefore always mentioned in the same breath as the »social market economy«. The welfare state functions as a corrective with regard to the market, turning the market economy into a social market economy: »The welfare state has achieved great things. It remains indispensable. The social security system has been decisively shaped by the CDU. Solidaristic safeguards against risk give people security. They have brought widespread prosperity, social peace and participation. In future, however, they will be able to fulfil their task only if they are developed and reformed. The goal is the activating welfare state that strongly motivates individuals and puts them in a position – in accordance with their abilities – to take the initiative and assume responsibility for themselves« (p. 60). In other words, the CDU's key concept is not the welfare state but the social market economy.

The rejection of »collectivism« is expressed in the principle of subsidiarity (on the Christian background of this concept see Stegmann/Langhorst 2005: 610 f.):

*Which path and
what notion of
justice?*

*»Social market
economy« as
interpreted by
the CDU*

*The social market
economy, not the
welfare state is the
CDU's key concept*

Subsidiarity principle

11 Christlich Demokratische Union Deutschlands – Christian Democratic Union

12 Page numbers in the text refer to the respective party programmes, unless other publications and authors are explicitly referred to.

»Freedom enables and requires autonomous self-determination. Life in society should therefore be organised in accordance with the principle of subsidiarity: what people can do better or just as well alone, in the family or in voluntary cooperation with others should remain their task. The state and local government should take over particular tasks only if they cannot be performed by individuals or by smaller communities. The fundamental principle of subsidiarity also applies between smaller and larger communities, as well as between voluntary associations and state bodies. Subsidiarity requires that larger bodies, also the level of the state, take action if socio-political needs are too much for individuals or for smaller bodies« (p. 7).

The principle of subsidiarity is applied within the framework of a vision of society pertaining to a social market economy: »the social market economy is based on competition. Policymaking in the social market economy is *Ordnungspolitik* or »regulatory policy« [in the sense of creating a proper legal framework for ensuring a healthy level of competition in the economy: *author's note*]. The social market economy grants enterprises the freedom they need to thrive and thereby provides people with a wide range of goods and services. It allows everyone to participate in the market, taking responsibility for themselves. It requires a viable state that can ensure a competitive environment. This includes freedom of occupation and of contract, protection against trade barriers and against abuses of power by dominant companies and the facilitating of market transparency. In the social market economy the protection of property is the condition enabling it to benefit the public good and thus meet its social obligations« (p. 49).

*Positive orientation
towards performance-based justice*

The social market economy is thus oriented towards performance-based justice and it expressly factors in differences in outcomes as a motor of social prosperity (see, for example, pp. 20, 48). The focus is – and remains – the individual, not the state.

Based on the notions of justice based on performance and self-responsibility the CDU wishes to reorganise social security systems in two directions: first, it wants to detach them from employment (p. 60f) and second, it wants to boost individual responsibility in tandem with basic provision (pp. 60–62).

This suggests that workers can secure additional benefits depending on the size of their wallets or purses. The employers' contribution to these benefits is done away with by decoupling them from non-wage labour costs.

In this way the CDU is trying to turn the continental European conservative welfare state in the direction of a liberal welfare state model.

The role of the state with regard to the market economy is thus essentially oriented towards liberalism, while retaining some regulatory components based on Christian values.

CDU proposals for change:

- **Work/economy:** Easing the burden of non-wage labour costs (or of employers) through lower social security contributions and voluntary additional insurance for employees.
- **Health care:** for example, introduction of incentive schemes
- **Education/training:** strong orientation towards merit/performance-based justice
- **Taxation:** Reduction of the (wage) tax burden, greater funding of social security benefits through general tax revenue

6.2. FDP: Karlsruhe Principles

Jochen Dahm

On 22 April 2012, in Karlsruhe, the FDP adopted a new party programme, entitled »Responsibility for freedom. The FDP's Karlsruhe Freedom Principles for an Open Civic Society«.

The FDP's new basic programme begins with a »tag cloud«, a graphic representation of the programme's key ideas. There are 42 ideas in all. Justice, solidarity and welfare state are not among them.

The first mention of the welfare state is in connection with the aspiration of »tax justice« and, as the FDP puts it: »because we are thinking about those who provide the basis for a liberal welfare state with their labour« (p. 8). In terms of the welfare state models set out in the present volume – liberal, conservative and social democratic – the FDP thus categorises itself with reference to the liberal welfare state model.

In thesis 49 (out of 101) the FDP describes its concept of the welfare state in more detail. The title of the relevant section is: »An encouraging welfare state: oppor-

*Reform goal:
a liberal welfare
state against a
Christian back-
ground*

*New party pro-
gramme 2012*

*»Tag cloud«: essen-
tial ideas are lacking*

*Welfare state in
thesis 49 (out of 101)*

tunities for participation instead of maintenance«. For the FDP, the »encouraging welfare state« is the »activating, upward mobility oriented welfare state«.

*»Encouraging
welfare state«*

The FDP further argues that »the encouraging welfare state builds bridges in a working life and pulls down barriers between unemployment and the labour market. It thus puts its trust in the individual and does not seek to make decisions on people's behalf« (p. 57). The liberals put this explanation of their concept of the welfare state directly in the context of a call for lower taxes and alongside the declaration: »work must pay for all« (p. 57).

*Key principle is
the social market
economy*

For the FDP, similar to the CDU, their key principle is the social market economy rather than the welfare state. The FDP describes the social market economy, alongside the liberal state under the rule of law and democracy, as one of three »orders of freedom«: the welfare state is not mentioned by the liberals in this context (p. 6). While the party at one point describes the protection of private property as a fundamental right »of the first order« (p. 66) fundamental social rights do not appear in their programme.

It is true that there is a certain margin in the FDP's new programme with regard to the welfare state and its contains such statements as »our aim is the actual participation of all citizens in the life of society, regardless of individual circumstances« (p. 23) or the recognition that »social freedom requires material freedom« (p. 26).

Overall, however, the welfare state tends to be described in the Karlsruhe theses rather as an instrument to safeguard the (social) market economy than as an independent institution. Thus ensuring the subsistence minimum is described in one place as a »social and civilisational achievement«. The section ends, however, with a reference to its economic utility (p. 56). Elsewhere, it says »liberals want opportunities regardless of social origin«. The reason for this comes in the next sentence: »Every renewal of the promise of upward mobility legitimises the market economic order« (p. 57).

*Central demand:
citizen's income
(Bürgergeld)*

Specifically, the FDP is in favour of a basic insurance, which it calls »citizen's income«, and would be implemented as a negative income tax (p. 56). There are no details on how high this citizen's income ought to be, a question which goes hand in hand with opportunities for participation.¹³ In different areas of social insurance (old age pensions, care) the FDP argues, in addition – even after the financial crisis of

¹³ On basic insurance see also chapter 7.2. and the bibliography provided there.

2008 – for more funded schemes (see pp. 58–60). The party says: »Each generation must in future pursue more funded personal provisions« (p. 58). The attendant risks – including inflation and financial market risks – should »be limited by an agreed combination of provisions« (pp. 58–59).

The FDP's concept of the welfare state can thus be categorised in terms of the liberal welfare state model, characterised by protection against social risks at a basic level. Whether in the view of the FDP the current level of social security in Germany should be lowered – in other words, whether there should be cuts – is not stated explicitly in the Programme. Formulations such as »overdue decisions« (p. 58), »no longer affordable« (p. 58) or »overburdening of the social security system« (p. 18) are at least indicators in this direction.

FDP proposals for change:

- **Work/economy:** Introduction of a citizen's income
- **Health care:** More competition between providers, more funded care
- **Education:** National compact on education revising the federal system. Rejection of school reforms. Much stronger support for individuals.
- **Taxation:** Objective: simple, lower, fair taxes, negative income tax, separation of federal and *Land* taxation.

6.3. Hamburg Programme – Party Programme of the Social Democratic Party of Germany¹⁴

The SPD adopted the Hamburg Programme in 2007. It represents a continuation of the previous party programme. The Hamburg Programme considers the welfare state as a key condition of participation in its various forms: »The participation of everyone in economic, cultural, social and political development is the goal of Social Democratic policy. Key to this are good education/training, employment guaranteeing a decent livelihood and health care, but also a fair distribution of wealth. The quality of the welfare state is to be measured not solely in terms of the level of transfer payments, but also in terms of ensuring real opportunities, open to all from the outset and throughout life« (p. 58).

*Reform aim:
liberalised welfare
state*

*Welfare state as a
condition of
participation*

14 SPD – Sozialdemokratische Partei Deutschlands

»Democratic socialism ... [therefore] remains for us the vision of a free and fair society based on solidarity, whose realisation is our ongoing task. The principle of our actions is social democracy« (p. 16f).

*Welfare state as the
core of a democratic
society*

The welfare state is thus the core of a democratic society. It ensures that participation is possible for all. In order that the state fulfil its responsibility the fundamental division of tasks between state, market and citizens must be clarified. This fundamental division of tasks sharply distinguishes the SPD from the CDU and the FDP.

*A regulatory state
and the shortcomings
of the market*

The need for and limits of a regulatory state are considered in terms of two aspects: first, examining the shortcomings of an un- or insufficiently regulated market; second, striving for a democratic socialism (see p. 16f) that can be guaranteed solely by an active and democratic society with a regulatory state. All in all, both the shortcomings and the goal outline the gaps that need to be closed and the social policy task that the SPD has taken on with its programme.

*Welfare state to
secure fundamental
rights*

The welfare state, then, is an instrument intended to implement comprehensive civil, political and economic rights for all. This instrument must therefore – and this notion is pursued consistently in the Hamburg Programme – continually be adjusted as the world of work and the economy develop and as the conditions for realising basic values change.

*Point of departure:
current challenges
facing society*

The challenges currently facing society are therefore taken as a starting point: »Our work-based society is undergoing profound change. The pace of innovation and the variety of forms of employment are increasing. Qualifications and knowledge are becoming more and more important. New creative occupations are emerging. Traditional »normal employment« – permanent and with regulated working hours – is declining in significance. The working lives of many people are subject to rotation between dependent employment, inactivity, periods of »family work« and self-employment« (p. 9).

»These changes, not infrequently a matter of compulsion, can overwhelm people or make them anxious. Many people fear becoming left behind, neglected or even forgotten about, also by government. The low qualified or the no longer young are often excluded from the labour market. Women, even with the best qualifications, have long been without equal access to career advancement and

employment sufficient to ensure a livelihood. Those who are in work are frequently seeing their quality of life threatened by increasing pressure, tougher competition and demands to be constantly available« (p. 9).

The constraints, but also the opportunities of a changing economy that is also becoming more flexible are and will be greater for the individual, according to the Hamburg Programme. If under these conditions freedom, equality and solidarity for all are to be realised in a fair society the instruments available to the welfare state must also change. This adaptation is incorporated into the Programme under the concept of the »preventive welfare state«:

»The welfare state represents organised solidarity between the strong and the weak, the young and the old, the healthy and the sick, those who are working and the unemployed, the able-bodied and the handicapped. The basis of the welfare state is formed – and this will continue to be the case in the future – by state guaranteed social security and participation, the legally enforceable entitlement to social benefits and workers' rights ... Where forms of employment are becoming more flexible and frequently also more precarious the key function of the welfare state is even more important: guaranteeing security in the course of transformation. ... Preventive social policy promotes employment that provides people with a livelihood, assists in child raising and puts the emphasis on preventive health care. It shapes demographic change and promotes a higher employment rate among women and older people. It prevents exclusion and facilitates labour market integration. It does not release anyone from their responsibility for their own life. The preventive welfare state conceives of education/training as a key element of social policy. Paramount objective of the preventive welfare state is the social integration of everyone. To that end, preventive social policy links up a range of tasks, such as economic, financial and labour market policy, education/training and health care policy, family and equal opportunities policy and the integration of immigrants.« (p. 56)

The »remedial and preventive welfare state« thus is not oriented – in contrast to the conservative German welfare state – towards maintaining status, but rather seeks to ensure for everyone opportunities and access in society by means of financial protection in keeping with human dignity. In other words, the Hamburg Programme seeks to develop the welfare state into a Scandinavian social demo-

*Preventive
welfare state*

*SPD reform
proposals*

cratic welfare state. However, this is possible only on the basis of path-dependent reorganisation that further develops existing welfare state instruments in a coordinated way. To briefly mention a number of key points:

- The SPD continues to strive for social security funding via social insurance, financed on a parity basis by employers and employees (p. 58). However, this is to be supplemented by greater tax-based funding. This distinguishes the SPD markedly from the CDU and the FDP. It also calls for the extension of social insurance to all forms of income – in other words, an orientation towards the status of citizen rather than to employment status (p. 58).
- With regard to health care and nursing care the SPD calls for a solidaristic »citizens'« insurance (p. 58) that includes all forms of income in the relevant calculations (in other words, also civil servants and the self-employed).
- Municipal services are considered particularly important for quality of life. In this respect, integration projects, kindergarten and school provision, as well as health care and sports provision and urban development are to be expanded (p. 59).
- In the area of family policy the equal responsibility of both parents for »maintenance and care-taking« (p. 65), as well as education are emphasised as a key (and to be expanded) component with regard to emancipation, social mobility and equal opportunities (p. 60). In this context, so-called »all-day schools« should be introduced across the country and as many civil society actors as possible – music and art schools, sports clubs and so on – should be brought on board so that all children and young people can develop their interests, regardless of the depth of their parents' pockets.
- The SPD wants to supplement the European Union with a European Social Union based on fixed social standards. Within this framework, however, these social standards should provide individual countries room for path-dependent implementation in accordance with their circumstances (p. 28).

Overall, the SPD thus presents a remedial and also preventive welfare state oriented towards lifelong equal opportunities and social balance. The continental European, conservative welfare state should be further developed in the direction of a Scandinavian social democratic welfare state.

SPD proposals for change:

- **Work/economy:** introduction of employment insurance¹⁵ with flexible social protection; inclusion of all in a solidaristic insurance system.
- **Health care:** introduction of citizens' insurance,; improvement of municipal services of general interest.
- **Education/training:** longer phases of non-selective (comprehensive) education, greater social mobility and so on.
- **Taxation:** Supplementing social insurance with more tax-based funding, depending on ability to pay; inclusion of all forms of income.

6.4. »The Future Is Green« – Party Programme of Alliance 90/ The Greens¹⁶

Alliance 90/The Greens presented their party programme in 2002. It is by far the longest comparable party programme. The principal concern is restructuring the economy to become a social and environmental market economy, oriented towards the solar age. The overexploitation of natural resources is considered the key problem for the future. The necessary restructuring is, however, presented as a project with not only environmental policy but also comprehensive social policy consequences and conditions.

In terms of social policy, Alliance 90/The Greens are distinguished from the other parties by their form of liberal – but not market-liberal – ideas: »Therefore the existing social market economy, which is too much oriented towards corporate profit-making, does not live up to its name and urgently requires further development. The Social cannot be reduced to an administrative function of the state. Without freedom for social forces, without self-determination for citizens and without subsidiarity social solidarity is paralysed by bureaucracy. Our concern is to promote civil society with the resources of the state, while at the same time setting limits on the state. This sets us apart from state socialist, conservative and market liberal political models« (p. 43). For example, Alliance 90/The Greens call for a »regulatory framework« in which environmental, social and cultural interests are to be ensured (p. 46).

*Principal concern:
social and environ-
mental market
economy in the
solar age*

*Liberal, but not
market liberal goals*

15 Discussed under »employment insurance«, see p. 99

16 Alliance 90/The Greens – Bündnis 90/Die Grünen

This is associated with a liberal, but socially responsible conception of the welfare state: »social policy and self-determination. Our conception of the welfare state puts people at the centre of policymaking. In a fair and social civil society the state sets up a framework that allows everyone the opportunity to develop their abilities and talents« (p. 62).

*Comprehensive
»fair participation«*

In this way, Alliance 90/The Greens are positioning themselves at some distance from their political rivals. On the one hand, they appeal to liberal ideas and to civil society and non-state actors and on the other hand to state support, combining these different traditions in a comprehensive notion of »fair participation«: »Our notions of social justice and solidarity go further than traditional redistribution policy. The priority goal of our policy is to prevent poverty and social exclusion and to improve the social circumstances of the most vulnerable. We aim at bringing into being fair participation that gives all citizens access to the most important social domains, namely education/training, work and political participation« (p. 61).

*Alliance 90/The
Greens reform
proposals*

For the implementation of »fair participation« the party programme of Alliance 90/The Greens contains a number of measures and instruments. For reasons of space we cannot deal with all of them here, but only present the core points:

- Social assistance – which still existed when the party programme was adopted – should be abolished in favour of a needs-oriented largely flat-rate basic protection. This basic protection should ensure adequate material provision for those receiving assistance with a range of activating measures (pp. 64, 66). The activating measures are to be implemented in cooperation with state and civil society actors (associations, neighbourhood projects and so on) (p. 65).
- In contrast to the CDU and the FDP, Alliance 90/The Greens adhere to an extended conception of work: »The environmental/social market economy of the future must recognise and value all forms of work and create the conditions for a fair distribution between the genders. House work, child rearing work, community work and neighbourhood assistance are the bases of a socially shaped civil society. Without them, solidarity and social networks don't stand a chance« (p. 67). This broad conception of work has consequences for social policy: in fact, it requires that the welfare state actively

builds up new social areas: »Furthermore, publically financed, socially and environmentally meaningful jobs that ensure a decent livelihood must be created. We are committed to further developing the start already made in this respect in local economies. It will involve organising access to employment fairly, developing intelligent working life models, enabling lifelong learning for all, systematically reducing discrimination and disadvantaging of women and integrating older people and immigrants instead of excluding them« (p. 68).

- The Greens – similar to the SPD – advocate contribution-financed citizens' insurance in the areas of sickness, care and old age (p. 80). All forms of income and all persons are to be permanently included in these citizens' insurance schemes (p. 80). A combination involving funding mechanisms and cooperative models is being considered, although it has not been systematically explained how it will operate.
- The party programme of Alliance 90/The Greens is characterised in particular by the fact that it not only takes into account the funding system, but also assurance of quality provision from the standpoint of those affected, in terms of its demands for accessibility (p. 87) and for an education/training system conducive to social mobility (p. 72).

Overall, the Greens are discernibly oriented towards the Scandinavian social democratic type of welfare state, although, albeit to a lesser extent, they also lean towards some aspects characteristic of the liberal variety of welfare state.

The Greens' proposals for change:

- **Work/economy:** introduction of a needs-oriented, largely flat-rate basic insurance, expansion of the notion of work and recognition of other forms of work. **Health care:** introduction of a contribution-financed citizens' insurance, supplemented by capital funding mechanisms.
- **Education/training:** strengthening of personal responsibility, all-day schools, expansion of public sector training.
- **Taxation:** according to ability to pay; inclusion of all forms of income.

*Reform goal: social
democratic welfare
state with liberal
elements*

6.5. »The Left«: Party Programme

Jochen Dahm

*First real party
programme in 2011*

The Left (»Die Linke«), which emerged from the WASG (Wahlalternative Arbeit und Soziale Gerechtigkeit) and the PDS (Partei des Demokratischen Sozialismus), adopted its first real party programme in 2011. It was concluded at the party conference in Erfurt on 23 October 2011 and then adopted by vote of the membership.

The Left's Party Programme has five sections. First – after a Preamble – the Party addresses its origins and thus also to its SED (Socialist Unity Party) past. Section 2 addresses the »Crises of Capitalism«, Section 3 »Democratic Socialism in the twenty-first century« and Section 5 questions of strategy. In Section 4 the Party describes »Left-wing reform projects – steps to remodel society«. This contains the section »Social security in the democratic welfare state« (p. 42).

*Connection
between
the welfare state
and democracy*

In its welfare state model The Left emphasises the connection between the social and democracy: »All men and women need social security in order to live a selfdetermined life and to be able to fully exercise the right to democratically shape social relations« (p. 42). What it seeks from the welfare state can be summarised as follows:

»We want an active welfare state that protects, on the basis of solidarity, against life's contingencies, such as ill health, accidents, care needs and handicap, as well as inability to work and unemployment, protects against poverty and guarantees a dignified, self-determined life in old age« (p. 42).

