The Welfare State in Postwar Germany
– Institutions, Politics and Social Change


Overview

What is ‘Germany’?

Since the beginning of modern social policy in the late 19th century, Germany has undergone more and more drastic changes of political regime, including massive changes in territory, than most other countries. During four decades after World War II there were even two diametrically opposed regimes residing in Germany side by side. Imperial Germany, the Reich (1871-1918), was followed by the Weimar Republic, the first German democracy (1919-33), and National Socialism, the Third Reich (1933-45). After a period of occupation, a democratic and capitalist West Germany, the Federal Republic of Germany (FRG), and a totalitarian and communist East Germany, the German Democratic Republic (GDR), were founded in 1949. They were united in 1990. Clearly, the different historical periods have left their marks on social policy as on other areas of policy. Yet, despite the drastic changes there were considerable institutional continuities across political regimes. Unification in 1990 was a take-over of East Germany by the Western Federal Republic. On one day all legal and social institutions of the FRG were transferred to or rather imposed on the eastern part, including the basic institutional arrangements of social policy.

Since its foundation as a national state in 1871 Germany has been a federal state consisting of (currently) 16 states (Länder). Federalism was abandoned only under National Socialist and communist rule. This diversity stems from the tradition of the years before 1871 when ‘Germany’ was split into numerous small states and
principalities. The federal structure of the German polity is laid down in the Constitution of 1949 in article 20 which cannot be changed even by a 100% majority in parliament. A major aspect of German federalism is that education almost exclusively falls into the competence of the Länder so that, unlike other countries, education is not normally considered to be part of ‘social policy’ and, for example, does not figure in the social budget.

The evolution of a welfare state model (1880-2000)

Germany was a late comer to industrialisation, but the pioneer of modern state welfare. The German model is sometimes termed ‘Bismarckian’ after Chancellor Bismarck who established social insurance in the 1880s in Imperial Germany although the changes in welfare provisions in the century after Bismarck have gradually but substantially transformed the original blueprint. Several periods can be distinguished:

• Laying the foundations (1880-1918). In the 1880s Bismarck introduced social insurance systems to protect workers – and from 1911 also employees (white-collar workers) – against the risks of sickness, industrial injury and old age. These were paternalist and authoritarian reforms with a double edge both against the economic liberals of the day and the socialist workers’ movement which were seen as a threat to the imperial regime. While Britains think of the late 1940s as the founding years of ‘the welfare state’, Germans think of Bismarck as the founding father of their social insurance state. Primary education had already been made compulsory in Prussia (the largest German state before 1871) in 1825. During World War I the foundations were laid for modern industrial relations between trade unions and employers.

• Democracy and economic crisis (1918/19-33). These first years of mass democracy gave rise to a range of substantial departures in social policy such as the introduction of social rights in the new Constitution, the creation of a new branch of social insurance, unemployment insurance, and social democratic policies in the municipalities, e.g. in the field of health and family services. However, massive
economic and social problems and political confrontation soon led to the break down of society that enabled National Socialism to emerge.

- *The National Socialist ‘welfare state’* (1933-45). One of the original promises of the regime was to lead the people out of mass unemployment and misery to new welfare. The racist and authoritarian ideology left its mark on social policy, by orienting health and family policies and education towards eugenic aims, by replacing trade unions and the labour party by a fascist organisation of industrial relations, by replacing the principle of self-government of social insurance by authoritarian rule and by expelling Jews and critics of the system from the civil service including education and health services. However, much of the basic institutional structure of social insurance remained intact or was even extended.

- *Establishing the postwar welfare state* (1949-66). After years of occupation by the Allies the two Germanies – Federal Republic of Germany (FRG) and German Democratic Republic (GDR) – were founded in 1949. In the FRG, which is the focus of this chapter, debates about a new, more egalitarian welfare state along the lines of Beveridge or the ideas of the German labour movement soon subsided. Instead the ingrained social policy institutions were restored by a centre/centre-right government led by the Christian Democratic Party, increasingly backed by the social democratic opposition. Economic reconstruction, promoting the construction of houses and integrating millions of migrants were the main social policy tasks of the early years, followed by a gradual expansion and reform of social security. The great old-age pensions reform act of 1957 became the legitimating corner stone of the postwar welfare state. The 1949 Constitution had introduced the welfare state (or rather the ‘social state’) as unalterable principle of the new democratic Germany.

- *Modernising the welfare state* (1966-75). With the Social Democrats in government, an unprecedented expansion of social policy unfolded, with high hopes of social planning and active policies directed to enhancing ‘the quality of life’ for all groups in society, not only for workers as in traditional industrial social policy. Education in all its forms boomed and a wide range of new or extended benefits and
services were introduced, e.g. housing benefit, means-tested grants for students and active labour market policies. Keynesian economic policy and neocorporatist systems of negotiation between state, employers and employees were also introduced. It was also the formative period of social work as a semi-profession.

- **Consolidation and new expansion** (1975-c.1995). Economic crisis and political challenges terminated the era of expansion. Fiscal constraints began to dominate policy making, and social security systems were restructured rather than extended. Unlike Thatcher, however, Chancellor Kohl’s neoconservatism largely remained rhetorical during his 16 years of office (1982-98). Benefits were cut repeatedly but the structure of the key systems remained intact. There were even new departures, especially new benefits and social rights for families and mothers and, above all, the explosion of social spending triggered by the unique historical event of unification with the economically run-down eastern part of Germany in 1990. In 1996 social spending reached an all-time peak of 34.9% of gross domestic product (not including education). After unification, East Germany fell into a condition of an unprecedented welfare state gigantism. Social expenditure reached an historic scale of about two thirds of the (East German) regional gross domestic product. Without this effort, mainly flowing from annual transfers of some 150 billion DM from the west to the east, the enormous problems of mass unemployment and social upheaval could not have been handled in a politically safe manner.