*Anchor basic
social rights in the
Constitution*

In order to achieve this The Left wants, among other things, to anchor basic social rights in the Constitution and to organise services of general interest in public, non-profit oriented enterprises (p. 42). It calls for citizens insurance and a »solidarity-based pension insurance that includes all men and women in a statutory scheme funded on a parity basis.«

*Key issue: how
to deal with
unemployment*

A key issue for the Party is how to deal with unemployment. Its aspiration is as follows: »Even in the case of unemployment social security benefits must ensure something approximating previous living standards« (pp. 43–44). The Party demands that »Hartz IV must be abolished« (p. 44). No alternative is specified, however.

Thus The Left calls, first, for »unemployment benefit oriented towards previous income, but at least a sanction-free minimum protection that covers all needs«. It goes on to explain that »some sections of the party« subscribe to the »idea of an unconditional basic income«. The Programme does not go into detail. It merely declares: »We would like to continue this discussion« (p. 44).

No alternative is specified

Such indecision is also in evidence elsewhere in The Left's Programme, which is peppered with such formulations as »we would like« and »we demand« or constructions using »(there) must be«, for example, »housing must be affordable for all over the long term«. These very abstract goal statements are not really prioritised and sometimes are unconnected to one another. The Programme goes into detail primarily when it expresses disapproval. By comparison, the constructive aspect, involving the Party's own perspective, often remains vague.

The Left's welfare state model can be categorised predominantly as a social democratic welfare state. It can be characterised in terms of Esping-Andersen's typology of welfare states, however, only with the qualification that The Left stands for a fundamental change of system or, as they put it, »We are fighting for a change of course in politics that will open the way for a fundamental transformation of society, that will overcome capitalism« (p. 4). This raises questions that go beyond the area of social policy.

Predominantly a social democratic welfare state model

The Left's proposals for change:

- **Work:** sanction-free minimum protection (basic income), poverty-proof minimum pensions
- **Health care:** Introduction of citizens insurance
- **Education:** Free education across the board
- **Taxation:** Relief for lower and middle earners, a heavier burden on the highest earners, as well as on the very wealthy, inheritances, capital investments and company profits; redistribution from the top to the bottom to improve and safeguard public services.

6.6. Summary

The party programmes of the five political parties represented in the German Parliament are »declarations of intent« concerning the direction in which they would like to develop German society and the welfare state, once in power.

*Clear dividing line
with regard to
conceptions of the
welfare state*

Overall, we can summarise as follows (and undoubtedly this reflects our personal opinions): a surprisingly clear dividing line can be drawn between the parties' social policy positions, with those of the CDU and the FDP on one side, and those of the SPD, Alliance 90/The Greens and »The Left« on the other.

The CDU and the FDP seek – with slight differences – liberalisation and a stronger orientation to performance-based justice in terms of their model of the welfare state. The connecting factor is the Anglo-Saxon, (economic) liberal welfare state. The CDU differs partly with regard to its stronger concentration on welfare state assistance in terms of the subsidiarity principle. The SPD, The Greens and »The Left« are much more strongly oriented towards a mixture of needs-based justice and equality of opportunity, which should be implemented in comprehensive basic rights and guaranteed by the state. However, they differ significantly in respect of their conceptions of how these basic demands should be applied:

- Alliance 90/The Greens include, besides elements of state social security, more markedly liberal and civil society elements in their concerns.
- Other topics of discussion for The Left, besides the elements of the welfare state that ensure basic social rights, include superseding capitalism and reorganising society.
- The SPD analyses the challenges of a changing economy and seeks reforms oriented towards a Scandinavian social democratic welfare state, which at the same time would establish, in a flexibilised economy, a welfare state that is both remedial and preventive. Civil society, family and state elements are to be taken into account and further developed, on an equal footing.

7. KEY AREAS OF THE WELFARE STATE

In the preceding chapters we have clarified social democracy's programmatic take on social policy, as well as basic questions and concepts. We now turn to specific areas of the welfare state. In this chapter we compare the German welfare state system with those of a number of exemplary countries, looking at taxation, unemployment, pensions, health care and education/training. In constant focus here is the question of how the German welfare state fares in the various dimensions of justice and what lessons must be drawn from this.

In the countries we shall look at, of course, the costs of living differ. In order to be able to get a better idea of the figures we are dealing with, Figure 9 presents these countries' respective price levels. The price level is the ratio between the average purchasing power parity (PPP) and exchange rate of the EU27 states. If the price level is higher than 100, life in the country concerned is relatively expensive; if the price level is lower than 100, the costs of living are comparatively reasonable. All sums are converted into euros.

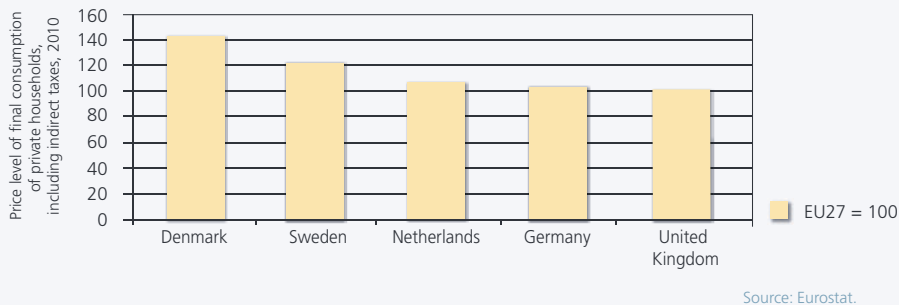


Figure 9: Price level of private households, 2010

Note: In a comparison of the four states, Denmark, with around 142 % of the average for the whole EU27, has the highest cost of living: what one gets for 1 euro on the European average costs 1.42 euros in Denmark. In Germany, the relevant sum is only 1.04 euros (104.3 %)

7.1. Taxation

Thomas Rixen

In this chapter:

- the most important principles of taxation are presented;
- the various kinds of taxation are presented and their distributive effects discussed;
- the tax structures of the three welfare state models are presented and compared in relation to their economic efficiency and distributive effects.

Three purposes of taxation: revenue, redistribution and guidance

Taxes and contributions are crucial for the welfare state for three reasons. First, it is dependent on them as a source of revenue for funding social policy programmes. This is the *fiscal purpose* – and also crucial for all other policy areas – of taxation. Second, contribution levels and the tax structure influence the distribution of income, property and wealth (*redistributive purpose*). Third, taxes can be employed as *norms* to bring about a certain kind of behaviour among taxpayers. The taxation of tobacco and alcohol, which is often justified on health grounds, is one example of this.

Difference between taxes, levies and contributions

A tax, *in the strict sense*, is a compulsory charge without a direct service in return (see §3 para 1 of the Tax Code). This does not apply with regard to other contributions that one could subsume under taxes in a wider sense and which are levied to finance public services. *Levies* are tied to a specific purpose and they are imposed on an individual basis. One example is charges for rubbish collection. *Contributions* are also tied to a specific purpose, but they are not imposed individually but rather collectively. For example, unemployment insurance safeguards workers as a group against the risk of unemployment. The same applies to other kinds of social insurance.

First, the most important principles of taxation will be explained and the various kinds of taxation distinguished. On this basis, three types of taxation system will be identified and their performance compared with regard to social policy.

Further reading:

Stefan Homburg (2000), *Allgemeine Steuerlehre*, Munich. Joel Slemrod and Jon Bakija (2004), *Taxing Ourselves. A Citizen's Guide to the Great Debate over Tax Reform*, Cambridge.

7.1.1. Principles of Taxation: Justice and Economic Efficiency

States pursue a number of goals in the organisation of their tax systems. Two of these goals – justice and economic efficiency – are directly related to the welfare state and to political disagreements about it.¹⁷ Both goals are desirable in themselves, but can conflict with one another. Their relative importance is the subject of political disagreement.

What is fair taxation?

A taxation system should be fair. The question of what constitutes fair taxation is controversial, however. Two principles long debated by political economists and philosophers are the principle of taxation based on performance and the equivalence principle. By examining them we can think constructively about tax fairness.

Taxation in accordance with performance

The demand that taxpayers should be taxed in accordance with their individual performance is already found in Adam Smith. If one wishes to implement this principle in practice the question arises immediately of how performance can be measured (see the debate on this issue in Chapter 3). For the purpose of simplification it is generally assumed that individual income reflects performance.

Two principles of taxation: fairness and economic efficiency

Justice based on performance and the equivalence principle

Taxation in accordance with performance

Vertical and horizontal fair taxation

What tax regulations meet these requirements?

Rules of thumb concerning the distributive effects of various tax regulations

With **regressive tax** the amount of tax falls proportionately as income increases. Regressive taxes distribute income and wealth from the bottom up. It is to be rejected for reasons of fairness. A tax is **proportionate** if everyone is taxed in the same proportion, regardless of income level. As income increases the **absolute** tax burden increases. The redistributive effect is lower than in the case of a progressive tax scale. A tax is **progressive** if the burden of contributions for higher incomes is greater in percentage terms than for low incomes. As incomes rise the relative tax burden also rises and the redistributive effect is greater.

Two things ensue from the performance principle. First, taxpayers with the same income should pay the same amount of tax (horizontal fairness). Second, people with higher incomes should bear a heavier burden than those with low incomes (vertical fairness).

The question of which tax regulations can meet these requirements is controversial. It is clear that a regressive tax contradicts the principle. Libertarians, however, take the view that taxation is commen-

¹⁷ Two other very important criteria governing tax systems that we shall not go into here are their enforceability or administrability and their simplicity or transparency.

surable with performance when a proportionate tax is levied. Former Constitutional Court judge Kirchhof, for example, proposes the imposition of a uniform tax rate of 25 per cent on all incomes.

Reasons in favour of progressive taxation

However, it can be argued that vertical justice requires that the relative tax burden should also increase along with income. One reason given for this is that a quarter of one's income is less of a sacrifice for taxpayers earning 100,000 a year than for those earning 20,000 euros. The former's loss of 25,000 euros might cause them to get rid of their second car or give up a third holiday; the latter's 5,000 euros, however, may mean that they do not go on holiday at all or cannot afford healthy food. Those who accept this argument – economists talk of diminishing marginal utility – take the view that a tax system should be progressive. The SPD also takes this view.

Marginal utility is an economic concept designating the increase in utility attained by the last unit consumed. For most goods, as consumption increases, the utility of the consuming individual will decrease (for example, how much more pleasure does the tenth glass of wine give than the ninth?). (See Das Politiklexikon 2011: 131)

»Companies and private households must contribute to the financing of state expenditure in accordance with their ability to pay. We are therefore committed to tried and tested progressive income tax.« (Hamburg Programme 2007: 46)

Equivalence principle

The second principle of tax fairness, which is often regarded as the opposite of tax in accordance with performance, is the equivalence principle. The idea is that the level of tax paid should be in proportion to the services received from the state in return: in other words, taxes represent the price of the provision of public goods. The equivalence principle therefore demands a kind of transactional justice.

However, it is often impossible to determine an accurate price, attributable to a particular individual, for a particular state service. In particular because the goods financed through taxation in the narrow sense have the qualities of a public good¹⁸ the market mechanism does not operate and thus an accurate price cannot be given. In the case of a levy or fee this is possible, however. Levies are laid down in accordance with the equivalence principle. The same applies – somewhat more

*Diminishing
marginal utility:
one reason in
favour of
progressive
taxation*

*Equivalence
principle: a kind of
transactional justice*

*The problem:
determining the
right »price«*

¹⁸ See Reader 2: Economics and Social Democracy (2009), chapter 7.3.

loosely – in the case of contributions. Although there is no strict equivalence with regard to unemployment and pension insurance between contributions paid and benefits received – it is not even clear when the relevant contingency materialises and how long it lasts – the level of the benefits is oriented towards contributions.

Even though the equivalence principle is not strictly applicable to taxes it can be useful in a somewhat attenuated sense in thinking about what constitutes a fair tax system. Although the price that this or that individual has to pay cannot be determined accurately it is nevertheless eminently clear that taxpayers as a whole receive a concrete benefit for their taxes, namely the totality of public goods. This includes the establishment of the rule of law, domestic and external security, social security benefits, schools, roads and public transport. In concise terms:

»Taxes are the price we pay for a civilized society.«
(Oliver Wendell Holmes Jr. 1927, US Supreme Court Justice)

An argument for progressive taxation based on the equivalence principle

If one pursues this thought a little further it turns out that the equivalence principle is not necessarily contrary to the principle of taxation based on performance. Indeed, it can be put forward as justification for progressive taxation: taxes are a condition of the creation and maintenance of the rule of law, which guarantees private property and, strictly speaking, defines what is to be regarded as private property in the first place. It is therefore justified to demand from those with more property and higher incomes, and who thus benefit more than the less well-off from the maintenance of the rule of law and private property, that they make a bigger contribution to the costs of all this.¹⁹

Economic efficiency

Besides these principles related to the fairness of the tax system taxation must also be established in such a way that it gives rise to as little economic distortion as possible. This is known as tax neutrality. Neutrality is, therefore, a key objective because it facilitates efficient resource use and thus boosts growth. The problem is that every tax distorts the decision-making of economic actors. The sole exception is a so-called poll tax, in terms of which all citizens have to pay exactly the same amount. Even though in reality no poll tax is levied anywhere and is considered politically neither feasible nor desirable, because it runs counter to

What one gets in return for taxes: »a civilised society«

Justification for progressive taxation: those who have more, benefit more from the maintenance of the rule of law

Neutrality: no economic distortions

19 See Reader 2: Economics and Social Democracy (2009), chapter 7.2 .

the considerations of fairness discussed previously, it can help to elucidate the concept of neutrality. Such a tax would be completely neutral if absolutely the same sum was paid regardless of how one behaves and whether one has an income or not. Under these circumstances, there is an incentive to try to keep improving one's economic situation and thus contributing to economic growth. It is different if the tax burden increases with rising income. In that case, the incentive to keep on exerting oneself diminishes. The more progressive the tax scale, the lower the individual incentive to try to do better.

*What balance can
be struck between
growth and justice?*

Conflict of aims between efficiency and justice?

A tax scale that is considered fair because it distributes the tax burden progressively could therefore serve to put a brake on growth. In this perspective, there is a conflict of aims between efficiency and justice. If one gives up a little justice more growth can be attained, and vice versa. Whatever balance can be struck between these two aims depends on society's values and is the central object of tax policy debate.

*How big is the
conflict of aims in
reality?*

As we shall see, different countries have made different trade-offs. The question also arises of what the exchange relationship between efficiency and justice really is and whether this can be influenced by other factors, so that the conflict between the two objectives is perhaps not as stark as it first appears.

7.1.2. Different Forms of Tax

In practice, the state taxes different things and activities. There are a number of different kinds of taxes.

Direct taxes

Direct taxes are directly linked to indicators of ability to pay. They are therefore levied on income and wealth. Direct taxes include income tax, corporation tax, inheritance tax and wealth tax. With regard to income tax, in Germany – and in most other countries – a progressive tax scale is applied. It is paid by private persons and companies organised under private law. In contrast, corporation tax, which is levied on the profits of legal persons – for example, limited companies – is a flat rate tax. In Germany, this has fallen to 25 per cent (although there is also the trade tax levied by municipalities).

*Direct taxes are
linked to income
and wealth*

Tax- or contribution-based financing of social insurance

Broadly interpreted, social insurance contributions also count as direct taxes. They are paid at a flat rate. Since there is often a contribution assessment ceiling high incomes are not contributing to financing the relevant social benefits. Social insurance is therefore regressive in nature. However, pension and health insurance are subject to a state subsidy, which is tax-financed (in the narrower sense). The regressive tendency of social insurance financing is the reason the SPD advocates an increase in the tax share (see Hamburg Programme 2007: 58).

Social security contributions are taxes in a broad sense

Indirect taxes

In the case of indirect taxes, by contrast, ability to pay is at best taken into account in a roundabout way. The burden falls on how income is used. The best known and fiscally most important indirect tax in Germany is value added tax (VAT). It is a flat rate tax of 19 per cent, although for many basic goods there is a reduced rate of 7 per cent. Considering the fact that in particular those on lower incomes have to pay a higher proportion of their income for basic goods and services it is evident that VAT is regressive.

Indirect taxes apply to the use of income – example: VAT

Tax burden on factors of production

Finally, one can ask what factors of production are subject to tax. For example, one can differentiate the tax burden on capital from that imposed on labour.

In what ratio are capital and labour taxed?

7.1.3. Three Types of Tax State

Using these categories we can analyse the existing tax systems. The differences between various types of welfare state (see Chapter 3) also manifest themselves in the organisation of their tax policy. The Anglo-Saxon, continental and Scandinavian welfare states differ in relation to the total tax burden and the extent to which they rely on the different types of taxes (taxation mix or tax structure). Hand in hand with this they also differ with regard to the distributive effects they achieve (see Wagschal 2001).

Three types of tax state – analogous to welfare states

Anglo-Saxon tax state: USA

In the United States, which we shall refer to here as an example of the Anglo-Saxon tax state, there is a fairly low overall tax burden. A high proportion of revenues is obtained via direct taxes.

Low overall tax burden, primarily direct taxes

The progressiveness of personal income tax is comparatively low. Indirect taxes and social contributions are low.

Continental tax state: Germany

In the continental tax state – for example, Germany – the overall tax burden is medium-high. The proportion of direct taxes in total revenues is low, while the proportion of social contributions – social insurance contributions – is high. Accordingly, the overall tax ratio and the tax ratio, which measure the proportion of taxes in the narrow sense in GDP, differ considerably.

Traditionally, nominal tax rates are fairly high. However, they are levied on a fairly narrow tax base. With the tax reform of 2000 income tax and corporation tax rates were lowered (and the basis of assessment, by contrast, expanded). The last stage of tax reform came into force in 2005. Since then the top rate of income tax has been 42 per cent. In 1998 it was 53 per cent. On this basis, Germany is by no means a high tax country. However, the burden of social security contributions is particularly high by international comparison, which can have a negative effect on the labour market.

Scandinavian tax state: Denmark

In the Scandinavian tax state the overall tax burden is high. Both income tax and consumption taxes are high. Even though, with the Danish tax reform of 2010, the top rate of 59 per cent was reduced to 51.5 per cent, personal income tax is still strongly progressive by international standards. Since most social benefits are financed through the tax system the level of social security contributions is low.²⁰

Medium overall tax burden, high proportion of social contributions

Further reading:
Gerd Grözing
(2007), *Hochsteuerland Deutschland? Langlebiger Mythos, problematische Folgen, in: Intervention 4 (1): pp. 28–39.*

High overall tax burden, high income and consumption taxes

20 In another country in this welfare state family, Sweden, the trend is towards this form of financing.

Three Types of Tax State: Figures

	USA	Germany	Denmark	OECD average
Total tax burden	24.1 %	37.3 %	48.1 %	33.8 %
Tax ratio	17.6 %	22.9 %	47.1 %	24.6 %
Top rate of income tax	35 % from 265,334 € ²¹	42.0 % from 52,151 € ²²	51.5 % from ca. 51,000 € ²³	
Starting rate	10.0 % ²⁴	15.0 %	5.48 % ²⁵	
Tax-free allowance	5,913 €	7,663 €	0 € ²⁶	
Nominal tax rate on corporations²⁷	39.88 %	29.83 %	25.0 %	
Effective marginal tax rate on corporations (2008)	36.0 %	27.3 %	18.6 %	
VAT	n. a. ²⁸	19.0 %	25.0 %	

Sources: OECD (2011), BMF (2011), Chen/Mintz (2008).

21 Federal tax. There are taxes at *Land* level that are deductible at federal level.

22 Since 2007 the so-called wealth tax has been in place, with regard to which the marginal tax rate rises to 45 per cent for incomes above 250,001 euros.

23 Income tax threshold varies by income. Up until 2009 the top tax rate was 59 per cent.

24 Federal tax. There are also taxes at *Land* level.

25 Central state. There are also taxes at municipal level.

26 There is a tax credit of 283 euros.

27 Comprises business taxes, trade taxes and other comparable taxes of the central state and regional authorities

28 At the *Land* level variable, relatively low VAT.

What do the different figures and tax rates mean?

The **tax and contribution ratio** is the proportion of all taxes and contributions in GDP.

The **tax ratio** is the proportion of all taxes in the strict sense in GDP.

The **top rate** of income tax is the highest tax rate payable from a certain level of taxable income. The **starting rate** is the tax rate payable on income above the tax-free allowance. These are all **marginal tax rates** that indicate the tax rate for each additional euro earned, in other words, only that portion of income is subject to this rate which is above the level specified. The other parts of income are subject to lower rates or are not taxed in the case of the starting rate. The **average tax rate** can be distinguished from the marginal tax rate. This is the rate payable on average. If the tax scale is progressive the average tax rate lies below the marginal tax rate.

The **nominal tax rate** is the rate levied on a certain basis of assessment. It differs from the **effective tax** rate which indicates what portion of income is payable if the basis of assessment is narrower than income. This is the case, for example, when there are tax-free allowances or options for setting off items against taxable income.

For discussion

In Germany, spouses are assessed jointly: in other words, their incomes are added together, divided by two and then the relevant tax rate is applied. What is the distributive effect of this? What incentives does it provide for the lower-earning spouse with regard to employment? Is such a tax benefit for married couples (so-called »splitting«) fair?

Figure 10 illustrates the differences between countries with regard to the taxation mix. It shows the proportion of total state revenues provided by direct and indirect taxation and by social security contributions. The wealth tax, which counts among direct taxes, is shown separately in the figure.

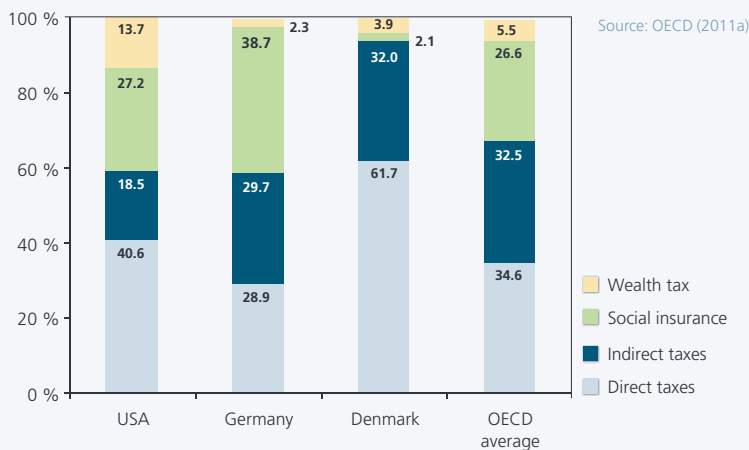


Figure 10: Tax structure in 2009

Tax burden on capital and labour

If one looks at how the tax burden is distributed between the economic factors of production it emerges that the burdens on capital and the two other factors – labour and consumption – are more or less equal in the Anglo-Saxon variety of welfare state. Things are rather different in the Scandinavian model, in which the tax burden on labour and consumption is around 50 per cent higher than on capital income. Capital therefore bears a disproportionately low burden with regard to the costs of the well-developed welfare state. The burden on labour is also high in the continental welfare state. In most continental welfare states, the difference between the tax treatment of capital and that of labour income is smaller than in Germany, however.

Germany: significant inequality with regard to taxation of capital and of labour

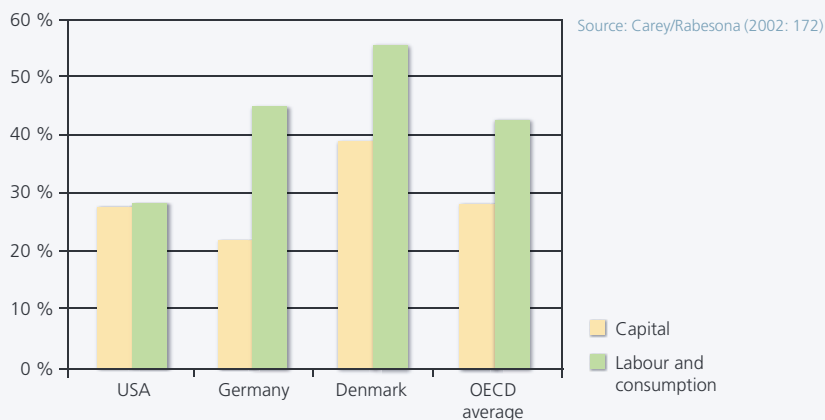


Figure 11: Tax ratios on capital and labour plus consumption (average values 1990–2000)

7.1.4. How Successful Are the Three Types of Tax State?

What are the effects of the various tax systems on achieving social policy aims? We now look at the distributive effects and then glance at growth performance.

Distributive effects in the Anglo-Saxon welfare state

Although the Anglo-Saxon type of welfare state is based on direct taxes that are progressive or at least – as regards corporation tax – proportional, the tax scale with regard to income tax is comparatively flat. The burden on capital and investment income, however, is high. This may appear surprising on the face of it, but in fact it is in keeping with liberal ideology, which is oriented towards individual performance, not status. However, it must be added that the overall tax ratio is low and thus the state has meagre resources at its disposal for social policy measures. We can therefore expect that the Anglo-Saxon tax state is characterised by comparatively unequal distribution.

Distributive effects in the Scandinavian welfare state

The Scandinavian welfare state relies to a large extent on direct taxes, which are sharply progressive and thus are intended to have a markedly redistributive effect. However, the burden on capital in relation to labour income is lower than in other states. Denmark has a so-called »dual income tax«, on the basis of which capital income is taxed at a proportional and lower rate than labour income. Capital income is largely taken out of progressive income tax. Furthermore, the proportion of regressive indirect taxes is high. Wealth taxes are medium-high. The overall tax ratio is high, however, which makes it possible to finance a very well-developed welfare state, based on pronouncedly redistributive programmes on the expenditure side (see Chapter 4). Overall, we can expect a high degree of income equality here.

Distributive effects in the continental welfare state

The continental welfare state is based in relatively equal parts on direct and indirect taxes. The tax scale pertaining to income tax is progressive and should therefore have a redistributive effect. Indirect taxes have a regressive tendency, but should not really counteract this effect; nor should the flat-rate social security contributions. However, wealth taxes are very low by international comparison and the burden on capital is low in relation to that on labour. The overall tax ratio is medium-high

*Expectation:
relatively high
inequality of
distribution*

*Expectation:
relatively equal
distribution*

*Expectation:
medium-high
inequality of
distribution*

and the welfare state that is financed from it is oriented rather towards status preservation than redistribution. We can therefore expect that the level of inequality is medium-high and lies somewhere between the United States and Denmark.

It appears that the actual distribution effects in the three countries conform to expectations.

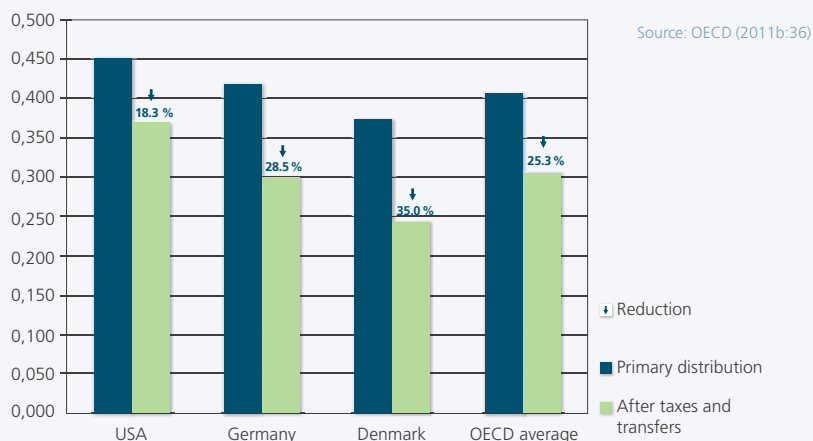


Figure 12: Distributive effects, late-2000s²⁹

Note: In Denmark, inequality of income has a Gini value of 0.37. Taking into account taxes and transfers, this falls to 0.24. Inequality, which is low to begin with, is thus further reduced by 35 per cent.

Income distribution in Denmark is not only »more equal« than in Germany, but income inequality is reduced more as a result of the tax and transfer system than in the other two countries. While the Gini coefficient pertaining to primary distribution – that is, the distribution of market incomes before tax and transfer payments – compared to that of disposable income after tax and transfers falls by 35 per cent in Denmark, in Germany it falls by 28.5 per cent and in the United States by only around 18 per cent. This means that a tax policy based on a high tax ratio, with a progressive tax system and a redistributive expenditure policy is able to achieve its distributive aims by means of such policies.

Expectations are confirmed: Denmark achieves the best distribution

²⁹ The Gini coefficient is a measure of equality. The values of the Gini coefficient lie between 0, indicating total equality, and 1, indicating total inequality (in other words, all income goes to one person).

Is greater equality achieved at the expense of economic growth?

The question therefore arises of whether governments have to give up economic growth in pursuit of their distribution goals, as the theory of the conflict of aims between justice and efficiency suggests.

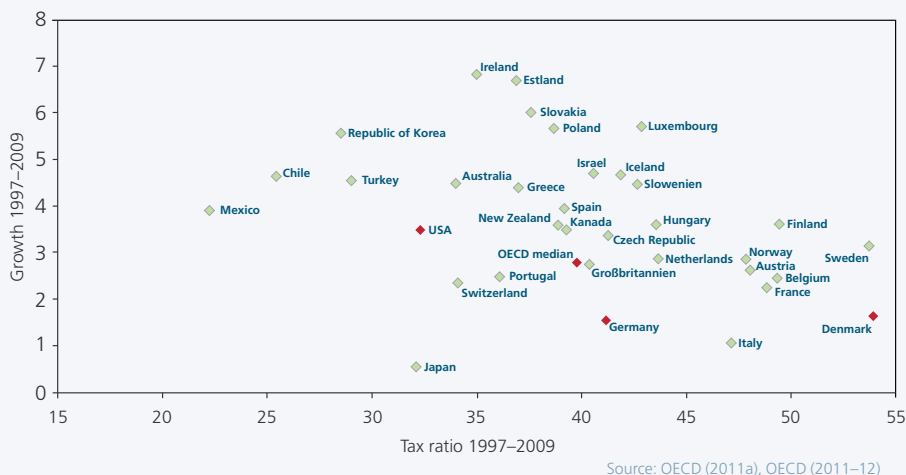


Figure 13: Tax rate and economic growth (1997–2009)

Note: In 1997–2009, Sweden, with an average tax ratio of around 49 per cent, achieved economic growth of around 2.4 per cent, while Japan, with a tax ratio of around 27 per cent, achieved economic growth of 0.4 per cent.

Relationship between the tax ratio and economic growth

As shown in Figure 13, there is no connection between the level of the tax ratio and economic growth. Low or high growth can be found in states with low taxes and in states with high taxes. A simple conflict of aims between efficiency and justice is therefore not confirmed empirically.

However, it cannot be concluded from this that taxes have no influence on economic growth. Certainly, other factors than the tax level have to be taken into consideration. The effect on growth of the tax and social security systems could also depend on how tax revenues are used and whether the social services provided in this way also have positive and productive side-effects (see Chapter 4).

Studies show: no direct connection

Influencing factor: what is the money spent on?

Another explanation of the relatively high growth rates of the high-tax Scandinavian states could be the lower tax burden on capital and a more growth-friendly investment climate.

Dual income tax and international tax competition

There are two reasons why it can benefit a state to levy low taxes on capital income, such as corporate profits. First, this can create a more favourable investment climate, with positive effects on economic growth; second, tax competition: a low tax burden can attract mobile capital from other countries.

The Scandinavian states have, for these reasons, introduced **dual income taxes** in accordance with which a lower rate is levied on capital than on labour income. However, many people consider such unequal treatment of different incomes to be unfair because it violates the principle of taxation based on ability to pay. Capital incomes, too, are ultimately an indicator of individual ability to pay. International regulation of tax competition is therefore needed if one wishes to maintain the welfare state and, at the same time, one wants the recipients of capital incomes to share the cost equitably (see Chapter 5.1. on Globalisation).

What does this mean for social democrats?

- The financing of social spending must follow the principle that strong shoulders can bear more than weak ones.
- A progressive income tax and the taxation of wealth are in line with this principle. Indirect taxes – such as VAT – and contribution systems, by contrast, are often regressive. Their burden on the vulnerable is disproportionately high.
- However, the distributive effects depend not only on progressiveness on the income side but also on what the money is spent on and how much.
- Social democratic states, with their tax and social systems, achieve relatively equal income distribution, without losing out in terms of economic dynamism.
- The participation of capital in financing social security systems can be improved if harmful tax competition is avoided by means of international cooperation.

Further reading:
Steffen Ganghof
(2004), *Wer regiert
in der Steuerpolitik?
Einkommensteuer-
reform zwischen
internationalem
Wettbewerb und
nationalen Vertei-
lungskonflikten*,
Frankfurt am Main.

Thomas Rixen und
Suanne Uhl (2011),
*Unternehmensbe-
steuerung europä-
isch harmonisieren!
Was zur Eindäm-
mung des Steuer-
wettbewerbs in der
EU nötig ist*,
Report for the
Friedrich-Ebert-
Stiftung, Bonn.

7.2. Labour

In this chapter:

- the German system of unemployment insurance is described and compared to the Danish and UK models;
- the three insurance systems are evaluated with regard to the various dimensions of justice;
- reform measures, such as the notion of »occupational insurance«, are explained.

*Unemployment –
more than a
loss of income*

Unemployment means more than just losing income from work and thus material losses. Unemployment is also often accompanied by self-doubt and worries about the future. If unemployment is prolonged, the lack of social recognition can also give rise to health and psychological consequences.

*Industrialisation
heightened prob-
lems related to
unemployment*

Origins of unemployment insurance

Poverty and hardship due to unemployment became an increasingly urgent problem in the course of the nineteenth century. Explosive population growth, migration into cities and the attendant weakening of the kinship and neighbourly relations characteristic of village life meant that loss of income went hand in hand with hardship to a far greater extent than during preindustrial times. The liberal spirit that pervaded the nineteenth century meant that healthy people who fell into poverty were regarded as lazy and work-shy, and assistance was provided for them in poorhouses, characterised by discrimination and sanctions: those who claimed poor relief even lost their civil rights and could no longer vote.

*Pressure of the
working class led to
social insurance*

In many European countries workers combined to form political parties at the end of the nineteenth century. In most countries, the establishment of social insurance, which gradually replaced the traditional poor relief, was a response to the social and political pressure imposed by the working class.

*First unemployment
insurance 1911*

Foundation of the first unemployment insurance in Great Britain

Thus the first state unemployment insurance was introduced. In 1911, Great Britain became the first country to introduce compulsory nationwide insurance. At first, benefits remained at subsistence level. The idea was, by means of low benefits, limited benefit duration, a waiting period and an obligation to look for work, to prevent abuse of the system.

Germany

While Germany led the world in the founding of state health and accident insurance – in 1883 and 1884 – compulsory unemployment insurance was introduced only in 1927. Until then, there had been only local insurance schemes organised by the trade unions and subsidised by municipalities.

The introduction of nationwide unemployment insurance in place of poor relief meant that the unemployed were no longer compelled to accept just any work. It was not in the interests of German employers to have extensive unemployment insurance run by the trade unions and eventually they called for an unemployment insurance scheme run by the employers and the employees themselves. This was introduced in 1927. Administration of the new insurance scheme now devolved upon the state, the trade unions and the employers.

Denmark

This model of compulsory state insurance has not been implemented in every country, however. In Denmark, unemployment insurance is still not compulsory. The trade unions administer unemployment insurance and so entitlement to unemployment benefit requires membership of one of the trade union–organised unemployment insurance funds. Between 75 and 80 per cent of Danish workers have unemployment insurance – and approximately the same proportion are trade union members.

However, it is not only with regard to who runs them that unemployment insurance schemes differ. A number of other features sometimes vary considerably between industrialised countries. This can be illustrated very well by comparing Germany, Denmark and the United Kingdom.

Level of unemployment benefit

The most frequently drawn comparison concerns the level and duration of unemployment benefit. In Germany, the level of unemployment benefit for unemployed persons with children is 67 per cent of previous net income and for all others, 60 per cent. However, this applies only up to the contribution assessment ceiling (gross 5,600 euros a month in western Germany and 4,800 euros in eastern Germany in 2012, totalling 67,200 or 57,600 euros a year). Maximum unemployment benefit for single persons is thus around 1,760 euros (western Germany) or 1,580 euros (eastern Germany). For people married with children

Germany: unemployment insurance came in relatively late (1927)

Denmark: voluntary insurance via the trade unions

75–80% are members of a trade union and thus insured

Varying amounts: Denmark 90%, Germany 65–67%

(in income tax category 3) maximum unemployment benefit is 2,300 (west) or 2,038 (east) euros.³⁰ In contrast, in Denmark unemployment benefit is 90 per cent of previous gross income – although there is currently an upper limit of around 2,100 euros per month (around 530 euros a week) and unemployment benefit is taxable. Unemployed low earners therefore receive more in Denmark than in Germany, while higher earners do worse.

*United Kingdom:
67.5 pounds a week*

In the United Kingdom there is a single rate, which was 67.50 pounds a week in 2012 (around 80 euros: for the under 25s the rate is 53.45 pounds or around 64 euros a week). There is a separate housing allowance. Unemployment benefit in the United Kingdom both conceptually (flat rate) and in terms of the amount paid corresponds to basic social security in Germany, such as unemployment benefit II («ALG II»). The coalition government of conservatives and liberals, however, plans a fundamental change of the British social security system. The so-called universal credit is to replace the bulk of social benefits and tax credits for low earners of working age, including unemployment benefit. The specific level of this »universal« social benefit remains vague; the first payments under the system are to commence in October 2013. The scheme is reminiscent of a basic income, but without being paid out unconditionally. Conditions depend on the particular category concerned: job seekers, participants in labour market programmes and so on. A key aim of the universal credit, furthermore, is to enhance the financial incentives to get a job by maintaining the entitlement to social benefit at a reduced level even for some of those in work.

*Major differences
in duration*

Duration of unemployment benefit

The differences in respect of benefit duration are even greater than in the case of the amount. In Germany, the duration of unemployment benefit depends on age and contribution periods. For all those under 50 years of age with at least two preceding years in employment subject to social security contributions duration of unemployment benefit entitlement is one year. For shorter periods of employment duration is between 6 months (one year in employment) and 10 months (20 months in employment). Those above 50 years of age are entitled to unemployment benefit I (ALG I) for up to two years (those over 58 years of age with at least 4 years previous employment subject to social security contributions).

30 At www.pub.arbeitsagentur.de/selbst.php one can calculate one's entitlement to unemployment benefit.

In the United Kingdom unemployment benefit is paid for a maximum of 6 months. After that, there is an entitlement to means-tested unemployment support, which has the same upper limit as unemployment benefit, but with stricter conditions attached. Savings are taken into account which, as in the case of ALG II, can mean a lower or even no entitlement. In Denmark, unemployment benefit was long paid for up to four years. After one year claimants normally have to prove they are actively seeking work or participating in training or further training. Denmark's liberal-conservative government reduced duration to two years in 2010.

Financing

The three countries also diverge as regards the financing of unemployment benefit. In Germany, 3 per cent of workers' wages are paid into the unemployment fund, with employees and employers paying half each, although only up to the contribution assessment ceiling of 5,600 (4,800) euros. In Denmark, the monthly contribution for someone in full-time employment in 2012 is around 63 euros (467.5 krona in the largest insurance fund, Dansk Metal), not including the further voluntary contribution for early retirement, which is around 60 euros a month. In the United Kingdom, there are no separate payments to the unemployment fund. There, 23.8 per cent (employees 11 per cent, employer 12.8 per cent) of the gross wage is paid as a flat-rate social («national») insurance contribution. From these resources, besides unemployment benefit, the state pension, the National Health Service, maternity pay and incapacity benefit are funded. There is also a ceiling in the United Kingdom – around 4,500 euros – and also a reduced rate of 13.8 per cent (employee 1 per cent, employer 12.8 per cent).