- **The socialist ‘welfare state’ – the GDR** (1949-90). In a way, the GDR, too, was a welfare state but rather a counter model to the Western variety. It claimed to deliver more social security than West Germany. Rather than redistributing wealth produced in a market as in western welfare states, this model of state welfare aimed to abolish the market altogether and establish a command economy oriented towards ‘social’ aims, e.g. by securing a job to everybody, by massive subsidies of basic consumer goods and by tying housing, social services and pension entitlements to the work place. The design of social services and benefits broke with the Bismarckian tradition even more than the National Socialists. Centralised and uniform benefit schemes prevailed. In the early years active discrimination policies against children from
bourgeois families achieved higher equality of opportunity in higher education than in West Germany. Social security benefits were low, social services, eg old people’s homes, were in a poor condition and there was collective as well as individual (relative) poverty. In the late 80s, the GDR became the first welfare state to collapse under the burden of its social services (Mario Rainer Lepsius).

- **Groping for a new welfare state** (c.1995-2000). While the welfare state that had evolved over the postwar decades had remained basically intact till the early 1990s, changes from the mid 90s onwards seem to signpost major changes. Political support for the welfare state is weaker than ever; social problems like mass unemployment and immigration loom larger than before; and changes in international affairs on the European level and on a global scale increasingly constrain national social policies. The Kohl government lacked visions of where to go and the determination to implement more far-reaching changes. Chancellor Schröder who came into office in 1998 after a landslide victory of the Social Democrats emphasises his affinity to Tony Blair’s New Labour, but there is no clear direction for policy changes as yet.

The origin of social policy under Chancellor Bismarck in the 19th century has left its mark till the present day. Some basic principles and forms of organisation have survived. However, the widespread notion of continuity needs qualification. In an evolutionary process of gradual change, especially in the years after World War II, German social policy has been substantially transformed. What started as social insurance for limited groups of workers and with low benefits gradually grew into a comprehensive, quasi-universalist network of social services for the entire population. Only after 1949 did Germany become a fully mixed society, representing a third way between economic liberalism and a residual welfare state on the one hand and a socialist or communist system of totalitarian and authoritarian provision of goods by the state on the other hand. When Germans prefer the term ‘social state’, as entwined in the postwar Constitution, to the term ‘welfare state’ they want to draw a dividing line between social policy that respects the freedom of the individual and the market as a general principle (‘social state’) and a hypertrophied system of state provision and state control (‘welfare state’).
Nevertheless the West German welfare state has expanded considerably during the postwar decades, with social spending almost doubling its share in gross net product to around one third (see figure 1). In 1950 the FRG started with the highest level of social spending among western countries while in later decades some countries spent even more. At the same time the number of clients of social services as well as of the personnel that provides and delivers services have increased drastically. Nowadays, more than a third of the population derive most of their income from the welfare state, either as clients or as staff. Social law has equally expanded, with more complex legal regulations than in most other welfare states.

**Figure 1**: Social spending as percent of gross domestic product, 1871-1997 (excluding education)

![Figure 1: Social spending as percent of gross domestic product, 1871-1997 (excluding education)](image)


Years before 1950: 1871/74, 1885/89, 1900/04, 1925/29, 1930/32

1933 peak due to low GNP at time of depression

Looking back to the last 50 or 100 years, (evolutionary) change has prevailed, both in quantitative and qualitative terms. Continuity is mainly to be found, first, in the
survival of the principle of social insurance which in Germany has the specific meaning of a pay-as-you-go system financed by contributions of the employers and the employees (not primarily by taxes) and run by semi-autonomous non-state bodies administered by employers and employees; second, in the deeply entrenched federal structure of government with each of the three levels – central government, states (Länder) and municipalities – having their own domains of social policy; and third, in the informal great welfare state coalition that has shaped social policy since 1948: both big parties that alternate in leading the Federal Government – the Christian Democratic Party and the Social Democratic Party – have been welfare state parties throughout, equally fostering the expansion of the welfare state and joining forces in all major social policy reforms in postwar Germany. Since the mid 1990s some of these principles are questioned. Are we nearing the end of a model of social policy that started almost 120 years ago?

The welfare state in the Federal Republic of Germany

Consensus

The German political culture is oriented towards consensus and compromise. Compared to other countries there has been a low degree of conflict and confrontation both in politics and industrial relations. The expansion of state social policy could draw on relatively homogenous pro-welfare state beliefs and values. In fact, all political parties have backed the welfare state. Policy making was dominated by a centre/centre-right party which led the government during two thirds of the FRG’s first half century (the Christian Democratic Party), mostly supported in an informal socio-political coalition by a Social Democratic Party that was open for compromise in postwar reconstruction rather than fighting for socialism. In this sense the FRG has been a ‘centrist’ welfare state (Schmidt 1998: 220).

Economic liberalism among the Christian Democrats has always been tempered by a pronounced conservatism with regard to family and social relationships, the social
element being tangible in a strong and well organised labour wing of the party. The Social Democrats on the other hand have never been a truly socialist party and even while upholding the flag of socialism in the 50s they supported the legislation that restored the ingrained fabric of the welfare state. The small liberal party, the Free Democratic Party, which was in government for most of the postwar years alternating between coalitions with the Christian Democrats and the Social Democrats, was generally more critical of the welfare state but largely joined the general consensus in practical politics. The Green Party, founded in 1980 and, since 1998, in a government coalition with the Social Democrats, is an innovative pro-welfare-state-party with less dogmatism than the traditional social democracy. Radical liberal critics of the welfare state have always had a voice in the debate but only from the mid 90s did their views gain a relevant weight.

The relationship between labour and capital is equally geared to social integration and consensus. Their co-operation as ‘industrial partners’ (Tarifpartner) is based on compromise, not on confrontation. This shows in the very low level of strikes and industrial conflict in the German economy. The German model of industrial democracy with a strong representation of trade unions on the executive boards of private companies (Mitbestimmung), enacted in 1951 and 1976, has received attention world-wide. Social insurance as the core of the German welfare state expresses a normative compromise and consensus between collective and individualist values, through compulsory membership and earnings-related benefits.