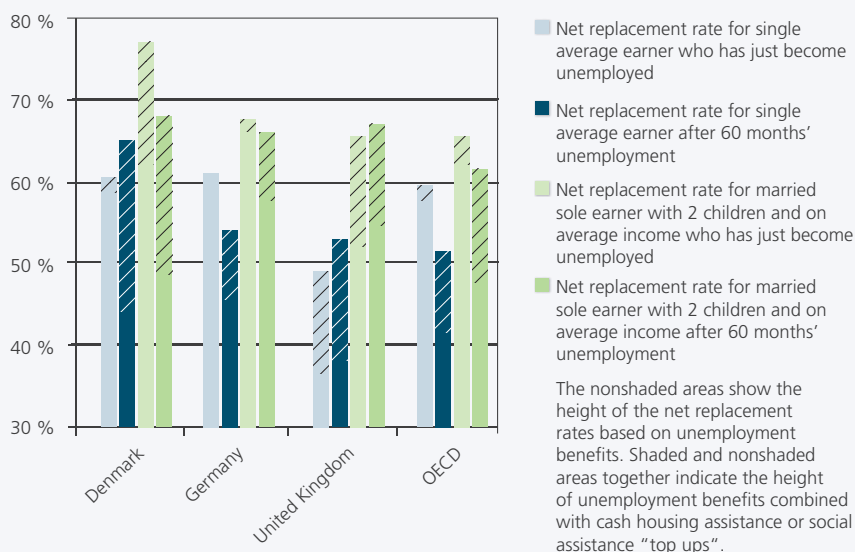
Level, duration and fairness

In both Germany and Denmark unemployment benefits are linked to previous earnings on a percentage basis. In Germany, contributions are levied as a percentage of the gross wage. The principle of commensurability is discernible in this approach (and also the equivalence principle): those who have paid more unemployment insurance contributions get more back if they become unemployed. In Denmark that is the case to only a limited extent: contributions are levied at a flat rate, while payments are oriented towards previous income. The principle of need is thus discernible here. Unemployed people have the possibility of seeking a new job while in the meantime maintaining their standard of living,

*Major differences
with regard to
financing*

*Principle of com-
mensurability:
Denmark, Germany*

albeit at a lower level, for a comparatively long period (at least previously: as already mentioned, in the wake of the financial crisis this has been reduced to two years). This regulation exists alongside a largely deregulated labour market, however, in which there is practically no employment protection. At the same time, these regulations have brought it about that the proportion of those who leave their jobs voluntarily and look for another employer is very high by international comparison.



Source: OECD

Figure 14: Net replacement rates by international comparison

Equality principle:
United Kingdom
(lower level)

In comparison to Denmark precisely the opposite principle may be found in the United Kingdom: contributions are income-related, but payments are at a flat rate. The idea of solidarity is thus stronger than in Germany and Denmark (those with »strong shoulders« pay more in but do not have a greater entitlement), but payments are at a lower level, sometimes significantly so. Thus this is a more low-powered form of solidarity. The new universal credit will also absorb a number of social benefits. The idea of commensurability is thus not realised; needs-based entitlement is also at only a rudimentary level.

In-payment period
not a criterion

These three different approaches raise the question, according to which principle of justice the level and duration of unemployment benefit should ideally

be determined? As the debate in the wake of the so-called Hartz Reforms has shown, many people take the view that those who have paid in for a long time should get more out of it. This has nothing to do with the logic of insurance, however: if someone breaks an expensive vase when they are putting on their coat at a neighbour's house liability insurance does not pay any more even if they have been paying contributions for a long time. If one accepts the logic of insurance also in the case of unemployment insurance a rule is fair if it replaces previous income at a certain rate. Thus the question remains of the structure of contributions. Because in most instances people do not become unemployed voluntarily – and in the case of self-caused dismissal there is a three-month period of suspension – unemployment is treated as a general life contingency for which society as a whole is supposed to step in on the basis of collective solidarity. From this perspective, income-based contributions, as in Germany, are fairer than a flat rate. Contribution assessment ceilings annul precisely this solidarity-based funding approach, however, because in the German system precisely that part of the population is exempted from solidaristic contributions who are at less risk of becoming unemployed in any case.

For the length of time unemployment benefit is paid there is no reason for graduation in accordance with contribution periods - beyond a minimum employment period in order to ensure no incentive for abuse is given inadvertently. What other arguments and criteria favour limiting entitlements?

In Germany, the level of earnings was long guaranteed life-long in the event of unemployment: after income-related unemployment benefit in the first year one was entitled to a lower, but still income-related unemployment support, which was paid indefinitely (although based on means testing). The combining of unemployment support and income support in unemployment benefit II (ALG II) meant that after 12 months only the basic social security (ALG II or Hartz IV) is paid. Older people have been granted a further 8 months since February 2006, which was extended in 2007 for different age groups to 12 months (up to a total of 24 months, in other words). Even though this does not correspond to the equality principle it can be justified on the grounds of equal opportunities. The labour market opportunities of older unemployed people remain significantly worse. In order to compensate the older unemployed for this lack of opportunities, which is not their fault, such extended duration is certainly justified. Based on principles of justice it is hard to decide how long unemployment

What else?

benefit unrelated to income should be paid, however. The restriction to one year within the framework of Agenda 2010 was felt to be unfair by many people, as a kind of sword of Damocles, forcing those affected after a year of unemployment to use up virtually all their financial reserves (provision for old age) or representing a massive direct financial blow.

Two important questions

Against the background of limited financial resources restrictions may be necessary. On the other hand, the incentive debate - according to which a not inconsiderable portion of the unemployed are coddled by social security - can be generally dismissed. Although after the introduction of the Hartz Reforms the unemployment rate fell this has been accompanied by a massive increase in precarious employment. The proportion of long-term unemployed has not fallen significantly, however, although they have been exposed to strong financial »incentives«. The two questions that arise affecting society as a whole, however, are: (i) how long do we want to give job seekers to find another job before compelling them to accept any job offer? An annual graduated reduction of income-related entitlements over a period of two to three years would seem fair to most people in contrast to the current regulations and could also be funded, for example, by abolishing contribution assessment thresholds. Second: how high should basic protection be for people who are unable to find a job during this period? This concerns the question of the level of ALG II, which many regard as too low.

Rights and obligations

Persons with sufficient contributions, therefore, currently receive another six months in the United Kingdom (following unemployment support at the same level), in Germany one year (if the recipient is under 50 years of age) and in Denmark two years unemployment benefit. However, these figures overlook the fact that in all countries receipt of unemployment benefit is tied to certain conditions, which for a number of years have been known as »rights and obligations« or »activating labour market policy«. The basic condition for receiving unemployment benefit in all countries is that one is actively seeking work. Should this prove unsuccessful, unemployed persons may be obliged, at various points, to comply with further measures. In Denmark, this is the case after one year, in the United Kingdom after 18 months (for young unemployed after one year), while in Germany there is no established period, although at the latest on expiry of a person's entitlement to unemployment benefit – in other words, after one year – conditions are made more stringent.

Payment conditions

Reintegration

In all three countries the unemployed are obliged to participate in special programmes that are supposed to help them to reintegrate in the labour market. The time period in which the unemployed can seek new employment without being subject to direct pressure is 12 months in Germany and 18 months in Denmark. If their job search is unsuccessful the Employment Office can compel job seekers to participate in programmes that are supposed to improve their chances of getting a job («activation»). The content of such programmes differs significantly in the three countries.

In the United Kingdom, these programmes were called the «New Deal» under the Labour government. They have subsequently been reformed under the title «Work Programme» and it is foreseen that the unemployed must enter into an agreement with the employment office in which they assent to certain obligations. If the unemployed do not meet these obligations unemployment support or probably from 2013 universal credit will be cut.

In Denmark, education/training is the focus of such programmes. These are time-intensive and prolonged schemes, however. Not only short-term training options are available, but also state-supported training within the framework of the «regular» education/training system. Although there is subsidised employment here too it must always be in connection to some sort of further training measure. Job rotation with employees taking a temporary sabbatical is also possible. Specific promotion of the low wage sector within the framework of the labour market programme was expressly rejected, however. Individual programme selection takes place within the framework of binding activation plans. Participation in these activation plans themselves, however, is not voluntary, but a condition of further receipt of unemployment benefit.

There are also agreements between the employment agency and job seekers in Germany. It was attempted within the framework of the Hartz reforms to redefine the rights and obligations of the unemployed. The range of options and thus also rights was expanded, but together with an increase in the pressure to take up these options. Training measures and further training courses are possible, but they are not the focus of active labour market policy. More important are such instruments as recruitment grants, start-up grants for the self-employed or the so-called 1-euro jobs for the long-term unemployed, in other words, work

*Different orientation
of reintegration
programmes*

*«New Deal» in the
United Kingdom*

*Denmark: educa-
tion/training central*

*Germany: integra-
tion agreements*

opportunities involving the public benefit and by means of which the unemployed can be brought back into the labour market (for this purpose, on top of Unemployment II, an extra payment is made, from which the name »1-euro job« developed).

Expenditure on active labour market policy 2009

Expenditure on education/training per unemployed person (in euros)	Denmark	Germany	United Kingdom	EU-15
	15,819.97	10,353.49	2,336.58	7,801.28

Source: Eurostat; authors' calculations.

Expenditure on training and further training

Although Germany's expenditure on training and further training is above the EU15 average and significantly higher than UK expenditure for that purpose, it is significantly lower than that of Denmark. At first sight, this appears to have little to do with the question of fairness. However, if one takes into account the distribution of the unemployed in accordance with level of education the fairness problem becomes evident. The risk of becoming unemployed is more strongly related to education in Germany than in scarcely any other Western European country.

Unemployment rates 2010 by level of education

	Lower secondary	Upper secondary	College/university
Germany	15.1	7.0	3.2
Denmark	11.3	6.9	4.8
United Kingdom	4.1	8.3	4.1
EU-15	16.1	8.6	5.5

Source: Eurostat

The risk of unemployment in Germany is unequally distributed. This situation is even underestimated in the 2010 figures because the labour markets of almost all other European countries have been hit much harder by the financial-market and subsequent economic crises than Germany. Thus in the precrisis year 2007

Particularly good:
Denmark

Germany: Risk of
unemployment
extremely unequal

the unemployment rate among the low qualified in Denmark was only 4.2 per cent and in the United Kingdom 6 per cent, but in Germany by 17.7 per cent! In all Western countries the low qualified are much more affected by economic crashes than the better qualified. Because a poor education increases the risk of being affected by unemployment and because unemployment increases the risk of having an inadequate income in old age, this situation fundamentally contradicts the principle of equal opportunities. For that reason, state programmes for labour market reintegration should be improved, especially with regard to the education of the unemployed. Even arranging a new job for those with low qualifications carries a significantly higher risk that they will soon be unemployed again. Sustainable support, by contrast, would require dealing with the causes.

Equality of opportunity therefore requires that particular support be given to those unemployed persons whose chances on the labour market are lowest. It is perfectly natural that society tries to ensure that support services are not abused and corresponds to the principle of »incentives and requirements«. The relationship between incentives and requirements, however, can turn out to be very different, however, as the three countries demonstrate.

In the United Kingdom, the focus is definitely on requirements, while in Denmark, although the obligatory character and threat of benefit cuts is no less unpleasant, what is offered is of considerably higher quality. What is more, the focus on education/training means that an unemployed person's chances on the labour market are permanently improved. In Germany, the reforms of recent years have put much greater emphasis on requirements, although there have also been attempts to improve incentives. However, decisive action has not yet been taken with regard to the education/training situation of the unemployed, although this is more urgent in Germany than in any other European country.

The concept of employment insurance

Training and further training should not kick in only when someone loses their job, but should play a role throughout their working life in order to maintain employability and to try to ensure that they do not become unemployed in the first place. Further development of unemployment insurance into employment insurance would be an important step in this direction. Not only the income risk that comes with unemployment, but also those that come with risky transitions should also be insured against. Not only work, but also such transitions must

»Incentives and requirements« – various routes

Preventive: employment insurance

Not only work, but also transitions must be worth making – three elements

be worth it. Just as, in relation to retirement insurance, the division into three of social security systems has proved itself, an expansion of unemployment insurance into a three-pronged employment insurance would be more in keeping with the contingencies of the modern world of work.

*First, universal
basic provision*

First, universal basic provision (for the details, see below), largely corresponding to ALG II but more poverty-resistant, should be organised. It is universal in the sense that all persons able to work are entitled to it without conditions (besides need) and it ensures a standard benefit level, which means that it must be tax-financed.

*Second, wage-
related income
protection*

Second, wage-related income protection in the event of involuntary unemployment, largely corresponding to ALG I, but reduced to its core function and including all those able to work, regardless of employment status.

*Third, lifecourse
orientation*

Third, a lifecourse-oriented labour market policy that would have to perform three functions beyond current active labour market policy: first, public or publically funded *labour market adjustment* (for example, advisory and support services to re-integrate the unemployed in the labour market and support for employers in filling vacancies) that, besides job placement, offers labour market services that, on the supply side, promote sustainable employment careers and, on the demand side, provide personnel support, especially for small and medium-sized enterprises; second, *employment promotion* which, by means of further training, wage supplements or various kinds of transitional employment, complements a macro-economic employment policy that creates or maintains jobs; third, a *working life policy* that safeguards those undertaking risky transitions within the world of work or between work and private life, based on personal development accounts and supplementary private or collective agreement-based provisions (such as further training funds, long-term working hours accounts or learning accounts).

Further reading:

Günther Schmid
(2008), *Von der
Arbeitslosen- zur
Beschäftigungsver-
sicherung*, Friedrich-
Ebert-Stiftung (ed.),
Bonn.

*Often discussed:
basic income*

The concept of basic income

One proposal that often crops up in the policy debate is basic income, concerning which there are a number of approaches. A basic income is a form of guaranteed minimum income. In contrast to income support, the idea is that all citizens, regardless of income from employment or other sources, receive a basic income. It is thus not subject to conditions such as work or willingness to work.

There is a whole series of proposals on how a basic income should be organised. They differ, for example, in respect of level, mode of financing, the extent to which other social benefits should be replaced and many other details.

The intentions underlying the various proposals also differ. For example, neo-liberal proposals are aimed primarily at increasing the incentives to work in the low-wage segment and to reduce non-wage labour costs by means of a low basic income beneath the subsistence minimum or a negative income tax.

Other proposals are based on a much higher basic income aimed primarily at increasing the independence of employees and redistributing work. Under this model it is possible to refrain from gainful employment. A part-time work model that takes in society as a whole, with strong employee rights, could lead to social emancipation from market forces. However, there are many other variants between these extremes.

When asked »what do you think about the idea of a basic income?« one's initial reply must therefore be »which kind of basic income do you mean?« In each case, a basic income above the subsistence minimum would have far-reaching consequences for the other social policy programmes, not to mention the tax system.

Not least, considerable labour market policy consequences could be expected. In other words, key areas of our economic and social system and thus of our social order would probably undergo massive changes. A broad social consensus would be required in order to bring about such changes. The very variety of the proposals on the basic income shows that such a consensus is currently not in sight.

For social democrats this means:

- a strengthening of active labour market policy;
- financial and qualitative upgrading of training and further training;
- development of unemployment insurance into employment insurance;

Further reading:
Björn Wagner (2009), Das Grundeinkommen in der deutschen Debatte. Leitbilder, Motive und Interessen, Friedrich-Ebert-Stiftung (ed.), Bonn.
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7.3. Pensions

In this chapter:

- the German system of pension insurance is described and compared to those of Denmark and Sweden and the UK model;
- the four insurance systems are evaluated with regard to the different dimensions of fairness;
- reform measures, such as a capital-funded approach, are explained;
- reform proposals for contribution-funded pensions are discussed.

Like unemployment insurance, pension insurance is a core element of state social policy. It represents the biggest item of expenditure of most industrialised countries and was introduced before unemployment insurance.

Origins of pension insurance

Germany led the way in 1889 by introducing state pension insurance. By the 1920s, most industrialised countries had introduced such a system. However, Germany's pension insurance at that time cannot be compared with the current system.

The first major difference concerns retirement age and average life expectancy. Retirement age was 70, but of 100 persons born between 1871 and 1880 not even 18 would reach the age of 70. Average life expectancy of a 15 year old was 42.3 years at that time. Only a small number of working people benefited from the pension system.

A second difference is that the pension system at that time was not contribution-funded, as it is today, but rather capital-funded. This meant that the pension system practically collapsed during the period of high inflation in the 1920s. After the Second World War, for the second time in the short history of the German pension system, capital reserves had again been annihilated.

1957 reform in Germany

Until 1957 the basic formal structure of the old pension system was retained, which meant that after the war a large part of pension claims had to be financed from the state budget. With the pension reform of 1957 the contribution-based

*Germany: first
pension insurance
(1889)*

*One major differ-
ence from today: life
expectancy*

*Pensions at first
capital-funded:
collapses in the
1920s and after the
Second World War*

*Since 1957,
contribution-based
(intergenerational
contract)*

Intergenerational contract: political term for the basic principle of statutory pension insurance in Germany, according to which the currently working portion of the population – as a rule, »dependent« workers – bears the cost of the pension payments of those no longer working; in other words, the pension contributions paid in the course of a working life do not add up to a capital stock from which a pension is paid at a later date, rather the contributions paid bestow an entitlement to a pension on the contributor. (Das Politiklexikon 2011: 121)³¹

system was introduced that is still in place today. Current pension claims are therefore paid from the current contributions of employees (inter-generational contract).

Another key element of the 1957 reform was the adjustment of pension levels to overall income development. Pension levels were coupled to wage development: first to gross wages and from 1992, due to cost increases, only to the net

wage. Pensioners thus benefitted from economic growth, which at that time led to rising wages.

Up to the end of the 1960s general pension insurance was gradually expanded to include (dependent) employees and self-employed craft workers and since 1972 housewives and the self-employed have also been able to make voluntary contributions and claim pensions. In recent years, other restructuring measures have been introduced. Since 2003, there has been basic old-age provision for persons without adequate pensions, replacing the previous income support.

Since 1 January 2012, it has been 374 euros a month. With the state-assisted »Riester pensions« (a form of private pension provision), since 2001 there has also been a private, funded pillar of pension provision, directly subsidised by the state. By the end of 2011 over 15 million Riester policies were concluded. The contribution-financed state pension insurance still forms the core of old-age provision for most people in Germany, however.

In 2004, a sustainability factor was integrated in the pension formula that takes into account the number of pensioners and the number of contributors and, based on given demographic developments, results in lower pension increases. If the sustainability factor would result in falling pensions, the "Rentengarantie" (pensions guaranty) takes action. That means, that an arithmetically required falling of the pensions is absorbed with potential future increases. The so-called standard or »benchmark« pensioner, who for 45 years received the

Further reading:

Ellen M. Immergut, Karen M. Anderson and Isabelle Schulze (eds) (2007), The Handbook of West European Pension Politics, Oxford.

Gradual expansion of statutory pension insurance

Since 2001 additional »Riester« pension

Sustainability factors since 2004

³¹ We would like to thank the publisher J. H. W. Dietz Nachf., Bonn, for permission to use various entries from its *Politiklexikon* (Klein/Schubert 2011).

average income and retired on 1 July 2011, receives 1,236.15 euros in western Germany and 1,096.65 euros in eastern Germany. The average pension payment under the statutory old-age pension as of 31 December 2010 was 963 euros (men) or 502 euros (women) in western Germany and 1,010 euros (men) or 703 euros (women) in eastern Germany. The higher average pension in eastern Germany is the result of longer periods of employment in the former Democratic Republic (East Germany). Because many workers in western Germany receive a company pension, however, the pension level there is higher than in eastern Germany.

*Three pillars of
old-age provision*

The first element of pension insurance in Germany, therefore, is basic state insurance, in addition to which there is the obligatory income-related state pension insurance. The third pillar comprises voluntary private pension insurance and company insurance. In most countries old age provisions are based on these three pillars: (i) basic protection regardless of previous earnings, (ii) a compulsory income-related pension insurance and (iii) options for voluntary private provision. The arrangements and relative significance of the three pillars can be very different, however.

*First element:
tax-financed basic
pension*

»National pension« and company pension in Denmark

In Denmark, the primary source of income for pensioners is the so-called »national pension« (*»folkepension«*). In 2012, this basic pension was 5,713 kroner (around 765 euros) a month and it is entirely tax-funded. Every Danish citizen who was resident in Denmark for at least three years between the ages of 16 and 67 is entitled to this pension. Foreigners have to have been resident in Denmark for at least 10 years, including the last five years before drawing a pension. For each year of residence one obtains entitlement to one-fortieth of the basic pension, so that after 40 years' residence in Denmark one receives the full national pension. For pensioners who have no other pension income, there is a means-tested additional allowance on top of the national pension, which in 2012 stood at a further 5,933 kroner (around 795 euros) maximum for single persons.

*Second element:
ATP pension
(funded)*

The second element of the state pension insurance is the so-called »ATP pension«. The maximum ATP pension in 2012 was a maximum of 24,800 kroner a year (around 277 euros a month) and is calculated on the basis of the number of years of work and weekly hours. Contributions – also graded in accordance with weekly working time, around 36 euros a month for full-time employees – are paid one-third by the employee and two-thirds by the employer. The contributions are administered by the private business ATP, which is under legal supervision. The ATP pension is therefore a funded system.

The income-related pension pillar in Denmark comprises company pensions, which take in around 90 per cent of employees. Because they are now a component of almost all collective agreements they are not far away from being compulsory insurance. The contributions – one-third employee, two-thirds employer, totaling on average around 15 per cent of the gross wage – are invested in state controlled capital funds.

*Third element:
company pensions
(90 per cent of
employees)*

The Swedish pension system

There is also a basic pension in Sweden which is financed from general tax revenues, to qualify for which one needs to be resident in the country. If one has lived at least 40 years in Sweden and receives no pension payments from the other state pension schemes (see below), in 2012 single persons were entitled to the full »guaranteed pension« of 7,810 kroner a month (around 880 euros) on top of which housing benefit can also be claimed. Incomes from private or company pension insurance do not reduce the entitlement to the guaranteed pension, although it is taxable.

*First element:
tax-financed basic
pension*

The second element of Swedish pension insurance is a contribution-financed income-dependent pension. Of the pension contributions of around 18.5 per cent 7 per cent is paid into the pension fund by the employee and the rest by the employer. There is a contribution assessment ceiling (in 2012 409,500 Swedish kroner or around 46,000 euros a year), above which employees pay nothing and employers only 50 per cent of the pension contribution. For incomes above the contribution assessment ceiling, however, no pension entitlement is acquired. In due course, pension claims arise from the payments, which are adjusted to wage development and inflation. Furthermore, the relationship between contributors and pension recipients is contained in the pension formula. An increase in the number of pensioners, therefore, leads automatically to pension cuts. In 2011 the average income-related state pension was around 1,250 euros a month.

*Second element:
income-related
contributions*

The third element of statutory pension insurance in Sweden is the so-called premium pension: 2.5 per cent of the 18.5 per cent pension contributions flow into state-regulated capital funded pension funds. Employees are free to choose among the funds. In contrast to Germany's Riester pension, employees in Sweden are thus obliged to invest a (small) amount in a capital-funded pension pillar.

*Third element:
capital-funded
(compulsory)*

Pensions in the United Kingdom

First pillar: basic state pension

The UK pension system has a two-part first pillar. The first part of the basic provision is the »basic state pension«. All British citizens who have paid contributions for at least 10 years are entitled to this. The full basic pension is 107.45 pounds a week (around 525 euros a month) in 2012/2013, but this is received only by men with 44 contribution years and women with 39. For men born after 1945 and women born after 1950 the number of necessary contribution years falls to 30 years for the full basic pension. Those without sufficient contribution years are dependent on means-tested income support for pensioners. This second part of basic provision is called »pension credit« and provides pensioners with a weekly income of 137.35 pounds for single persons and 209.7 pounds for couples (2011/2012): that is around 673 and 1,028 euros a month.

Second pillar: contributions (voluntary)

Income-related pension, the second pillar, comprises either a state contribution-financed pension or a company or private pension. The state pension – the so-called »state second pension« – is funded through social security contributions from incomes starting at 5,304 pounds per year (around 6,500 euros) as of 2011/2012. The pension level is calculated on the basis of income from a complete working life (hitherto that has been 49 years, but with the rise in the pension age to 67 this gradually rises to 51 for those born after 1960). Up to an income of 14,400 pounds (around 17,650 euros) one's entitlement is to a flat rate of 3,638 pounds a year (around 4,460 euros). For portions of income between 14,400 and 32,592 pounds (around 17,650 and 40,000 euros) one receives additional entitlements of 10 per cent, while for income between 14,400 pounds and a ceiling of 42,475 pounds (between around 17,650 and 52,000 euros) one receives between 10 and 20 per cent additional entitlements. The pension is reduced in accordance with any gap years out of the 49 possible contribution years.

In particular, low earners with incomes below 14,400 pounds benefit from the flat rate of the »second state pension«: for those with higher incomes the state pension is less attractive.

Alternative: private or company pension

However, this second pillar of state pension provision is not compulsory. It is possible to take out a private or company pension instead (»contracting out«). In that case, one pays lower social insurance contributions and the state supports this with further tax concessions. Contracting-out in the pension fund, which does not guarantee a fixed pension (defined contribution) will no longer be possible from 2012.

Pension systems and principles of fairness

The first pillar of pension insurance, as basic provision, corresponds to the principle of needs-based fairness, because this concerns material social security for people who have no – or inadequate – pension entitlements. One major difference between countries concerns whether they pay a universal flat rate to all pension recipients (Denmark) or whether the basic provision entails a means test, which means that only pensioners whose pension entitlements are too low (United Kingdom, Germany and Sweden) are covered. Another difference concerns the level of basic provision: In Denmark and Sweden it is around 400 to 500 euros a month more than in Germany, but one has to take into consideration the sometimes much higher living costs in these countries. Nevertheless, basic protection is at a higher level there. Comparing Germany, Sweden and Denmark this is not reflected in the proportion of pensioners who receive less than 60 per cent of the average income. This is still comparatively low in Germany because the current generation of pensioners mainly have continuous work histories. However, in future more and more people will reach pensionable age who will have experienced long periods of unemployment or of marginal employment and thus will not have accumulated adequate pension entitlements. For a growing number of people the level of basic protection in old age is becoming more and more important. It is evident that the so-called »poverty gap« – the gap between the income of the poor and the poverty line – is much bigger in Germany than in Denmark

The **at-risk-of-poverty rate** is the proportion of people with a disposable income of less than 60 per cent of the national median income. The **poverty gap** shows the extent to which people are aimed at risk of poverty. This value is based on the average income of persons at risk of poverty as a percentage of the poverty threshold. The poverty gap is thus greater the wider the gap between the income of the poor and the poverty threshold.

or Sweden. The increasing gulf that has opened up on the labour market between regular and precarious employees thus in future threatens to divide the pensioner generation into those who live on the low basic protection and wealthier pensioners who besides the statutory pension also have private provisions.

At-risk-of-poverty rates and poverty gap 2010

EU-15	17.9 %	16.0 %
Denmark	18.4 %	11.7 %
Germany	14.8 %	16.6 %
Sweden	15.9 %	10.7 %
United Kingdom	22.3 %	19.2 %

Source: Eurostat

*First pillar:
needs-based
fairness*

Basic pension provision is financed in all countries via general tax revenues. Basic provision therefore has a relatively strong redistributory character: higher earners pay more taxes during working life, but receive no benefits (Germany, Sweden and the United Kingdom) or only as much as (Denmark) previously low-income pensioners. Furthermore, there is also redistribution between the generations: basic pension provision is paid from taxes paid predominantly by those still working.

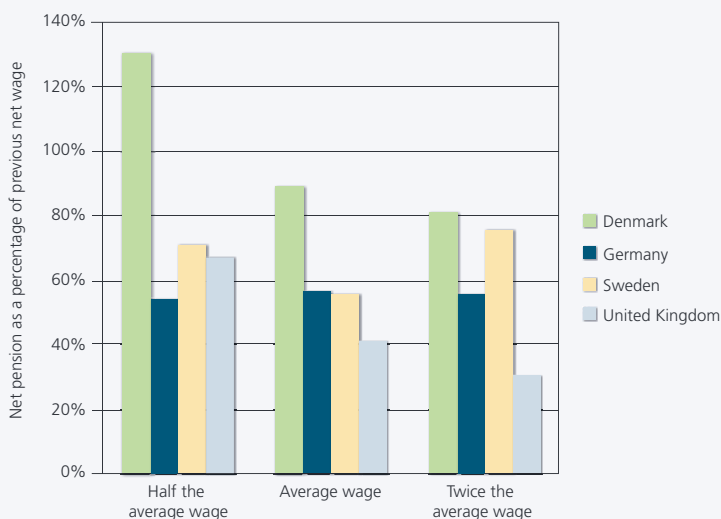
*Second pillar:
commensurability*

The second pillar of pension provision is an income-dependent pension. Thus under this pension pillar primarily the principle of commensurability is taken into account. The benefit is calculated mainly in accordance with how long someone has worked and how high their income was. In Germany and Sweden this part of old age provision consists of a state-organised assessment system (which currently employed people pay for current pensioner generations), while in Denmark there is a funded pension scheme administered by a private company (and regulated by the state), as well as a virtually compulsory company pension. In the United Kingdom, in contrast, there is a choice between a state pay-as-you-go pension scheme and a funded company pension scheme.

Redistribution between different income groups, naturally, takes place under this pillar to a much smaller extent than in the case of basic pension provision. However, within the framework of state pension provision pension entitlements can also be granted for periods during which people did not have a job if these periods are regarded as »socially desirable«. Thus in Germany up to 2005 time spent in school or college from the age of 17 was included. Periods spent bringing up children – up to 36 months – are still added to individual pension accounts, based on the average earnings of all insured persons. The nursing care fund pays state pension contributions for periods spent providing nursing care under certain circumstances. In this way state pension provision is able to remunerate activities that are not paid on the labour market. Furthermore, other life contingencies are covered by the incapacity pension and the survivor's pension.

*Pension levels in
comparison*

The effects on pension levels in comparison to previous income of the different arrangements of the first and second pillars in the four countries are presented in Figure 15.



Source: OECD (2011c)

Figure 15: Pension levels in comparison to previous income

Note: In Denmark (green bar) pensioners previously on half of average earnings during their working life receive a net pension of around 132 per cent of their last net wage. If they were on average wages, they receive around 90 per cent and those on twice the average wage receive around 80 per cent of their last net wage as net pension.

This figure shows how high the pension is in the four countries for three different income groups. Absolute pension amounts are not shown, but rather as a percentage of income during working life: as the net replacement rate of earlier income. It can be seen, for example, that in Denmark for all three income groups the pension level in comparison to previous employment income is higher than in the other three countries. Also very informative is a comparison between the three different income groups. This demonstrates that in Germany – and to some extent in Sweden – there is virtually no redistribution within the pension system: all three income groups receive around 57 per cent of their previous income. It is fair to describe this as straightforward commensurability. In Denmark and even in the United Kingdom the net replacement rate for low earners is higher than for average and higher earners. In these two countries there is thus redistribution within the pension system. Although low earners receive a lower pension than

Pension levels: low earners in Germany comparatively worse off

average and higher earners, in relative terms they receive a higher proportion of their earlier income. This could be described as a solidaristic mix of needs-based fairness and commensurability.

Higher minimum pension can prevent old-age poverty

Improving the position of low earners in the German pension system seems to be necessary in order to avoid an increase in old age poverty. Even more so because in the coming years two trends will converge: on one hand, the low level of German basic protection in old age, and on the other hand, the increasing number of pensioners without continuous work biographies and with incomes too low for the income-related pension. Better protection of this category is to be achieved primarily by reform of the minimum pension rather than by means of an income-related, pay-as-you-go financed component.

Debate: how much capital coverage?

Debates in recent years, however, have centred on the arrangements of the second pension pillar. The main question is whether and to what extent a capital-funded pension should replace or supplement the contribution-financed pension.

Advantages and disadvantages of a capital-funded pension system

»Now, the simple and clear proposition applies that all social security and welfare expenditure must be borne by the current aggregate national income. There is no and has never been any other source from which social expenditure could derive. There is no accumulation of funds, no transfer of income portions from period to period, no ›savings‹ in the private-economy sense, but nothing other than current aggregate national income as a source for social expenditure. ... Capital accumulation procedures and contribution procedures are thus not so different in nature.« (Mackenroth 1952: 41)

This quotation, which has become famous as the **»Mackenroth thesis«**, is still disputed. It implies that pensioners' consumption is made possible only by current workers' forgoing consumption, regardless of the funding model in place. Even in the case of a capital-funded pension later pensioners are ultimately dependent on a younger generation buying their securities so that pensioners can live from the proceeds. Otherwise, securities (shares, bonds and so on) would find no purchasers and would not be worth anything. The level of the capital-funded pension also depends on the demographic and economic situation of current workers. The contribution-based system is no different: here too the level of payments for the current generation of pensioners is dependent on the payments of those currently employed.

If either the number or the wages of contributors falls (or both), the revenues of the contribution-funded pension scheme fall and thus pensions fall too.

Some economic theories now show that it is definitely possible through savings – in other words, the formation of a capital stock – to positively influence future economic growth. In this way the securities of the older generation increase in value. Among advocates of capital-funded old-age provision this is considered an argument in favour of expanding capital coverage. In the case of contribution-based funding nothing is saved because the contributions of the young are paid out directly as transfers to the old. However, other analyses show that the growth in the capital stock that accrues for succeeding generations arises from income losses of the generation that built up the capital stock. It is also to be expected that, given the international trend towards capital-funded pensions and the related growth of pension funds that has been seen in the past decade, meaningful and secure investment opportunities will only diminish. (Incidentally, that is also an aspect overlooked by the protagonists of a massive repayment of public debt!). Overall, there are also doubts about whether and to what extent funded pension insurance offers advantages.

Besides the disagreement concerning the overall economic effects of a capital-funded pension provision, however, there are specific risks connected to it. As in recent years the financial and economic crisis has shown clearly, there are a number of risks: falling prices (market price risk); debtors no longer able to meet their payments (risk of default); rising inflation as a result of which the real value of financial investments falls (inflation risk); and, in the case of foreign investments, exchange rate risk. These risks are set against the expectation of higher returns. International equity funds in the past 20 years, before the outbreak of the financial crisis, realised an average nominal return of 6.5 per cent (Breyer 2000).

The yield of a contribution-financed pension basically corresponds to the development of total wages. This results from the fact that pensions are funded from the contributions of current workers. If the number of workers or the wage increases, significantly more can be paid out than pensioners paid in during their working lives. If the number of workers falls, real wages fall; if the number of pensioners rises, pension levels must be reduced. Calculations by the German Pension Insurance Association show that nominal

yield for retirees in 2008 for single men was around 3.5 per cent and for women and married men around 4.1 per cent (with 45 contribution years on average income and average life expectancy). For retirees in

Nominal yield: The sum of contribution payments is set against the sum of pension payments. A yield of 4.1 per cent thus means that someone paying in 100 euros receives 104.1 euros pension. Price developments are not taken into consideration – in that case, it would be the real or effective yield. Quoting the nominal yield is the usual practice when calculating yields on capital investments.

Specific risks must be borne in mind

Yields under a pay-as-you-go system

2020, 2030 and 2040 yields are lower, at around 2.8 per cent for single men and 3.3 per cent for women and married men (German Pension Insurance Fund 2009).

Yields of capital-funded pensions

This means that it is likely that the return of a capital-funded pension will be greater than that of a contribution-funded pension. Because we are dealing with probabilities, however, there is also the danger that pensions will be even lower. Stock markets, even taking a long-term view, constantly experience periods of negative returns. In the worst case, savings can even become entirely worthless. Of course, it is possible to insure against this, but the premiums for such insurance in turn significantly reduce the return advantages of capital funding. Alternatively, the state can make guarantees – in reality, however, this would be pay-as-you-go funding because state support for pensioners would have to be financed chiefly from the taxes of current workers.

How much capital funding?

The question arises whether the hopes of benefits in terms of yield justify taking the attendant risk – and in particular at the level of society as a whole, because it is not a matter of the free decision-making of individuals concerning their investment strategies but rather of the construction and incentive structures of state provisions for old age. The answer undoubtedly also depends on the extent to which a capital-funded pension should contribute to the overall pension. In Sweden, 2.5 per cent of pension contributions are invested in a capital-funded pension. The proportion is thus comparatively low. In Germany, too, where 4 per cent of gross earnings must be invested in order to benefit from the state subsidy, at first glance the level in question seems to be reasonable.

Problematic: voluntary

However, the voluntary character of the capital-funded pillar is problematic. This is because the additional savings involved will tend to favour those on higher incomes and can thus more easily afford the 4 per cent of gross wages.

Basically, this concerns a state-subsidised, voluntary and additional pension contribution of 4 per cent which in particular benefits those for whom the additional contribution does not pose a problem. In fact, it is rather average and higher earners who benefit from state subsidy.

The aim of the capital-funded Riester pension was to compensate for the long-term fall in statutory pension provision. In a spirit of equal treatment it seems advisable to make this pillar compulsory. Given the attendant risk, it also makes

sense not to raise the magnitude of capital coverage above the current 4 per cent. This argument is primarily related to intergenerational justice. The consequences of a crisis affecting capital-funded pensions in solidarity-based societies must also be borne by taxpayers, as a result of which the contribution-paying generation becomes subject to a double burden.

The basic question arises, however, of how long the Riester pension should be retained in its current form. Research has shown that the returns on Riester pensions are extremely low. Thus women who took out insurance in 2001 have to reach 78.4 years old before they get back what they paid in (men have to reach 76.8 years of age). For a return of 2.5 per cent they would have to reach 90 years of age (men 85.8 years) and they would see a return of 5 per cent only if they lived to an unprecedented 127.9 years of age (105.5 years for men). For contracts concluded in 2011 the situation is even worse. The theoretical advantages of funded pension insurance are thus not realised with the current construction of Riester contracts. [Source of the data: Kornelia Hagen and Axel Kleinlein: Zehn Jahre Riester-Rente: Kein Grund zum Feiern. DIW Wochenbericht 47/2001.]

If the contribution-funded pension is retained as the main form of provision in old age the question arises of what measures are in place to response to the demographic developments described, for example, in Chapter 5.3. (Demographic Change). With the decision to increase the retirement age to 67 years from 2012 to 2029 and the incorporation of a sustainability factor measures have already been taken.

Further reading:

Kornelia Hagen and Axel Kleinlein (2011), *Zehn Jahre Riester-Rente: Kein Grund zum Feiern*, DIW Wochenbericht 47/2011.

How can the contribution-based system be strengthened?

De facto and statutory retirement age, 2004–2009

	Men		Women	
	De facto	Statutory	De facto	Statutory
Sweden	66	65	63.6	65
Denmark	64.4	65	61.9	65
United Kingdom	64.3	65	62.1	60
Germany	61.8	65	60.5	65
OECD average	63.9	64.4	62.5	63.0

Source: OECD (2010a).

Further measures to alleviate the consequences of demographic change should aim primarily at increasing overall wages in the economy. Two approaches are conceivable: first, raising the number of contributors, second, raising wages.

First: more contributors

Significant progress has been made with regard to the employment rate in recent years, attributable especially to increased employment among women. However, there is another way of expanding the number of contributors. By including all working people – in other words, also the self-employed, civil servants and, for example, politicians – the financial basis of pension provision can be improved. And although this would entitle more people to a pension, the peak of the demographic strain around 2040 can thus be distributed over a longer period of time and thereby alleviated.