*Ludwig Erhard and the ‘Social Market Economy’*

The term ‘Social Market Economy’, coined in 1946, has been the hallmark of the West German model of democratic welfare capitalism after World War II. The concept was explicitly designed as a third or middle way. It originated from the German school of economics called ordo liberalism which developed in the 1930s and 40s directed both against unfettered liberalism and the experience of totalitarian rule and command economy under fascism and Stalinism. Although ‘social state’ also became a key term of the political language in Germany, it was not a founding formula of postwar
Germany since, as explained earlier, the late 40s and early 50s witnessed a restoration of the Bismarckian tradition rather than innovation as in Britain.

The slogan Social Market Economy with its promise of regaining wealth and welfare in a free society, won the Christian democrats the first election in 1949. The main protagonist of the slogan, Ludwig Erhard, minister for economic affairs 1949-63, became the ‘father of the economic miracle’ in postwar Germany. Erhard himself had a narrow conception of Social Market Economy, a kind of people’s capitalism (Abelshauser 1996), geared to increases in wages, consumption and property for all strata of society rather than substantial social services provided by the state. This was to be achieved through measures like anti-inflation policy, currency policy and anti-trust policy that would strengthen, not contain the operation of the market. It was not a variety of, but an antidote to the welfare state. Erhard saw the ‘welfare state’ – a negative term in his view – as a ‘modern paranoia’.

The great reform act of old-age pensions of 1957 which Chancellor Adenauer had to fight through against Erhard, was the first political defeat of Erhard’s concept of people’s capitalism (Abelshauser 1996) and a major step towards interpreting the concept of social market economy in a pro-, not anti-welfare-state way. By the early 1960s the term Social Market Economy had become the generally shared formula of consensus and social peace of the middle ground. On the occasion of a (small) economic recession in 1967, elements of Keynesianism were officially adopted by policy makers, thereby broadening the concept of economic policy in a Social Market Economy.

Intermediate agencies and corporatism

Dating back to the absolutist and militarist tradition of Prussia and idealistic social philosophers like Hegel, a strong belief in the ‘state’ – an essentialist term preferred to the more pragmatic Anglo-Saxon term ‘government’ – is deeply entrenched in German social thought. Still, the German politico-administrative system, especially in the field of social policy, is less centralised, less ‘statist’ than many other welfare states. This can be seen, for example, in the social budget, which is not the budget of any
government agency or body, say the ministry for social affairs, but a summary table drawn up by social planners from a variety of scattered budgets of mainly non-governmental institutions. Most of the money is spent in the five branches of social insurance, that is by para-state bodies which are mainly funded and administered by its members and the employers. The two largest branches, health and old-age pensions, account for half of the budget. However, social insurance like other non-state bodies, is subject to legal regulation, to some financial support and also to political control by the state. Old-Age Pensions Insurance receives an annual state subsidy of some 100 billion DM.

The corporatist structure, the variegated web of semi-autonomous actors, groups and institutions, has been typical of German social policy since its beginning. Social welfare is mainly produced by a broad range of agencies which are neither purely governmental (such as a national health service) nor entirely independent of government (such as occupational pensions and private insurance). These agencies are ‘intermediate’ – between state and individual. They have been granted a privileged status as providers or coordinators of welfare services, adding up to a tightly regulated structure of society. In the view of liberal critics this accounts for much of the inflexibility of German society in adapting to the new global economy.

The key elements of German corporatism in a broad sense are:

- the five branches of social insurance (see the synopsis below): These benefit systems are not universal, but differentiated by occupational groups. For example, for a long time members of the white-collar branch of old-age pensions enjoyed better conditions than members of the blue-collar branch;
- the social professions, above all the medical doctors: they have a higher socio-legal status and a higher income than doctors in most other countries. Based on an act of 1955 the doctors who have signed in with Health Insurance have a monopoly. Treatment by private doctors is not reimbursed by the Health Insurance so that they have remained marginal in the health sector. Contractual doctors are paid on a fee-for-service base according to fixed prices.
• the ‘social partners’, that is the associations of the employers and the trade unions in industrial relations;
• systems of co-ordination, negotiation and bargaining between corporate actors: between the ‘social partners’ – their autonomy being guaranteed by the Constitution – and between the sickness funds and the associations of medical doctors;
• the voluntary welfare organisations which need to be described in more detail since they occupy a central position in the organisation of personal social services.

Subsidiarity, a key principle of the German welfare mix, means that small units shall have priority over larger units, especially over the state, whenever appropriate: Help by bureaucratic organisations shall be second to support relationships within the family, and state aid be second to aid by voluntary welfare associations. The principle of subsidiarity is laid down in the Social Assistance Act and in the Children and Youth Welfare Act and thus pertains to the entire range of personal social services directed to age groups (youth and elderly), to families and to problem groups (the poor, people with disabilities). The welfare associations employ 1.120.000 waged employees (1996) and large numbers of unpaid (voluntary) helpers. The six major umbrella organisations of voluntary welfare include:

• Caritas and Diakonie, affiliated to the Roman Catholic and to the Protestant church resp., mirroring the bi-confessional structure of German christianity,
• The Non-Denominational Welfare Association,
• the Workers Welfare Association (AWO),
• the Red Cross
• and the small Central Jewish Welfare Association.

The associations act as providers of services in service centres, hospitals, residential homes and care for elderly and people with disabilities and sheltered employment. In addition, they are political actors - in the field of children and youth services they even have a formal say in the administrative board. Besides their welfare associations the churches also play a direct part, for example by running social work schools. After many years of privileged symbiosis with the state and a high degree of
bureaucratization the voluntary welfare associations are finding themselves under pressure of improving efficiency to survive in a competition with private (commercial) providers in the new market for social services that has been opened in the 90s under the new Care Insurance. In the social policy debate the associations have moved from conformism with official policies to sustained criticism of cuts in benefits and to lobbying for the poor.