»Long term, we would like to extend statutory pension provision to the entire workforce. In this context, we shall stick with earned income and number of working years as the benchmark for pension levels.«

(Hamburg Programme 2007: 59)

Second: wage increases

The second possible approach involves wage increases. This could be achieved, first, through productivity increases. From this perspective, investment in education, training and further training would also be an effective means of alleviating the effects of demographic change. However, since 2000, the wage ratio – in other words, the proportion of gross income from dependent work as a percentage of national income – has fallen constantly in Germany, despite rising productivity until the outbreak of the financial and economic crisis. This is not because the tax burden has increased, as many assert. The net ratio – in other words, the ratio between net wages and gross wages – stood at around 67 per cent, while the share of taxes and contributions fluctuated around 33 per cent. The share of corporate and capital income, however, has risen constantly.



Source: Statistisches Bundesamt (2012d)

Figure 16: Wage ratio and net ratio in Germany

Note: In 1999, the net ratio stood at around 66 per cent, in 2011 at 66.4 per cent. During the same period the wage share in national income fell from 71 per cent to 67 per cent. While the tax burden has remained more or less the same, wages have fallen in relation to the development of other forms of income (capital and corporate income).

Wage increases are therefore necessary to reinforce Germany's contribution-funded system. By European comparison, it turns out that wages are too low in the service sector in particular. Minimum wages could thus also be a means of preventing further wage development disparities in different sectors, and of helping to ensure future pensions.

An alternative would be to involve rising corporate and capital incomes to a greater extent in financing statutory pension provision, in particular since they have risen so much in recent years. Tax-based funding of this kind could help particularly to raise the level of the minimum pension, so that the falling income-dependent portion of the pension would be compensated especially for average and low earners.

*Involving capital
income and corpo-
rate income*

With the rise in the retirement age measures are also needed to enable people to extend their working lives. Working conditions must be adapted in many areas to take this into account (humanisation of the world of work).

For social democrats this means:

- tax-funded rise in the minimum pension to ensure security in old age (for example, from taxation of corporate and capital income)
- extension of the number of people paying in to the contribution-funded statutory pension system
- compulsory capital-funded pillar (compulsory »Riester« pension), without increasing its current proportion and with much stricter regulation or abolition of the Riester pension
- promoting employment among women, among other things through better reconciliation of work and family life
- boosting productivity by promoting training and further training, research and science
- humanisation of the world of work

7.4. Health Care

Diana Ognyanova, with Alexander Petring

In this chapter:

- the outlines of the German, Dutch and British health care systems are presented;
- the strengths and weaknesses of the three health care systems are described;
- reform options are discussed for the German health care system, in particular with regard to funding.

In Europe, different health care models have developed over time. The basic difference concerns state-run, tax-financed systems, such as the UK National Health Service (NHS), and systems based on social insurance, such as those of Germany and the Netherlands.³²

*Two models:
state-run and based
on social insurance*

Form of organisation and characteristics of health care models

National health service	<ul style="list-style-type: none">• access free of charge for the whole population to state controlled medical establishments• largely financed from taxes• mainly public service providers
Social insurance model	<ul style="list-style-type: none">• comprehensive compulsory insurance• predominantly financed from the earnings-related contributions of employers and employees• private or public health insurers• public and private service providers

The German health care system

The German health care model dates from 1883. The Law on workers' health care insurance introduced uniform compulsory health care insurance for workers up to a certain level of income. All those subject to compulsory insurance became members of the statutory health insurance scheme set up for their profession.

*1883: Law on
workers' health care
insurance*

³² In some European countries there are also mixed systems, for example, involving financing from both taxes and social security contributions.

*Structure:
decentralised and
federal – strong
non-state
institutions*

The current system of social health care insurance is decentralised and federal. It is characterised by the fact that various non-state (corporatist) institutions are in a strong position. For example, on the side of the service providers the doctors' and dentists' associations and on the purchasers' side the health insurance funds and their associations are the main actors in the health care insurance system.

Outpatient care

Outpatient medical care is the sector in which the corporatist institutions have the greatest influence (Busse/Riesberg 2005). The doctors' associations negotiate a compensation package with the funds operating in their *Land*, which they distribute among their members in accordance with national regulations adapted to regional circumstances. Basically, the remuneration of general practitioners and specialists is based on the health services provided. There is a remuneration ceiling on services provided.

Inpatient care

Inpatient care is characterised by dual financing. Investments are planned by the federal states and subsequently co-financed with the federal government, while the health insurance funds are responsible for recurrent expenditure and maintenance costs. Since the Australian diagnosis-related groups (DRG) system was adopted in Germany in 2004, recurrent hospital expenditure has mainly been accounted for under this system (WHO 2006).

*Division of the
health insurance
funds*

Statutory health insurance

The German health insurance system is divided into statutory and private health insurance funds. Statutory health insurance (GKV) is financed predominantly from insurance contributions. Until 2005, contributions were collected from employers and employees on an equal basis. In that year, however, an additional contribution of 0.9 per cent was introduced for employees and pensioners. Children and spouses with no income from employment are co-insured, free of charge, which results in redistribution within the framework of the GKV in favour of families.

*86% covered by
statutory health
insurance*

Around 86 per cent of the population are covered by statutory health insurance (GKV). Membership of a health insurance fund is compulsory for blue-collar workers and employees whose annual income exceeds a certain amount (compulsory insurance threshold). In 2009, the threshold was a monthly gross income of 4,050 euros.

At present, there are around 145 statutory health insurance funds (March 2012). Since 1996, virtually all insurees have been able to choose their own fund. The membership structure of particular health insurance funds is extremely varied, depending on differences in contributions received and morbidity structure.

*Free choice among
health insurance
funds*

In order to balance out such differences, after various preliminary stages, morbidity-based risk structure compensation (»Morbi-RSA«) was introduced. On this basis, the health insurance funds receive a basic flat rate for each insured person in the amount of average per capita expenditure. This flat rate rises or falls in accordance with age and gender via increases or reductions. On top of this there are increases for insured persons with certain chronic or serious illnesses that give rise to above average costs.

»Morbi-RSA«

The aim of reformed risk structure compensation is to improve the targeting of resource redistribution in the existing system. It reduces the incentives to select only particularly good risks. For the health insurance funds, the chronically ill – to the extent that their illness is one of a list of 80 – no longer necessarily entail a higher financial risk.

The aim of reformed risk structure compensation is to improve the targeting of resource redistribution in the existing system. It reduces the incentives to select only particularly good risks. For the health insurance funds, the chronically ill – to the extent that their illness is one of a list of 80 – no longer necessarily entail a higher financial risk.

*Since 2009:
compulsory health
insurance*

Morbidity-based risk structure compensation

is intended to even things up for those health insurance funds that have an especially high number of insured persons with cost-intensive illnesses. »Morbidity« comes from the Latin »morbidus« and means »sick«. The old form of compensation (up to 2002) between the health insurance funds took into account age, gender and work incapacity. Since 2002, participation in special programmes for the chronically ill has also been taken into account. The new risk structure compensation now takes into consideration 80 selected cost-intensive chronic and serious illnesses, for which the funds receive supplements.

Employees whose incomes exceed the compulsory insurance threshold for three successive calendar years and the self-employed are not liable under the GKV. They can make voluntary GKV contributions or take out private health insurance. As a result of the health care reform of 2007, since January 2009 all persons resident in Germany have been obliged to take out health insurance.

*The health care fund:
compromise with
regard to citizens'
insurance and health
premium insurance*

*Tax subsidies:
better distributive
fairness*

The CDU/CSU and SPD coalition adopted the Act to strengthen competition in statutory health insurance in 2007 (GKV-WSG), which represents a compromise between the SPD's proposal of »citizens' insurance« and the CDU's »health premium« approach, also known as a capitation fee.³³

The new health care fund aggregates contributions from the main groups of the workforce, employees and their employers. On top of this come tax subsidies that are to be increased to up to 14 billion euros a year. Since the tax system, in contrast to the levying of contributions, is progressive in nature these tax subsidies improve distributive fairness and establish the funding of the health insurance funds on a broader basis (Greß/Wasem 2008; see also Chapter 7.1. on Taxation).

Until 2009, the health insurance funds collected their contributions directly from the insureds or the employers. The health care fund collects GKV contributions centrally.³⁴ The health insurance funds receive a flat rate allocation from the

health care fund for each insured person, plus additions and reductions adjusted for age, gender and risk. By this means, the risk structure compensation introduced in 1994 is integrated in the health care fund and developed.

The **citizens' insurance** proposed by the SPD foresees retaining the contribution-based funding of the health care system but establishing it on a broader financial basis. Compulsory health insurance (GKV) would be extended to all citizens: in other words, hitherto excluded population groups, such as the self-employed and civil servants. The contribution assessment ceiling would be abolished. The contribution basis would be extended through the inclusion of other forms of income, such as rental income, returns on interest and capital income. The current contribution assessment threshold would be raised. Both statutory and private health insurance funds would provide citizens' insurance and people would be able to choose freely between them. Differences in the structure of insured persons would be made up for by means of risk structure compensation.

The **health premium** model envisaged by the CDU/CSU would retain the division between statutory and private insurance. Changes are foreseen only with regard to the statutory health insurance funds. In future, all insured persons would pay a uniform flat rate to their health insurance fund. Low earners would be supported from tax revenues in the financing of the health premium. This model aims to decouple health insurance contributions from labour costs and would transfer social compensation to the state taxation and transfer system.

³³ See Chapter 6 (Social policy positions of the parties).

³⁴ In the transitional period, however, contributions continue to be paid to the health insurance funds, which pass them on to the health care fund.

The contribution rate is set by the government each year. As of March 2012 it was 15.5 per cent been 14.9 per cent of earnings subject to compulsory insurance. There is a contribution assessment threshold of 3,825 euros gross per month (March 2012). If the insured person's pay exceeds this amount, the excess is not taken into account in calculating the contribution.

*Contribution rate
determined centrally*

If a statutory health insurance fund's allocation is insufficient it can raise additional contributions from its insurees. The possible additional contribution has been independent of income since 2011 and without fixed thresholds. If the average additional contribution exceeds 2 per cent of that part of a member's income that is subject to contributions this is compensated by tax. Efficient funds can reimburse part of the contribution.

*Limited additional
contributions are
possible*

Regardless of a person's insurance status, the level of contribution or the duration of insurance GKV members and their co-insured family dependents have the same entitlement to health services when required.

GKV: same entitlement to services

Private health insurance (PKV)

Around 11 per cent of the population are privately insured (November 2011). In the case of private health insurance (PKV) an insurance premium is calculated in accordance with the agreed scope of services, a person's general state of health, gender and age at entry. On this basis, PKV rates are set in accordance with individual insurance risk.

*11% are insured
privately*

In contrast to the GKV, which operates in accordance with the pay-as-you-go principle (in other words, insurance services are financed from the contribution revenues of the same year), private health insurance funds are obliged to accumulate old-age reserves (capital funded) which, since 2009, insurees have been able to take with them to a new provider, up to the level of the basic tariff, if they switch PKV.

In comparison to the GKV, and with a wider range of services, PKV tariffs are often more favourable than the GKV contribution, especially for younger and healthier insurees, as well as for well paid single persons. The main reason for this is the unequal social distribution with regard to insurees between statutory and private health insurance.

*Better provision:
consequence of
better »risks«*

Since people with private health insurance policies predominantly have above-average incomes and a low health risk the PKV, in effect, siphons off higher revenues and »good risks« from the solidarity financed health insurance scheme. Private insurees – civil servants, self-employed and higher earners – are so profitable that they can not only provide medical services at the normal price, but also make reimbursements. This creates an incentive for service providers to treat private patients on a preferential basis (Walendzik 2009).

Family dependents must be insured separately under the PKV

While family dependents without their own income are basically co-insured contribution-free in the GKV, in the case of the PKV, each insured person must take out a separate insurance premium. PKV insurees cannot go back to the GKV whenever they want. That is possible only when they become subject to insurance contributions (for example, after leaving self-employment for dependent employment), are below 55 years of age and whose income is below the GKV compulsory insurance threshold.

Since 2009: obligation to provide a basic rate

Since 2009, private insurers have been obliged to offer a basic tariff which, with regard to its range of services, corresponds to the GKV provision and costs no more than the average GKV contribution (around 592 euros a month in 2012). PKV and voluntary GKV insurees can, however, switch to the basic tariff only under certain circumstances. The entry contribution depends on the insuree's age and gender.

Health care system in the Netherlands

Similar to the German system

The Dutch health care system is similar to Germany's. Both are social insurance systems with mainly earnings-dependent contributions, free choice of insurer, largely privately organised insurance providers and an extensive – albeit not always clearly defined – package of services. The similarity between the two systems can be explained easily: the Dutch health care system introduced in 1941 was basically inspired by the German system (Greß et al. 2006). It was last fundamentally reformed in 2006.

Health care system: three pillars

The Dutch health insurance system consists of three pillars. The first pillar (care and long-term insurance) and the third pillar (private additional insurance) were left generally untouched by the fundamental health insurance reform in 2006. The reform concerns the second pillar almost exclusively. Before the reform the second pillar comprised (statutory) compulsory social insurance and private

comprehensive insurance. Employees and self-employed above a certain income threshold had to leave the compulsory social insurance scheme and take up private comprehensive insurance.

Since the reform there has been a uniform health insurance system. Previously social and private health insurers now compete in the uniform insurance system.

The same conditions apply to all health insurance funds. They are subject to an obligation to contract and thus cannot turn away applicants, may not levy risk-dependent premiums and are integrated in a morbidity-oriented risk structure compensation scheme. The health insurance funds can offer insurees different tariffs and there is a general insurance obligation.

The system is financed from both income-dependent (employer) and income-independent (employee, around 1100 euros a year) contributions. The state pays part of this, funding contributions for children and young people, as well as a health care subsidy for low earners.

Initially, the effect of the reform on people's readiness to switch insurance provider was considerable. Around one-fifth of all insurees in the Netherlands changed insurer as a result of the changes. When choosing a new provider people exhibited a considerable desire for security. Tariffs with a higher retained premium were rarely chosen – and around 95 per cent of all insurees have private additional insurance because their insurance only covers basic provisions.

We shall discuss this competitive health insurance system that goes beyond the division between statutory and private health insurance as a model for the medium- to long-term development of the German health care system.

United Kingdom

Health care provision in the United Kingdom is traditionally the province of the state. Most of the tasks of the health care system are planned, directed and regulated by the National Health Service (NHS), which was founded in 1948. The NHS is largely tax-financed and state-run. All citizens are statutorily covered by the NHS.

Since 1996: a competitive framework for social and private funds

Funding primarily via contributions

Reform model for Germany

Central administration by the National Health Service (NHS)

Entitlement for all residents

All residents are entitled to health care services, regardless of nationality or income. Basic provision, accessible to all, consists of general and specialist, outpatient and inpatient treatment, as well as placement in care institutions.

The health care system is largely financed from tax revenues, but also from private copayments – predominantly for medicine and dentistry services – as well as from national (social) insurance contributions paid by self-employed and dependent employees and employers. Patient treatment is, as a rule, free of charge.

Networks of GPs

The so-called *Primary Care Trusts* (PCT) play a central role in the organisation of services. There are 151 networks of general practices responsible for the care of an average of 340,000 people. PCTs are responsible for requirement planning with regard to health services in their region and for ensuring the corresponding provision. They receive more than 75 per cent of the budgets for health services and conclude supply contracts with municipal care institutions, the NHS Trust, and also with institutions in neighbouring districts, as well as private or charitable providers.

General practitioners: basic care and referral

Basic provision is given by GPs. These mainly self-employed family doctors play a key role as *gatekeepers* for further specialist services in the health care system.³⁵ Hospitals receive funding both in relation to services provided and on a contractual basis. The overall budget is capped and subject to central control by ministerial bureaucrats and the health ministries of England, Wales, Scotland and Northern Ireland.

Limited choice for patients

Patients' choices are limited. Free choice of doctor is to some extent possible within the framework of residence in a particular district. For example, patients, by prior arrangement with their GP, can opt for treatment at a number of listed hospitals. This option to choose between hospitals is also aimed at reducing waiting times.

United Kingdom: comparatively low spending on health care

One problem with the UK health system is inadequate funding and the resulting long waiting times. Compared to GDP, UK health care spending is comparatively low. In 2010, while Germany spent around 11.6 per cent of GDP on health care, the United Kingdom spent 9.6 per cent, just above the OECD average of 9.5 per cent (OECD 2012). As a consequence of budget austerity and regulation of access to services inpatient treatment is subject to bottlenecks.

Reform programme to solve bottlenecks

With the introduction of »The NHS Plan – A Plan for Investment. A Plan for Reform« in 2000, an enormous reform programme commenced. Among other

35 The general practitioner is the first port of call and responsible for possible referral of patients to specialists.

things, it envisaged an increase in the number of hospital beds, the number of senior consultants and general practitioners and study plans for medical students. Furthermore, the cancer care programme was expanded and better social insurance provided for older people via NHS health checks. Between 2008 and 2009 UK spending on the health care system increased significantly, from 8.8 to 9.8 per cent of GDP (2010: 9.6 per cent), although it is still significantly below spending in Germany and the Netherlands (see the Figure on p. 128).

In 2012, the liberal-conservative government in the UK approved a reform aimed at reducing spending and introducing more competition between state and private providers. In future, patients will be able to choose their GP freely. GPs are no longer bound to households in the regional neighbourhood. Administration is to be restructured. PCTs and the ten strategic health authorities are to be abolished. General practitioners must join together to form so-called consortiums. These consortiums will be allotted funds based on the quality of treatment provided. GPs are to seek the best treatment for their patients and have to pay the relevant providers. Hospitals will in future be free to accept private patients and will have to compete with private providers for GP treatment contracts.

Comparison of health care systems

The strengths and weaknesses of different systems are often assessed with reference to health care policy objectives. Besides the general capabilities and high quality of care of a health care system it should be oriented primarily towards equal opportunities with regard to access to health services and needs-based justice. This has long been regarded as one of the main social policy achievements of the twentieth century: health care provision regardless of income or social origin.

Thanks to progress in medical technology far more illnesses can be treated successfully today than a few decades ago. This goes hand in hand with rising costs, however. The questions of the efficiency and affordability of the health care system thus inevitably arise.

Euro Health Consumer Index

An annual comparison of European health care systems – the Euro Health Consumer Index (EHCI) – which is taken particularly seriously at the political level, has been undertaken by the consultancy Health Consumer Powerhouse (HCP) since 2005. The aim of the Index, compiled on the basis of publically available

*Central aims:
efficiency, equal
opportunities and
needs-based justice*

*Questions of
efficiency and
affordability*

*Health Consumer
Powerhouse (HCP)*

statistics (national, WHO and OECD), legal texts, documents, interviews, surveys and expert panels, is to depict a health care system's user-friendliness: in other words, the views of consumers are the focus of the investigation.

Five key areas

European health care systems were classified on the basis of the EHCI in 2012, in five key areas: patients' rights and information; treatment waiting times; medical outcomes; prevention/extent and scope of health care services; medicines. These encompass, in turn, 42 performance indicators.

Euro Health Consumer Index 2012

	Germany	Netherlands	United Kingdom
Patients' rights and patient information	117	170	160
Waiting times for treatment	200	200	133
Medical outcomes	200	263	133
Extent and range of health services	111	163	146
Drugs	76	76	81
Total points	740	872	721
Ranking	14	1	12

Source: Health Consumer Powerhouse (2012).

Germany:
fourteenth out of 34

According to the EHCI 2012, Germany ranks fourteenth out of 34 health care systems investigated in Europe. This marks a significant downward trend, from sixth place in 2009, fifth place in 2007 and third place in 2005.

Positive: access and
range of services

In 2008, HCP rated as a major plus in Germany the virtual absence of waiting times, problem-free access to specialist care and the extent of services. It rated as positive the fact that in Germany patients can get a second-opinion at any time. Germany also came out comparatively well with regard to the quality of medical outcomes. This includes child mortality, the five-year cancer survival rate and the mortality rate after a heart attack.

With regard to patients' rights and patient information, by contrast, Germany was doing relatively poorly as early as 2008. The lack of a patient protection law also led to a loss of points, as did the fact that German doctors and clinics are not subject to transparent quality comparison.