**National and local**

The German political system has a distinct three-tiers structure, with each of the three tiers – central government, the states (*Länder*) and the municipalities – having distinct legislative, fiscal and administrative powers. Domains are demarcated in detail in the Constitution which also gives to the municipalities the right to self-governance (article 28). Conflicts between the three levels often cut across party lines. Since the 80s, for example, the Federal Government has repeatedly cut unemployment benefits to shift burdens to Social Assistance which is regulated by central law in a fairly standardised way but financed by the *Länder* and the municipalities. Even after the growth of national social spending had largely subsided, social spending by the municipalities as share in their budgets still almost doubled from 11.8% in 1980 to 21.7% in 1996.

Although, for example, social assistance is less centralised than in Britain as regards funding and administration, provisions do not vary as much among different regions and communes as in Italy. The principle of comparable living conditions all over Germany is laid down in the Constitution (article 106). The emphasis of local social policy is on personal social services and social work: social planning for youth, elderly and the poor, arranging a local mix of voluntary and municipal welfare agencies, and securing quality of services. Health activities are rather limited because the centralised system of sickness funds and contractual doctors has tended to absorb the entire health service. In their very field, education, the states have not lived up to the expectation to raise quality through competition. Their role in financing and planning hospitals, too, has been a major obstacle in the reform of Health Insurance.
The welfare mix – public and private

As in other countries the welfare state is only one segment of the social production of welfare. There is a mix of public and private services. Before looking at the German version of this mix, we need to recall that there is also a pronounced mix within the public domain of welfare. As shown earlier most of the institutions of the German welfare state are not ‘state’ proper but rather a variegated mix of (‘intermediate’) public schemes and agencies. And even ‘the state’ falls into three levels – federal, states and municipal – each with independent social policy domains. This is reflected in the financing of the social budget: figure 2 clearly shows the three levels of government and also the massive share – much higher than, e.g., in Britain – of social insurance contributions paid by employers and employees who also administer the scheme.

Figure 2: Financing the welfare state (1997; excluding education)

‘Employees’ includes non-waged members of social insurance such as the elderly members of Health Insurance and some self-employed persons.
We now turn to the public-private mix. Even in a comprehensive welfare state like Germany there has always been a substantial mix of welfare production:

- Security in old age rests on the ‘three pillars model’ of state pensions, occupational pensions and private pensions, with a strong emphasis on the state pillar, though.
- In the field of health insurance, the long-standing ‘peace boundary’ between public and private insurance - the income threshold where compulsory membership of the public health insurance ends – has remained undisputed to the present day. Due to the high quality of public services the publicly insured are not driven to take up a (more than supplementary) private insurance. For civil servants (Beamte), there is a special state-run (non-insurance) scheme which covers half of medical bills leaving the other half to private insurance.
- The complex institutional arrangement of health insurance includes links to markets or rather semi-markets: to pharmaceutical industries and producers of medical technology, and to the doctors who are not employees of the state or of any sickness fund but business-like monopolistic providers with special privileged contractual relationships with the Health Insurance. This corporatist welfare mix is, however, regulated by government.
- The German ‘Dual System’ of vocational training for youth, which is considered a model by other countries, combines state schooling during part of the week with company-based work and practical qualification. This system has led to higher qualification levels and less unemployment among youth than in many other countries.
- Unlike the British system of council housing, the German ‘social housing’ involves a public-private partnership. Private landlords get state subsidies for building flats if they accept to let them to people below a certain income threshold at a low rent fixed by government.

The macro welfare mix is mirrored in the micro welfare mix that each citizen makes up for him- or herself. Most people derive their income and personal social services from more than one source, e.g. they top up a state pension by occupational and private pensions. However, in most cases there is a source of income that dominates
the individual income package. Table 1 shows changes in the dominant source during the last four decades. We see that the state’s share in social welfare production has not only increased on the aggregate level (social spending as percent of GNP, figure 1) but also on the individual level. Compared to market wages and income derived from one’s family (including transfers from earners to their spouses and children) the social wage has gained weight. The figure also shows that this pertains mainly to young and old people, that is to age groups. We can also see that the growth of state provisions is not a zero-sum game: the extension of higher education has simultaneously prolonged the time young people are cared for by their families. The figure also indicates that women increasingly take up employment though still on a lower scale than in many other countries.

**Table 1: Main source of income in the population, 1961 and 1998**

(income recipients as percent of the respective age group)

<table>
<thead>
<tr>
<th>Age group</th>
<th>Market</th>
<th>Welfare state</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>-15</td>
<td>1</td>
<td>4</td>
<td>98</td>
</tr>
<tr>
<td>15-20</td>
<td>58</td>
<td>55</td>
<td>40</td>
</tr>
<tr>
<td>20-25</td>
<td>80 (69)</td>
<td>51</td>
<td>19 (29)</td>
</tr>
<tr>
<td>25-55</td>
<td>65 (39)</td>
<td>18</td>
<td>29 (53)</td>
</tr>
<tr>
<td>55-60</td>
<td>55</td>
<td>18</td>
<td>26</td>
</tr>
<tr>
<td>60-65</td>
<td>39</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>65+</td>
<td>9 (5)</td>
<td>1 (1)</td>
<td>15 (25)</td>
</tr>
<tr>
<td>Total population</td>
<td>44 (29)</td>
<td>40 (31)</td>
<td>42 (54)</td>
</tr>
</tbody>
</table>
Figures refer to individual income, not to household income, including intra-household transfers
Market: income from own paid work (wage/salary)
Family: money transferred from spouse or parents
Welfare state: income from cash benefits and some other sources
Source: calculations based on micro census data (Federal Statistical Office 1964, 1999)

**Social insurance – the road to quasi-universalism**

When emphasising the variety of intermediate and corporatist agencies, the picture of a highly fragmented system emerges. Social insurance, in particular, is fragmented by occupational groups, with three main branches of old-age insurance and 475 sickness funds. In addition there are schemes for occupational groups outside social insurance, primarily for civil servants, farmers and some professional groups.