*Negative:
patients' rights and
information*

The significant decline in the ranking of the Euro Health Consumer Index in 2012 was partly linked to the introduction of nine new indicators. It is nevertheless clear that while Germany still had a top class health care system in 2009, the EHCI for 2012 points to a mediocre health care system. Germany thus finds itself below the UK for the first time. Germany does surprisingly badly with regard to cardiac care and hospital infections. As a possible explanation the HCP mentions the large number of small, unspecialised hospitals. The system also seems to be becoming less generous (scope and extent of health services). E-health (the use of ICT in the health care system) is being introduced very slowly. There is also a need to catch up in the area of health prevention. This issue is closely linked to the idea of a preventive welfare state and health care infrastructure, but also to education issues (see Chapter 7.5.).

The Netherlands consistently comes out as one of the most consumer-friendly health care systems in the EHCI. In 2006 and 2007, the country ranked second and in 2009, first. In 2012 the Netherlands are again heading the rankings, followed by Denmark, Iceland, Luxembourg and Belgium. The Dutch health care system, characterised by a number of insurers in competition with one another and a strong role for patient organisations in decision-making appears to have no weak points. There is still room for improvement only with regard to waiting times. However, these good results have been achieved by means of the highest per capita health spending in the EU.

*Top: The
Netherlands*

The UK still ranks somewhere in the middle, but it is showing a rising trend and in 2012 for the first time ranks above Germany. In 2006 it was in fifteenth place, seventeenth in 2007, thirteenth in 2008, fourteenth in 2009 and twelfth in 2012. It ranks third after Denmark and Norway in the area of patients' rights and information, including e-health. Based on major investments progress is discernible in the extent and scope of health services. There has been some success with regard to access to health care services, although waiting times are still a characteristic problem of the health care system. Medical outcomes are still unsatisfactory for a highly developed country.

*United Kingdom in
the middle*

Undoubtedly, it can be debated whether the spectrum of chosen indicators is »representative« for an overall evaluation and a comparison of health care systems. Among other things, the data needed to elaborate indicators are largely obtained via surveys, interviews and expert panels. They are thus less precise and reliable than, for example, health statistics and Germany's downgrading could be tied to cultural differences in the evaluation of health care systems.

*Germany:
significant room for
improvement*

However, these and other studies indicate that despite the generally high capabilities of the German health care system there is significant room for improvement in several areas. In 2006 and again in 2009 the US Commonwealth Fund investigated the views of GPs on aspects of their daily work and overall evaluation of the health care system on an international comparative basis. 82 per cent of the surveyed GPs in Germany see a need for fundamental change and 73 per cent believe that medical care has deteriorated due to recent changes. The highest figure in the other countries is 41 per cent (Koch et al. 2011).

*In the debate:
funding issues*

The funding question has come to the fore more pressingly in the German debate. The reason for this is the increasing pressure on funding on both the expenditure and the revenue sides. Rising expenditure reflects medical advances and the need of an ageing population for more and better health services, but also efficiency gaps in service provision (Walendzik 2009). By international comparison, German health care spending is fairly high.

Health care spending 2010

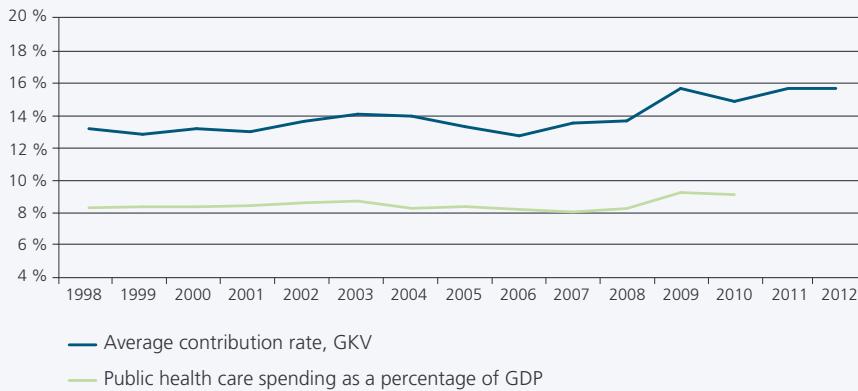
	Germany	Netherlands	United Kingdom
Health care spending as a percentage of GDP	11.6	12	9.6
Per capita health care spending*	4,338	5,066	3,443

Note: * In US dollars, adjusted for the influence of various price levels (PPP) // Source: OECD (2011).

In this context, reference is often made to a »cost explosion in health care«. The development of contribution rates shows only a low increase from 13.6 per cent in 1998 to 15.5 per cent in 2012 (see Figure 17).

Further reading:
*Friedrich-Ebert-
Stiftung (ed.) (2009c),
Zukunft des Gesund-
heitssystems. Soli-
darisch finanzierte
Versorgungssysteme
für eine alternde
Gesellschaft, Bonn.*

If one looks at the development of (public) health care expenditure as a percentage of GDP it is evident that it even fell between 2003 and 2008. This was connected to a variety of cost-cutting reforms, giving rise to a »revenue-oriented spending policy« (Busse/Riesberg 2005). Between 2008 and 2009 public spending was increased by around 1 percentage point and in 2010 stood at around 8.9 per cent of GDP.



Sources: Bundesministerium für Gesundheit (2011) and www.gbe-bund.de, OECD (2008e).

Figure 17: The development of public spending on health care and the health care contribution rate

On the revenue side, the problems of the German health care system are grave. The contribution base is progressively falling: higher earning people can switch to private health insurance and thus remove themselves from the »community of solidarity« (solidarity of risk and of incomes) that the GKV represents.

There has been only a meagre rise in incomes subject to contributions. Both the proportion of working people in the population and the proportion of dependent employees out of total employees have been declining since 1992 (Busse/Riesberg 2005). At the same time, the importance of other forms of income than dependent employment – such as capital income – is growing. In this way the GKV contribution base benefits disproportionately badly from growth in incomes overall and has suffered from the wage stagnation of the past 15 years and the increase in atypical employment. The contribution assessment threshold in the GKV also gives rise to a regressive distributive effect: in other words, GKV members with incomes above the contribution threshold have to pay a lower percentage of their income.

Further reading:

Hagen Kühn and Sebastian Klinke (2007), *Perspektiven einer solidari-schen Krankenver-sicherung*. Robert Paquet and Wolfgang Schroeder (2009), *Im Haifisch-becken. Die Zukunft des »experimentel-len Regierens«: das Beispiel der Gesund-heitsreform 2007*, in: *Berliner Republik* 2/2009, pp. 56–63. Stefan Greß (2009), *Mit gleichen Rah-menbedingungen zu einem fairen Wettbewerb im Gesundheitssystem: zur Notwendigkeit einer einheitlichen Wettbewerbs-ordnung auf dem deutschen Kranken-versicherungsmarkt*, WISO direkt, Friedrich-Ebert-Stiftung (ed.), Bonn.

If health services are to be accessible to all citizens to an equal extent also in the future, the broadest possible approach to funding, based on solidarity, must be adopted. In theory, this can be achieved both by means of an increase in tax-based funding, as under the health care premium model, or by means of citizens' insurance. The real redistribution effect, in both models, ultimately depends on the design of the tax subsidy system or of the level of the contribu-tion assessment threshold. Since the subsidy system affects only those on lower incomes, however, under the health care premium model a heavier burden falls on middle-income households, in contrast to citizens' insurance, to the benefit of higher income households.

»Sick people, regardless of background, age or gender, have the same entitlement to provision and to benefit equally from medical advances. We do not want a two-tier medical system. We therefore want everyone to be included in solidarity-based citizens' insurance.« (Hamburg Programme 2007: 58)

If the funding of the German health care system is to be fair and solidarity-based the current division of health insurance – statutory and private – must be ended. The example of the Netherlands shows that bringing together “social” and private health insurance can enhance competition to the benefit of insurees. The basis for sensible reform would be funding that is as broadly-based as possible and compulsory insurance for all citizens within the framework of a uniform health insurance market, characterised by an obligation to contract on the part of the health insurance funds, contribution rates independent of risk and a morbidity-oriented risk structure compensation.

For social democrats this means:

- the guiding principles for social democracy in the health care domain are efficiency, needs-based justice and solidarity (solidarity of risk and income)
- higher tax subsidies or the introduction of citizens' insurance make possible more broadly-based and fairer funding of the health care system
- fair competition between the health insurance funds (statutory and private) requires reconciling the various risks, the abolition of the compulsory insurance threshold and an obligation to contract on the part of health insurance funds
- preventive provisions and measures must be extended

7.5. Education/Training

Marius R. Busemeyer

In this chapter:

- the German education/training system is compared to the Swedish and US education/training systems;
- the three education/training systems are evaluated with regard to the various dimensions of justice and outcomes;
- causes of the poor performance of the German education system and reform options are discussed;
- the fundamental connection between equal opportunities in education/training and social democracy is addressed.

For a long time, education/training and social policy were discussed separately in Germany. This separation can be traced back to the political inheritance of a conservative welfare state, but also to the different institutional anchorings of the two policy areas. In Germany's federal education/training system, education/training is primarily the responsibility of the Länder and municipalities. The federal government's authority extends only to higher education policy, company-based vocational training and training subsidies. This division of labour was even strengthened by the reform of the federal system in 2006. Responsibility for social policy, by contrast, lies almost entirely with the federal government and the social partners. In the past, therefore, education/training in Germany was not regarded as part of the welfare state, in contrast to other countries.

In Anglo-Saxon countries, such as the United States, the education/training system necessarily took on social policy functions at an early stage. The weak welfare state scarcely permits other options with regard to social security (Busemeyer 2006, 2007). In the comprehensive social policy of the Scandinavian welfare states, however, education has always been regarded as an important component of social policy.

Recently, however, the question of the extent to which »education/training as social policy« can and must contribute to reinforcing equal opportunities and equality of outcomes has also arisen in Germany. In particular in the perspective of a preventive welfare state (see Chapters 4 and 6) education is a key aspect of social policy.

Germany: for a long time, social and education/training policy were separated

Internationally: social and education/training policy treated together

The debate has begun in Germany

»The preventive welfare state understands education/training as a central element of social policy« (Hamburg Programme 2007: 56)

The German education/training system – beginnings

Germany – or, more precisely, Prussia – played a pioneering role in education/training policy, as with the introduction of social insurance. In 1717, Prussia was the first country to introduce general compulsory schooling. The idiosyncratic – by international comparison – multi-tiered structure of the German school system also derives from this period.

Germany's idiosyncratic multi-tiered school system

Depending on which Land they live in, schoolchildren in Germany after four or six (Berlin, Brandenburg and Mecklenburg-Western Pomerania) years go on the various kinds of secondary school. Switching at a later stage from a *Hauptschule* (the lowest level of secondary school) to a *Realschule* (the next level up, requiring better grades), or even to a *Gymnasium* (the highest level), is usually not really possible. Apart from Austria and Switzerland, there is no other country among the 30 OECD states in which pupils' educational pathways are separated so early in their lives. It is important to note that after the Second World War other countries had tiered school systems, but sooner or later they were superseded by comprehensive school systems (for example, Sweden in 1958).

Half-day classes

Teaching in Germany is generally provided on a half-day basis. Only 26.9 per cent of all schoolchildren, on average, received all-day schooling in 2009. There are considerable differences between *Länder*, however, with Bavaria at only 4 per cent but Saxony at 72.7 per cent. Positive developments with regard to all-day schooling have occurred pretty much only in recent years. In 2003, before the launch of the Red-Green all-day schooling programme, the figure was a mere 10.8 per cent (KMK 2011: 12, 39).

Dual company-based training

For a long time, Germany's dual company-based training served as a flagship model. It provided straightforward transitions between school, training and occupation and for low youth unemployment and the labour market integration of »practically oriented« young people with poor qualifications. In virtually no other country did companies participate so intensively in the initial training of young people.

1717: compulsory schooling in Prussia – structure maintained until the present day

Special case: children allotted to different kinds of school at an early stage

Teaching predominantly on a half-day basis

Dual company-based training long held up as a flagship model

For a number of years now, however, dual company-based training has increasingly been coming under pressure. Trade unions criticise primarily the structural lack of apprenticeships in the training system, while employers complain of a lack of young people »suitable for training«. In the economic and financial crisis dual training has largely proved its worth. Youth unemployment has remained at a low level. However, structural weaknesses remain, which must now be solved more urgently.

*Criticisms from
all sides*

For most young people, dual training remains the preferred option. This can have positive or negative consequences, however. First, it means that fewer young people study at university. That is not a problem in itself, if these young people are able to obtain a decent job after training, but transitions from training to the labour market are becoming increasingly difficult. Furthermore, it remains difficult for talented young adults to get a university place after completing occupational training.

*Problem of
accessibility*

A second negative consequence of the strongly developed dual training system is the susceptibility of training options to economic fluctuations and structural changes in the economy. This has long been recognised as a weakness of this model.

*At the mercy of
changes in the
economy*

In the 1970s and 1980s, this could be compensated for at least partly by handicrafts: in the event of an economic slowdown handicrafts took on more trainees, who were then able to switch to the industrial or service sector when things picked up. Due to structural changes in the economy, however – transformation into a service and knowledge economy, internationalisation and increasing cost pressures – this mechanism no longer operates as well as in the past (Jaudas et al. 2004). In other words, structural change in the economy means that training and qualification opportunities for young people depend much more than hitherto on whether the required training options are available.

Further reading:

Christoph Heine et al. (2008), Studiengebühren aus Sicht von Studienberechtigten, HIS, Hannover.

Higher education system

The German higher education system comprises public universities and advanced technical colleges. Only around 4.5 per cent of all students attend private colleges of higher education in the winter term of 2009/2010 (Statistisches Bundesamt 2010b).³⁶ After study fees were charged in a number of *Länder*, in all *Länder* run by SPD-led governments – except for Lower Saxony and Bavaria – they were abolished again. Around 18.4 per cent of all students at German colleges of higher education receive assistance under the Federal Education Assistance Act (BAföG) (19. BAföG-Bericht 2012: 9).³⁷ In 2011 the proportion of first-year

³⁶ In any case, the vast majority of them are state-financed.

³⁷ This is the proportion of those receiving support out of all students.

students in Germany in the age-specific population was 55 per cent (Statistisches Bundesamt 2011b).

Early childhood education

Only in recent years has recognition begun to grow that the preschool period is important in laying down a foundation for later educational success. Germany has considerable shortcomings when it comes to preschool education, however. For example, the availability of all-day and preschool establishments is poor by international comparison, especially among children under the age of 3. Among 5-year-olds Germany comes out fairly well by international comparison, thanks to the tradition of kindergartens, whose coverage is very wide. Overall, however, early childhood education in Germany is fairly poor. This is reflected in the fact, for example, that teachers are very badly paid by international comparison and that in this area there are few opportunities for study in a college of higher education, which is usual internationally.

Further education

A general system of further education that is accessible to all remains underdeveloped in Germany. Although in Germany (2008) around 38 per cent of workers participate in workplace training, in the Scandinavian countries the proportion is much higher: in Finland the figure is 44 per cent and in Sweden as much as 61 per cent (OECD 2011d: 373). The view long prevailed that Germany's solid dual initial training system compensated for its weaknesses with regard to further training. However, it ought to be clear by this point that this no longer holds unreservedly.

»For the learning society we want to establish further training as the fourth pillar of our education and training system. It will also remain a responsibility of the state. We want to put further education on a firm footing both financially and by means of entitlements to leave of absence. We therefore want to involve the social partners and companies.« (Hamburg Programme: 2007: 66)

Germany by international comparison

The shock administered by the PISA results alerted public opinion to where the country stands internationally. In what follows, therefore, we shall compare the German education/training system, on the basis of a number of important

characteristics, with two other education/training systems frequently used as examples in reform debates: the United States and PISA champion Finland.

The education/training system in Finland

Early childhood education in Finland is established on a strong footing. Every child not yet of school age has the right to day care. In Finland 28.6 per cent of under-threes participate in preschool care (2008). In Germany the proportion is only 17.8 per cent. Other Scandinavian countries do even better than Finland, however. In Denmark, for example, the corresponding figure is 65.7 per cent (OECD 2011e: 3).

*Strong early
childhood
education*

At the age of seven, nine years of comprehensive schooling commence. This brings compulsory schooling to an end. Subsequently, there is the option of three years' further education, whether general or vocational. Both entitle students to go on to higher education (Eurydice 2008: 4 f.).

*Nine years'
comprehensive
education*

In Finland, occupational training is more closely integrated in the general school system. Schoolchildren can choose from a wide range of occupations that require training and schools cooperate closely with companies in providing training. Furthermore, it is much easier to move between and within higher education and occupational training, on the one hand, and the primary and secondary school system, on the other, than is the case in Germany.

*Integration of
schools and
occupational
training*

Finally, occupational further training in Finland, as in other Scandinavian countries, is a more important element of active labour market policy. Although vocational school institutions play an important role in Germany, in Finland the link to the company providing training is ensured by a dual training programme within the framework of adult education. In Finland, as in Germany, universities and colleges are public institutions and thus financed by the state.

*Further training:
part of active labour
market policy*

The US education system

Education in the United States is strongly decentralised and is characterised by a high proportion of private education providers. Overall, this results in a juxtaposition of very different educational options. In the domain of early childhood education the various forms of provision cover a total of 56 per cent of 3–5 year-olds, around half of them on an all-day basis. At the age of 5, the majority of children attend free public kindergartens.

*Education system:
strongly privatised
and decentralised*

Schooling as a rule lasts 12 years

As a rule, schooling in the United States lasts 12 years. Depending on the particular state and school district, basic schooling is between six and eight years, secondary schooling from four to six years. The last four years of secondary school are generally known as »high school«.

High proportion of private schools

People usually finish »high school« at the age of 17 or 18. In most states, compulsory education ends at this age. After this, various practically-oriented training options are available, as well as two years at »community college« – also known as »junior college« – and finally, four years' study at a college or university (US Department of Education 2005: 13). Private schools make up around 24 per cent of all primary and secondary schools and are attended by 10 per cent of all pupils. They employ 12 per cent of all teachers (US Department of Education 2005: 18).

Although there are various »tracks« (educational pathways) for general education and vocational training in the United States, at the end of schooling each person who graduates receives the same qualification.

*US colleges and universities as models?
– Comparisons are often difficult*

US colleges and universities are often held up enthusiastically as models. However, it is crucial to note that there are enormous differences between them in terms of quality and facilities. The so-called »community colleges«, for example, are really institutions of vocational training and further training. Only a small number of students attend the expensive private universities.

Further training via the free market

Further training is characterised by the same division between public and private. In the United States, this follows the model of the private education market: in other words, there is no comprehensive, integrated and legally regulated further training system, but rather »on the job training« and optional further training in colleges, often paid for by the workers themselves.

Education and principles of justice

Workers' movement: education is the key to democracy and emancipation

The question now arises of the principles of justice in accordance with which these three education/training systems are compared. To this end it is worth looking at their history. From a social democratic perspective, education has always been important. The workers' movement of the nineteenth and twentieth centuries understood education as decisive for the emancipation of individuals and the democratisation of society overall. »National education is national liberation« was a key progressive motto: education should no longer be the privilege of particular social strata.

This still applies today. Access to education should not be determined by origin or income.

From a social democratic standpoint, different education systems should be evaluated on the basis of the three principles of justice: equality of opportunity, performance-based justice and needs-based justice.

Equality of opportunity, from the social democratic standpoint, is a key category for judging an education system. In contrast to traditional social policy, which comes into action only after the event to make up for existing income inequalities, education/training plays a special role in ensuring equal opportunities. It remains an open question whether an ideal education/training system would be able to completely make up for all differences in starting conditions, for example, the unequal distribution of talents. A good education policy must always try to approach this ideal, however.

For discussion

Social democracy demands equal opportunity with regard to education. There are many people, however, who have never been given a chance by the current German education/training system. As a result, they associate education not with upward mobility and emancipation, but with personal defeats and failure. And where opportunities do exist, there is always the danger that there will be some people who cannot take advantage of them – this thesis is prominently represented by Göttingen political scientist Franz Walter. The question arises of how such people can be integrated in a society which is now so strongly oriented towards education and training. Do you have any ideas?

With regard to *performance-based justice*, the education/training system must ensure that equal performance leads to comparable grades and qualifications. At first glance, this seems self-evident, but it is not always the case.