However, changes over the postwar decades have gradually transformed the very nature of the system. The social insurance state has been increasingly integrated and extended. With regard to benefits, funding and institutional structure the fragmented system has given way to a tightly interwoven quasi-universalism:

- **integration**: The difference between the white-collar and the blue-collar branch of Old-Age Pension Insurance, which had been a major issue of conflict between the Social Democrats and the Christian Democrats, has been gradually reduced to almost nil. Sickness funds nowadays offer virtually identical services to their members and a system of financial compensation has been established to account for different distributions of risks among the clientele, especially between West and East German funds.
- **extension of coverage and benefits**: Non-waged groups were admitted to insurance, for example the self-employed, students, housewives and artists. Aspects of family
policy were inserted in the system, especially in 1985 and 1997, thus acknowledging family work, i.e. raising a child, as an independent source of entitlement to benefits in addition to paid work (‘natural contribution’). Under the 1997 act raising one child equals three years of paying contributions. In Health Insurance non-waged (house-)wives and children of an employed father have always been entitled to full services without paying contributions.

- extension of bargaining systems (‘corporatisation’): Hospitals and, to a degree, the pharmaceutical industry have been included in the corporatist system of bargaining and planning among collective actors which was originally confined to medical doctors who run a private surgery outside a hospital.

All in all, the system is nearing universality. More than 90% of the population are currently covered by social insurance with regard to old age and health. A formally universal ‘people’s insurance’ still is an issue of controversy, though.

By contrast, truly universal citizenship-based schemes are rare in the German system. The most important universal scheme is Child Benefit which has undergone repeated changes since the foundation of the Federal Republic. Starting with no child benefit at all in the early 50s there was a changing mix between cash transfers and child-related tax deductions, the latter profiting higher income groups. In the 90s there has been a strong pressure from all parties to raise child benefit, which is currently DM 270 for the first child (2000). There are no universal minimum benefits, no ‘floor’ built into any of the social insurance schemes.

There is also a substantial range of selective benefits, above all Social Assistance. Due to the strength of the social insurance schemes the number of recipients is much lower than, for example, in Britain although unemployment, growing numbers of lone mothers and immigration have increased the clientele. German social assistance is more ‘universal’ than related schemes in many other countries: everybody below a certain income level is entitled to benefits, including wage earners and foreigners. The only exception are refugees who seek political asylum: since 1993 they are catered for by a separate system which is, however, modelled on Social Assistance and in many
cases provides the same benefit. Unemployment Assistance, the lower echelon of Unemployment Benefit, is half way between means-testing and social insurance.

*Security first, equality second*

Although people often associate the concept of welfare state with egalitarian values, many welfare states and Germany in particular are more geared to achieving security than equality. Security is an objective of social policy in two ways:

- Some transfers and services aim to guarantee a basic or minimum income and minimum provisions. The Social Assistance Act of 1961 introduced the right to assistance and established a socio-cultural (not just physical) minimum, including, for example, full coverage by health services.
- Security can also mean safeguarding a status attained earlier in life. This is mainly achieved by social insurance. Old-age pensions, pensions from industrial injury insurance and Unemployment Benefit are earnings-related. The bulk of the German welfare state, therefore, is not directed to the poor but to the broad middle mass of society whose status in working life is extended to periods of non-employment. This is redistribution in the individual life course, not between rich and poor. Age groups are the main welfare classes (see also table 1 above).

But the system also has egalitarian components:
- Health Insurance and (Long-Term-) Care Insurance not only redistribute between the sick and the non-sick but also between rich and poor since services are not earnings-related while contributions are.
- In addition, there is a massive redistribution in favour of married couples and families with children because they pay the same contributions as singles unless the spouse is in full-time employment.
- Survivors’ pensions for old age create entitlements for people who have not paid contributions, thereby enhancing equality.
• There is a strong commitment to equality between age groups. The reform act of 1957, unchallenged before 1997, was based on the assumption that pensions should allow people the same living standard they enjoyed during working life. A replacement ratio of currently 70% for a standard pensioner is designed to secure that aim.

• Health Insurance does without rationing of services for the elderly.

• Higher education is free.

By and large social security policies have been effective. The concept of having strong earnings-related social insurance schemes without built-in minima or flat rate benefits has been relatively successful. Only few insured people needed to resort to Social Assistance. Poverty rates are below the European average. Since the 1980s income poverty as measured by the 50% of average household income threshold, has lingered around 9-11%, slightly rising to 12-13% from the mid 90s. The number of Social Assistance recipients (Basic Income Support, not Special Needs Support) has more than quadrupled since 1970 to reach some 5% (3.5% in 1997, according to the new way of counting only recipients on 31st December). Non-take up roughly amounts to 50% of those entitled. However, deprivations in various areas of life reach well into the 50-80% range of average incomes (Hübinger 1996). Poverty in old age has almost been extinguished, with only 1.9% of the elderly receiving Basic Income Support. Compared to the 60s there has been an age inversion of poverty. Child poverty is a big theme of the 90s, with some 10% of children being in receipt of Social Assistance.

Numbers of recipients in East Germany are surprisingly low and not growing fast. One reason is the enormous amount of money paid for job creation schemes and other labour market measures. Another reason is the transferral of the West German system of old-age pensions to the East which turned the East German elderly into winners of unification. The stigma of Social Assistance, however, is higher in the east. Despite the unprecedented social upheaval which will be causing social problems for years to come the east has not, as some predicted, become the poor house of the nation or a German version of the Italian mezzogiorno (Leisering/Leibfried 1999).
The German welfare state and German society at large are more gender-biased than other countries. The insurance system is geared to the male breadwinner based on contributions paid out of wages. As long as a family stays intact women are well provided for: by tax reductions through the splitting of familial income, by free Health Insurance and by survivors’ pensions. The welfare state sets strong incentives to stay in the family and stay out of the labour market (Allmendinger 1994). Labour market participation among women, especially among married women, has been rising but is still low. One of the reasons, besides the conservative ideology of the Christian Democratic Party, is the scarcity of social services that would allow women to delegate housework and child care and, at the same time, would create job opportunities for women. Only from 1996 is there (at least a formal) guarantee of a place in a nursery school for each child from the age of three. The reliable half-day school, that is standardised hours for terminating class and children coming back to their homes, is only beginning to be established in some regions. Germany generally lags behind in the move towards a service society. There are relatively few service jobs and also few part-time jobs.

**Key Features of Welfare Provision**

**Social Insurance: five branches**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financed in equal parts by contributions</td>
<td>by contributions from employers and employees and administered by both</td>
</tr>
<tr>
<td></td>
<td>(Accident Insurance: only employers), supplemented from general taxation</td>
</tr>
<tr>
<td></td>
<td>(mainly in Old-Age-Insurance)</td>
</tr>
<tr>
<td>Compulsory for most employees</td>
<td></td>
</tr>
<tr>
<td>*Old-Age Pensions Insurance (30% of social</td>
<td>budget)* – pay-as-you-go funding</td>
</tr>
<tr>
<td></td>
<td>Retirement pensions – earnings-related, no minimum pension; from age 65 or</td>
</tr>
<tr>
<td></td>
<td>earlier</td>
</tr>
<tr>
<td></td>
<td>Incapacity pension – for the permanently incapacitated</td>
</tr>
<tr>
<td></td>
<td>Survivors pensions – for widow(er)s and orphans</td>
</tr>
<tr>
<td></td>
<td>Rehabilitation – medical treatment, regeneration, retraining</td>
</tr>
<tr>
<td></td>
<td>Pension entitlements on grounds of child raising or caring</td>
</tr>
<tr>
<td><em>Health Insurance (20% of social budget)</em></td>
<td></td>
</tr>
<tr>
<td>Prevention – treatment – rehabilitation</td>
<td></td>
</tr>
<tr>
<td>Free access for non-waged dependents</td>
<td></td>
</tr>
<tr>
<td>Corporatist administration by sickness funds,</td>
<td>doctors’ associations and the state</td>
</tr>
<tr>
<td>Contractual private providers – doctors,</td>
<td>hospitals (municipal, voluntary/NGO’s),</td>
</tr>
<tr>
<td>hospitals (municipal, voluntary/NGO’s),</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td></td>
</tr>
<tr>
<td>----------------</td>
<td></td>
</tr>
<tr>
<td><strong>pharmaceutical industries</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Sickness Benefit</strong> – for 18 months sickness (after first 6 weeks of sickpay)</td>
<td></td>
</tr>
</tbody>
</table>

**Unemployment Insurance**

- Unemployment Benefit – earnings-related, for one year of unemployment (longer for older workers)
- Unemployment Aid – lower benefits; earnings-related and means-tested; unlimited duration
- Job creation schemes, vocational training, rehabilitation
- Labour Exchange and career advisory services
- Labour market monitoring and research institute

**Accident Insurance**

- Pensions in case of industrial injury, including survivors pensions
- Prevention – regulations, inspectors
- Rehabilitation

**Care Insurance**

- Lump sum payments for long term care – graded by need; home and residential care
- Free access for non-waged dependents
- Contractual private and voluntary providers

**Other Social Security**

**Need-based (means-tested) benefits**

- Social Assistance (Basic Income Support) – cash benefits for all those in need, including working poor (excluding refugees)
- Asylum Seekers Benefit – reduced social assistance for refugees
- Social Assistance (Special Needs Support) – cash and kind for the disabled, people in residential care and other groups
- Housing Benefit – help with rent or maintenance of own home
- Educational Benefit – for carers of children up to age of 2
- Legal Aid – cost of lawyer and court
- Students’ grants – to secure subsistence; 50% loan

**Universal Benefits**

- Child Benefit – to all carers of children
- Pension entitlements on grounds of child raising
### Merit-based benefits

Provisions for tenured civil servants (*Beamte*) – old-age pensions, survivors pensions, subsidy of private health care cost, special benefits  
War Victims Benefits (war compensation) – old-age pensions, survivors pensions

### Fiscal welfare (c. 10% of social budget)

Child allowances  
Lower taxation for married couples  
Savings allowances

### Private market benefits

Sickpay – for first 6 weeks of sickness, earnings-related, paid by employer  
Occupational pensions – limited coverage  
Personal pensions – increasing coverage  
Private Health Insurance – supplementing or (less widespread) replacing statutory insurance  
Private Care Insurance – compulsory for non-members of statutory Care Insurance

### Social Services

**Under Social Insurance**

Rehabilitation, nursing, prevention, special treatment (under Health Insurance, Old-Age Pensions Insurance, Accident Insurance)

**Local**

A wide range of diverse services for age groups (children, youth, elderly), families and people with social problems – provided by a mix of municipal authorities (Social Assistance Authority, Youth Welfare Authority and other authorities, varying by municipality), regional institutions (state/Länder), voluntary welfare associations and private providers
**Education**

**General education**

State schools (mostly municipal) - private schools marginal

6-15 years – compulsory primary (6-9) and secondary (10-15) education – curriculum varies by state (Land), examinations by school

16-18 years – optional further secondary education in schools or vocational colleges, leading to final examination (Abitur)

18+ years – optional higher education at universities (4 ½ years required, empirical average 6 years) or colleges (3 ½ years), with means-tested grant (50% loan) for few students; entry requirement: Abitur; selection only in some subjects; no fees; few part-time students

graded structure of secondary education (10-18 years): separate schools for three levels of performance (correlated with class origin of pupils) (Hauptschule, Realschule, Gymnasium), only some comprehensive schools in some states; plus special schools differentiated by type of disability

**Vocational schooling**

German “Dual System” – combining apprenticeship in a private company with vocational teaching in state schools (eg 2 days per week) – attended by majority of youth who leave secondary schooling at age of 15/16

**Housing**

<table>
<thead>
<tr>
<th>Owner-occupied</th>
<th>1993 - 38.8% of dwellings [26.1% in East Germany]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dwelling bought for cash price in open market (or from housing association under ‘right to buy’), mostly financed by a savings contract with a building society</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Renting</th>
<th>1993 - 61.2% of dwellings [73.9% in East Germany]</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Private renting</td>
<td></td>
</tr>
<tr>
<td>Tenants pay rent to a private landlord according to market price. Rents subsidised by means-tested housing benefit.</td>
<td></td>
</tr>
<tr>
<td>b) Social Housing</td>
<td></td>
</tr>
<tr>
<td>Private landlords or housing associations receive state subsidies to build flats, conditional on charging state-regulated low rents to low income tenants.</td>
<td></td>
</tr>
</tbody>
</table>

**Germany – a conservative welfare regime?**

In Esping-Andersen’s *Three Worlds of Welfare Capitalism* (1990) Germany is seen as the epitomy of the conservative welfare state regime: achieving a medium degree of
decommodification (of enabling people to live independently of the market), grading benefits and entitlements by occupation and social status, and upholding a conservative concept of society that emphasises family, traditional gender roles and intermediate social bodies such as churches, voluntary welfare associations and occupational status groups.