Finally, education/training policy must take into account the principle of *needs-based justice*. A good education policy must ensure adequate basic provision for all. This means, for example, strongly supporting young people with poor qualifications. The motto »from each according to his abilities, to each according to his needs« also applies in education/training policy.

*Three principles:
equality of opportunity,
performance
and need*

*Equality of
opportunity*

*Performance-based
justice*

Needs-based justice

*The German
education system:
poor and unfair*

How good and how fair is the German education/training system?

By international comparison, the German education/training system is graded »unsatisfactory«. With regard to both educational outcomes and the various dimensions of justice Germany does substantially worse than many other countries.

Key data on educational outcomes by international comparison

	Germany	Finland	USA
PISA score for reading, 2009	497	536	500
Standard deviation of PISA score for reading, 2009	95	86	97
PISA score for mathematics, 2009	513	541	487
Standard deviation of PISA score for mathematics, 2009	98	82	91

Source: OECD (2007b).

*Educational
outcomes:
OECD average*

Educational outcomes

With regard to educational outcomes, Germany ranks at a similar level to the United States, close to the OECD average (500 points). Schoolchildren in education-highflier Finland achieve significantly better results in reading and arithmetic. The really notable finding, however, concerns the standard deviation: in other words, the extent of the differences in educational outcomes. This can serve as a first index of how far the education system makes up for or permits educational differences. Here, too, Germany (with 95 points for reading and 98 points for mathematics) lies significantly above Finland (86 or 82 points).

*Standard deviation
of outcomes is high*

It is also noteworthy that the standard deviation of educational outcomes – in other words, the spread of the different results – is even more marked than in the United States, although there the very decentralised education system is characterised by major inequalities with regard to quality and facilities between individual school districts and thus one can expect particularly pronounced heterogeneity with regard to educational outcomes.

Equal opportunities in the education system

The OECD has developed an indicator with which educational inequalities can be measured more accurately than with a simple variation measure. This indicator measures the strength of the connection between a student’s educational outcomes and their economic, social and cultural background. It therefore shows how far the education system is able to make up for individual educational disadvantages. The higher the value, the stronger the connection and thus the stronger the educational inequality. The indicator shows how much equal of opportunity a given education system offers. Germany, with a value of 44 points, is around the same level as the United States (42 points), but much worse than Finland (31 points).

Pronounced
educational
inequality

Key data on educational inequality by international comparison

	Germany	Finland	USA
OECD indicator of educational inequality, 2009	44	31	42

Source: OECD (2011d: 96).

Cause: multi-tiered school system

One fundamental reason for this outcome is the institutional structure of the education system. Research has repeatedly demonstrated that early separation of schoolchildren into different educational pathways (»tracks«) – such as Hauptschule, Realschule and Gymnasium in Germany (see above) – increases educational inequalities (Solga 2008). While in the past those completing Hauptschule (lower level secondary school) had a decent chance of training in handicrafts and industry, today the lower tier of secondary schools are stuck in an educational cul-de-sac (this is the tenor of a report on education: Autorengruppe Bildungsberichterstattung 2008). As a result, educational inequalities become entrenched and exacerbate social inequalities.

Early segregation
of children by
ability

Cause: lack of all-day provision

This effect is further exacerbated by half-day teaching. There is insufficient time at school and family background is the main determinant of how time is spent out of school.

Half-day teaching
wastes opportuni-
ties

»Doing homework and studying to get a job are left to families. How time out of school in the afternoon is used depends on family circumstances. Children cannot choose their own parents, however, and parents often do not have time, money or the necessary competences to help their children in the best way possible« (Solga 2008: 3).

Key data on educational participation by international comparison

	Germany	Finland	USA
Day care capacities in early childhood education (0–3 years of age), as a percentage of age group, 2008	17.8*	28.6**	31.4
Student ratio, New students, 2009	40	69	70

Sources: OECD (2011e: 3), OECD (2011d: 316).

Notes:

* In the old Länder the value is 2.8%; in the new Länder, 37%.

** This value concerns 2–3 year-olds, while for 1–2 year-olds it is 27.5%

Cause: inadequate public provision of education

Finally, the situation is exacerbated by the inadequate provision of the public education system in the various segments: in early childhood education and infant/primary schooling all-day schooling is lacking. The potential of full-time vocational schooling remains untapped because vocational schools, as part of the expanding »transition system« (Baethge et al. 2007), are more and more having to function as »repair shops« to make up for the shortcomings of the education system. Institutions of higher education complain of overloading and lack of resources.

The consequence of this underprovision is that well-off parents are increasingly resorting to private alternatives, for example, in the form of private child care, private schools or expensive study abroad.

»In the 2007/2008 school year, there were 4,946 general and vocational private schools in Germany, 53 per cent more than in 1992/1993. While in the former Federal territory there has been an increase of 21.7 per cent, in the new Länder the number of private schools has grown fivefold« (Statistisches Bundesamt 2009: 12).

This exacerbates educational inequalities because only a few can afford these private alternatives. The partial privatisation of education will mean, over the long term, that people's willingness to support the public education system with tax revenues will progressively diminish.

Privatisation exacerbates the problem

Performance-based justice

Performance-based justice is not realised in the German education system, either. In other words, even in the case of equal educational performance children from lower income strata find it more difficult to obtain a recommendation that they proceed to attend a Gymnasium. Education research has shown that children with a disadvantaged socioeconomic family background fare worse when teachers come to decide who should go on to attend Gymnasium, even when they have the same level of achievement, and more often end up in Hauptschule or even special schools.

Despite equal educational achievements, worse chances

»Children from higher social strata are five times as likely to be recommended for Gymnasium than children from socially disadvantaged families – even with the same results« (Solga 2008: 1).

Key data on level of education by international comparison

	Germany	Finland	USA
Proportion of population aged 25–64 with at least a higher secondary school qualification, 2009	85	82	89

Source: OECD (2011d: 39).

Further reading:
Heike Solga (2008), *Wie das deutsche Schulsystem Bildungsungleichheiten verursacht*, WZBrief Bildung 01, Berlin.

Needs-based justice

The general level of education – measured by the proportion of the population with at least a secondary school qualification (Abitur or vocational qualification) – is very high in Germany, the United States and Finland, at over 80 per cent. In comparison to southern European or even developing or emerging countries, the countries under examination here appear to be well supplied with the commodity »education«.

High general level of education

Weaknesses with regard to helping more vulnerable students

However, there are a number of striking differences. For example, Finland, by supporting young people on an individual basis, has succeeded in improving the educational opportunities even of those with poor qualifications. The German education system, by contrast, has particular weaknesses. This is especially evident with regard to the integration of people from immigrant backgrounds (Autorengruppe Bildungsberichterstattung 2008: 11).

Key data on education funding, by international comparison

	Germany	Finland	USA
Public spending on education, 2008, as a percentage of GDP	4.1	5.7	5.1
Private spending on education, 2008, as a percentage of GDP	0.7	0.1	2.1
Public spending on higher education, 2008, as a percentage of GDP	1.0	1.6	1.0

Source: OECD (2008f: 240).

Education expenditure is too low

Germany is also characterised by comparatively low investment in education. Expenditure on education as a proportion of GDP is a mere 4.1 per cent, while in the United States it is 5.1 per cent and in Finland as much as 5.7 per cent. The 1.6 percentage point difference between Germany and Finland is more than Germany spends on higher education in total. The low public spending is partly compensated by the above average private expenditure – primarily by companies within the framework of dual training – on education (0.7 per cent of GDP). However, with regard to this indicator, too, the United States is well ahead, with 2.1 per cent of GDP. The meagre spending on education is particularly evident in respect of higher education. Here, Germany (1.0 per cent of GDP) is behind the United States (1.0 per cent) and significantly behind Finland (1.6 per cent).

Public spending on education: Germany 4.1% of GDP, USA 5.1%, Finland 5.7%

More coordination for more fairness

Although an increase in spending on education would not be a panacea, without increasing investment in education the necessary expansion of educational institutions in the domain of early childhood education, full-time vocational training and higher education will scarcely be possible.

Prospects

The picture presented here is sobering. The German education system does at best indifferently in terms of educational outcomes and provides neither equal opportunities nor performance-based nor needs-based fairness. This is alarming, not only for the education system, but for democracy overall.

Education gives people a chance of participating in society, culture and the economy. Anyone denied this opportunity by a particular political system will permanently turn his or her back on it. Only those whom education puts in a position to do so will imbibe democracy and play their part in shaping it. A fair education system is not only an end in itself, therefore, but a requirement of democracy and key to a dynamic economy.

»Education decides our future; it is the major social issue of our time. Only education enables people to set their own goals and to realise their dreams. It gives them access to a changing world. It equips them for democracy and social responsibility. It provides them with opportunities for work, and is a constant resource enabling people to participate in society and giving them the prospect of bettering themselves. It is also a productive force in the economy and its significance is growing.« (Hamburg Programme 2007: 60)

In Germany, education reforms do not take the form of major systemic overhauls, even though that is what we need. The pronounced federalism of the education system provides little room to manoeuvre as regards centralised solutions, although at least with regard to vocational training and, to some extent, higher education the federal government has significant authority. A coordinated approach to expanding all-day provision and the introduction of longer periods of comprehensive education, as well as measures to boost state (Land) education budgets would represent important steps towards more fairness in education policy.

For social democrats this means:

- upgrading early childhood education
- longer periods of comprehensive education and more help for individuals
- more all-day provision in early childhood and schools
- better transitions into and out of training
- improvement in mobility between the different stages of education
- enhancing further training
- overall, better funding of the education system

Education: a requirement of democracy

Further reading:
Serge Embacher (2009), Demokratie! Nein danke? Demokratieverdruss in Deutschland, Friedrich-Ebert-Stiftung (ed.), Bonn.

8. FOOD FOR THOUGHT

»What we need is a synthesis of practical thinking and idealism.«
(Willy Brandt 1960: 378)

The Social Democracy Readers provide a compass for navigating the basic questions of social democracy and for finding points of orientation in different policy areas. However, they cannot and do not wish to offer the last word. The path of social democracy – as an ideal and as political action – must constantly be tested, adapted and rethought, if it is to be pursued successfully.

This summary brings this Reader to a conclusion and issues an invitation: namely, to give some thought to how a state-of-the-art social democratic social policy can and must be designed. This Reader has made clear that the German welfare state faces major challenges. It has also become clear, however, that these challenges can be met.

The biggest challenge, perhaps, is protecting the welfare state against its enemies and also against false friends. Those who seek to dismantle and dilute the welfare state and those who weaken it by insisting on »business as usual«.

The basic structure of the German welfare state is 120 years old. But we have to adapt its architecture to how things are today. Bringing this about may not be easy, but this Reader has shown that the social democratic model of the Scandinavian welfare state is a worthwhile goal.

Linking together the social and the political question – social considerations and democracy – was one of the earliest achievements of the workers' movement. The connection between the welfare state and democracy is a core element of social democratic identity.

Only if basic values and fundamental rights prevail not just in theory, but also in practice is democracy real: in other words, participation and equal freedom are guaranteed not just for a few but for all. Politics in the real world must always meet this demand and must constantly re-evaluate political instruments and outcomes with a sure compass.

We invite you to participate in the debate on social democracy. The Friedrich-Ebert-Stiftung's Academy of Social Democracy provides a forum for this purpose. Eight seminar modules deal with the basic values and practical domains of social democracy:

Foundations of Social Democracy

Economics and Social Democracy

Welfare State and Social Democracy

Globalisation and Social Democracy

Europe and Social Democracy

Integration, Immigration and Social Democracy

The State, Civil Society and Social Democracy

Peace, Security and Social Democracy

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SUGGESTED READING

The following suggested publications are for all those wishing to tackle the issues of the welfare state and social democracy beyond this Reader.

Social Democracy Readers



Gombert, Tobias et al.:

Reader 1:

Foundations of Social Democracy. 2012.

Division for International Cooperation

(ISBN: 978-3-86498-080-0)

What can and must characterise committed social democratic politics in the twenty-first century? What values underlie social democracy, what goals does it pursue and how can they be applied in practice? The Reader *Foundations of Social Democracy* approaches these questions theoretically, practically and, not least, by comparing different countries and social models. It does not provide simple and conclusive answers, but rather a compass and orientation to enable people to find their own answers and ask new questions.



Vaut, Simon et al.:

Reader 2:

Economics and Social Democracy. 2011.

Division for International Cooperation

(ISBN: 978-3-86872-698-5)

How can a modern, values-based social democratic economic policy succeed? To what theories can an economic policy based on freedom, justice and solidarity appeal? What principles underlie it? And above all: how can they be implemented in practice? The Reader *Economics and Social Democracy* looks into these questions. An important role is played by the theories of British economist John Maynard Keynes. In turbulent economic times, in which many are still playing it by ear, it is all the more important to make sure of one's own (economic) policy course.

Foundations

Meyer, Thomas:

Theorie der Sozialen Demokratie. 2005.

VS Verlag für Sozialwissenschaften. (ISBN: 978-3-531-14612-6)

Two forces are struggling to exert influence in the globalised world: libertarian democracy and social democracy. Thomas Meyer here develops the theoretical foundations of a social democratic politics in which, besides fundamental civil and political rights, also fundamental social and economic rights for all are taken seriously.

Meyer, Thomas:

Praxis der Sozialen Demokratie. 2005.

VS Verlag für Sozialwissenschaften. (ISBN: 978-3-531-15179-3)

This volume presents recent qualitative country studies by leading experts in the field in light of Thomas Meyer's *Theorie der Sozialen Demokratie*. The countries investigated are Sweden, Japan, Germany, the United Kingdom, the Netherlands and the United States. A new index for measuring social democracy is also presented.

Meyer, Thomas (with Nicole Breyer):

Die Zukunft der Sozialen Demokratie. 2005.

Politische Akademie der Friedrich-Ebert-Stiftung. (ISBN: 3-89892-315-0)

This publication presents the main points of *Theorie der Sozialen Demokratie* and *Praxis der Sozialen Demokratie*.

Social Democracy in Germany

Albers, Detlev / Nahles, Andrea:

Linke Programmbausteine. Denkanstöße zum Hamburger Programm der SPD. 2007. vorwärts Verlag. (ISBN: 978-3866020207)

In this volume, members of the SPD's Programme Commission and the SPD from the Länder publish contributions on issues ranging from labour market policy and social policy to energy policy, European policy and international policy. Conceived of as a contribution to the debate on a new basic programme the texts also present some interesting insights after the adoption of the Hamburg Programme.

Platzek, Matthias / Steinbrück, Peer / Steinmeier, Frank-Walter (eds):

Auf der Höhe der Zeit.

Soziale Demokratie und Fortschritt im 21. Jahrhundert. 2007.

vorwärts Verlag. (ISBN: 978-3-86602-629-2)

Willy Brandt exhorted his party to remain »at the cutting edge« if it wanted to do some good. With their book, the editors want to reignite the debate on how the SPD can transpose their values of freedom, justice and solidarity into progressive policies for social mobility, better life chances and a preventive welfare state. The volume came out during the debate on a new basic programme.

Beck, Kurt / Heil, Hubertus (ed.):

Soziale Demokratie im 21. Jahrhundert.

Lesebuch zur Programmdebatte der SPD. 2007.

vorwärts Verlag. (ISBN: 978-3-86602-525-7)

The editors of this publication, together with other authors and within the framework of the programme debate, compiled a list of important tasks for the future: How and with whom can we shape globalisation? Where is Europe going? How can we breathe new life into democracy? How can our economy grow and thus solve social and environmental problems? Where will new jobs come from and what can the preventive welfare state achieve? Will we be able to pull off the energy transition? What sort of political alliances are in prospect for social democrats?

Gabriel, Sigmar:

Links neu denken. Politik für die Mehrheit. 2008.

Piper Verlag. (ISBN: 978-3-492-05212-2)

Sigmar Gabriel presents a political blueprint that rethinks what it means to be on the left and releases it from a potentially fatal trap: to be either diluted beyond recognition or to fall back onto obsolete old-left models. Majorities, according to Gabriel, are won on the basis of substantive policies, not on the basis of the arithmetic of power and endless coalition debates. He calls for a return to politics that is something more besides endless power games and personality-oriented debates.

Eppler, Erhard:

Der Politik aufs Maul geschaut. Kleines Wörterbuch zum öffentlichen Sprachgebrauch. 2009.

Verlag J. H. W. Dietz Nachf. (ISBN 978-3-8012-0397-9)

In political debates, language is put under strain, distorted and often simply

abused. With relentless precision and keen insight Erhard Eppler writes about the concepts used in the political and the public arena to assert opinions, obfuscate the facts and compromise opponents. As soon as they hear them, people should be on their guard: »beermat« (refers to a campaign remark by Friedrich Merz (CDU) that tax returns should be simple enough to fit on a beermat), »elite«, »expert«, »justice«, »high achievers«, »measure«, »envy«, »conscience« and »ideology« are all regular items in the repertoire of soapbox speeches, interviews, parliamentary speeches or leading articles. But what intentions or views are concealed behind these words? Former government minister, SPD MP, Germanist and teacher Erhard Eppler has years of experience with the political use of language. He skilfully uncovers their original content and takes a critical look at their misuse.

Welfare State

Merkel, Wolfgang / Egle, Christoph / Henkes, Christian / Ostheim, Tobias / Petring, Alexander:

Die Reformfähigkeit der Sozialdemokratie. Herausforderungen und Bilanz der Regierungspolitik in Westeuropa. 2005.

VS Verlag für Sozialwissenschaften. (ISBN: 978-3-531-14750-5)

At the end of the 1990s, social democratic parties were in government in most EU countries. How successful were the various parties in their reform policies? Did they uniformly pursue a »third way«? Based on detailed country studies, social democratic policies in Germany, France, the United Kingdom, the Netherlands, Sweden and Denmark are analysed and evaluated.

Boll, Friedhelm / Kruke, Anja (ed.):

Der Sozialstaat in der Krise. Deutschland im internationalen Vergleich. 2008.

Verlag J. H. W. Dietz Nachf. (ISBN 978-3-8012-4185-8)

This book provides an insight into the historical development of the welfare state in Germany, against the background of today's problems. In comparison with other states in Europe, the welfare state's overall room for manoeuvre is considered, its forms in particular areas – such as health care, education and pension insurance – are analysed and overarching questions, such as the semantics of crisis, are examined.

Kocka, Jürgen (ed.):

Zukunftsfähigkeit Deutschlands. Sozialwissenschaftliche Essays. WZB-Jahrbuch. 2006.

Edition Sigma. (ISBN 978-3-89404-086-4)

Structural impediments, reform opportunities and possible scenarios of the future are the focus of the 2006 Yearbook of the Wissenschaftszentrum Berlin für Sozialforschung. The contributions deal, among other things, with demography, social security systems, inequality, work, immigration, foreign policy, development of democracy, industry and innovation, as well as fiscal options. Although Germany is the centre of interest, the contributions also take a look at other modern societies. These comparisons also make it possible to come up with answers to the question of how far the current and foreseeable difficulties are path-dependent and what specific historical developments have contributed to the current situation.

Butterwegge, Christoph:

Krise und Zukunft des Sozialstaates. 3., erweiterte Aufl. 2006.

VS Verlag für Sozialwissenschaften. (ISBN: 978-3-531-44848-0)

People often talk about a crisis of the welfare state, but is there really such a crisis or is the welfare state only the main victim of a development whose causes lie elsewhere? The book clarifies the factual issues and controversies covered in the debate and is a major source of material and arguments for anyone seeking good social and economic reasons against the dismantling of the welfare state.

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Politics needs clear orientation. Only those who are able to state their goals clearly will achieve them and inspire others. In keeping with this, this reader on Welfare State and Social Democracy examines the connection between the welfare state and democracy and asks what justice or fairness mean in social policy. It also looks at the roles of fundamental values and fundamental rights in specific policy areas. The topics of the Social Democracy Readers are oriented towards the seminars of the Academy for Social Democracy. The Academy for Social Democracy was set up by the Friedrich-Ebert-Stiftung to provide advice and courses for people involved and interested in politics.

Further information on the Academy: www.fes-soziale-demokratie.de