Esping-Andersen rightly depicts Germany as a welfare regime of the middle ground, between individualism (liberal regime, epitomised by the USA) and ‘statism’ (social democratic regime, Sweden). But the label ‘conservative’ is also a simplification, and it tends to overrate differences to other countries, both with regard to institutional structure and politico-ideological background.

First, the German welfare state is more egalitarian and universalist than it looks. Apart from the civil servants, coverage by Social Insurance has become quasi-universal in all its branches. In Old-Age Pensions the differentiation by occupational groups has in practice become irrelevant. The Health system, although formally organised as an insurance, is strongly egalitarian and near-universal - missed by Esping-Andersen because he only looked at cash benefits. Moreover, Social Insurance is a hybrid system that mixes elements of all three worlds of welfare capitalism: contributions by employees are combined with contributions by employers and with state subsidies (see figure 2 below); and earnings-related benefits (mirroring market principles) go together with compulsory membership (contradicting the freedom of the market).

Second, the political tendency of the German regime is ‘centrist’ rather than conservative (Schmidt 1998: 220): it is shaped by a reformist centre/centre-right party joint by a pragmatic social democratic party which was strong though mostly in opposition. Re-analysing Esping-Andersen’s data, Obinger and Wagschal (1998) found that his conservative type actually falls into two types, a ‘centrist European social insurance state’ (including Germany) and a type which really meets Esping-Andersen’s criteria of conservativism (found in France, Italy and Austria). The Kohl government (1982-1998) has further tempered the conservative outlook of German social policy.

Between the mid 1970s and the mid 90s the welfare state was under considerable pressure, both economically and politically, and there was much talk about crisis, about dismantling the welfare state and, when Chancellor Kohl took office in 1982, a call for a moral change in social policy and society at large. However, the ingrained structure of social security systems survived and even took up the historical challenge of German unification in 1990. But from the mid 90s crisis is a reality. Several changes point at a transformation of the postwar welfare state.

The return of political conflict

The political consensus among the great parties and among the social partners (the trade unions and the employers’ associations) that characterised the German postwar welfare state since 1948 has become brittle. The 1997 Old-Age Pensions Reform Bill was the first pension bill not jointly passed by both big parties. The fundamentalist criticism of the welfare state by economic liberals, mainly the employers’ associations and the Liberal Party, has taken on a new quality. But the legitimacy of the welfare state is even eroding among its traditional advocates. The Social Democrats have come to acknowledge that the welfare state not only solves but also creates problems. They have adopted the view that unemployment is partially caused by excessive rates of contributions that have raised the price of labour. Conflicts between traditional and new concepts of social policy are also opening up within the Social Democratic Party. The struggle of the medical profession against health reform and the erosion of their privileged status is also hardening.

Young people question the value of Old-Age Insurance because they expect meagre returns from their contributions due to the ageing of the population. The notion of solidarity among generations embodied in the ‘Generational Contract’ of the Old-Age Insurance is losing support. At the same time fiscal problems are reaching an unprecedented scale. Public debt, social spending as share in gross domestic product,
and social insurance contributions as share of gross wages (42%) are higher than ever before since 1949.

Problems specific to Germany

In many ways Germany faces similar socio-economic and political challenges as other western welfare states. They are exacerbated, however, by problems specific to this country. Germany is a long-standing member of the European Union (EU; formerly European Community, EC) and is therefore subject to EU law. Originally EU social policies were concentrated on problems of social security for migrant workers within Europe. Increasingly rulings of the European Court at Strasbourg interfere with key areas of social security that affect everybody, for example in Health Insurance. Globalisation exerts particular pressures on the competitiveness of the German economy because Germany is the second biggest export economy in the world. Financing social benefits mostly by contributions rather than taxes makes the German benefit systems particularly vulnerable to the crisis in employment – and to competition by low-pay countries because half of the contributions are paid by the employers as part of labour cost. Similarly, the design of social insurance as pay-as-you-go-systems rather than capital funding, in conjunction with high replacement rates, makes the system more vulnerable to the effects of the ageing of the population, especially in the face of one of the lowest birth rates in the world.

The strong legal basis of entitlements to benefits adds to the problems. By ruling of the Constitutional Court (1980) entitlements to Old-Age Pensions are property rights which cannot easily be done away with or phased out. More generally the highly regulated fabric of society, especially the inflexibility of labour law and social security, is a hindrance to reform. In the field of health, the entrenched standard of equality, that is the rejection of discrimination by age and of rationing in general, equally make reforms difficult.

There is a further problem unique to Germany, national unification, which will continue to be a major source of problems way into the next century. Much of the
support measures for East Germans have been financed out of social insurance funds (rather than from general taxes), thus adding to the pressures on social insurance. Unemployment in the east is still very high, close to 20%, and economic growth is too slow, only slightly above the western rates; tax revenue in the east continues to be low; and high transfers from the west will be needed for many years to come.

The decline of social harmony

Since World War II, German society has been more homogeneous than other societies, as revealed by data on beliefs and attitudes. The quest for social harmony between social groups was overwhelming. The 1990s, however, have confronted the Germans with a new – or newly perceived – world of social heterogeneity and social cleavage. First, nine years after unification there is still a divide between East and West with mutual resentment. Racist violence and distrust in democratic institutions and parties imported from the West linger in the East. Second, unemployment has continued to rise in the mid 90s (till 1998) while it was falling in other countries.

A third problem is immigration and ethnical cleavage. Germany has one of the highest proportions of foreigners in Europe (8.5% in 1993) but politicians have been very slow in facing up to this fact. In addition, after the fall of the Iron Curtain to East Europe around 1990, there has been an influx of people from the former Soviet Union and East Europe recognised as ethnic Germans (‘settlers’). Between 1988 and 1996, 2.3 million settlers and c. 2 million asylum seekers came to Germany. Poverty among foreigners is twice as high as among native citizens, and some of the settlers are becoming a marginal group. There is little response by politics, legal measures prevail: the right to asylum has been restricted in 1993 and the law of citizenship has been reformed to allow for double nationality (1999). But problems of social integration resurface among the third generation of immigrants and among new immigrants, including low qualification, crime and religious fundamentalism. With the biggest Turkish community outside Turkey, Islam is increasingly recognised as a major religious force beside Christianity. At the same time, as in France foreigners living in Germany illegally have emerged as a new problem group.
Despite these new cleavages and slow political reactions (with the major exception of the huge welfare programmes for East Germany), social disintegration and violent conflicts could be held at bay up to the present day. There is also no sign of a two-tiers welfare state, although in some cities like Berlin and Frankfurt the egalitarian concept of community-based schooling is crumbling since German parents increasingly refuse to send their children to classes with a high proportion of foreign children with learning difficulties. There is much talk about a “two-thirds-society” and, more recently, about “social exclusion”, but empirical researchers qualify these notions. They emphasise that there still is considerable social mobility and that, as described earlier, poverty is relatively limited. Most Social Assistance claims are short (see figure 3), even in the East.

**Figure 3**: Duration of Social Assistance claims in Germany (city of Bremen)

Source: Leisering/Leibfried (1999: 63)

Life table estimates, 10 percent sample (922 case records) of all new Social Assistance claims made in the city of Bremen in 1989, observed till 1994
The changing composition of the social budget indicates some of the new challenges of the welfare state (figure 4). Health Insurance is a cost factor as can be seen from its growing share in the budget. The ageing of the population is not reflected in figure 4 because its peak is still ahead. The problems of the immediate postwar decades have subsided: war compensation was a major item in 1960 but no longer is in 1997. In turn, increasing labour market problems, including those in East Germany, are clearly mirrored. All in all, the share of social insurance has even grown from below to well above half of social spending (including the ‘labour market’ item which largely flows from Unemployment Insurance). But at the same time, expenditure for Social Assistance and local personal services has more than doubled, indicating the increase in social risks not covered by the standard systems of social insurance.

**Figure 4**: The social budget, 1960 and 1997 (excluding education)

Source: computed from Federal Ministry of Labour and Social Affairs (1998: 289)

Social Assistance: including housing benefit, youth welfare and other local personal services

War compensation: covering the war-disabled, war widows and civil compensation cases
Reform from within, not break

Despite the new challenges there is no sign of breaking with the ingrained institutions of the welfare state. Most of the reforms do not aim at new institutions or at privatising social services as witnessed in some other countries under the influence of neoliberalism. It is rather a reform from within, especially a mobilisation of the existing intermediate institutions – non-state and non-market institutions like social insurance – which are so characteristic of German social policy. Legal and administrative measures aim to enhance the capacity of these agencies for self-control and self-government. This can be seen in various policy fields.

Long-Term-Care Insurance: It is remarkable that 111 years after Bismarck introduced the first branch of social insurance (health, 1883) and 67 years after the last branch was established (unemployment, 1927) politicians again resorted to this type of social security system, in this case to tackle the growing problem of care for the elderly and people with disabilities. The new scheme, however, broke with the tradition in an important respect: It is the first branch of Social Insurance that does without explicit formal standard of need. We can expect that the flat-rate benefits in the long-run will not suffice to cover adequate care (Rothgang, 1997). Moreover, the Care Insurance admits private providers and has thereby created a commercial service market. There are no privileged monopolistic providers like the contractual doctors under Health Insurance.

The Old-Age Pensions Reform Act of 1997 aimed at containing labour cost by reducing the rate of contributions expected for the year 2030 to 22.4% of gross wages (1997: 20.3%). The great Pensions Reform Act of 1989 (effective from 1992) had already reduced the expected rate from 36% to 26%. In 1997, a ‘demographic factor’ was introduced: with growing numbers of elderly the replacement ratio should be gradually reduced from 70% to 64% in 2030. The big achievement of the 1957 reform to secure in old age the living standard attained during working life was given up. The act also aimed to reduce early retirement and increased the retirement age for women.
The Social Democrats opposed these changes and, after their victory in the 1998 election, suspended most of the act. Their own reform plans have led to a major confrontation in German politics in 1999 and 2000. Old-age pension insurance is the holy cow of the German welfare state, comparable to what the National Health Service means for the British.

Reforms of the Health Insurance aim at thoroughly transforming and strengthening rather than giving up the neocorporatist arrangement between medical doctors’ associations and the sickness funds. The 1992 Reform Act was a breakthrough by introducing competition between sickness funds. A 1997 Act encouraged local experiments with new forms of provisions to be tried by doctors and sickness funds. The power relations between the two key groups of actors are changing: The doctors are losing much of their dominance and are also facing a less favourable income situation. The number of doctors admitted to Health Insurance has almost doubled since 1980, from 139,000 to 274,000 in 1995 (that is from 23 to 34 per 10,000 inhabitants), and cleavages among doctors, above all between general practitioners and consultants, open up. When expenditure exceeded the global budget set by politicians in the mid 90s, the doctors successfully refused to reimburse the excess expenses although the law required them to do so. The sickness funds, on the other hand, are acquiring a new, more active role - by pursuing an independent policy vis-à-vis the doctors rather than only transferring money to them and by active health promotion rather than mere treatment of diseases. The great 1999 reform bill was defeated in the Second Chamber of Parliament where the government is in a minority, amidst a dramatic confrontation between the minister of health on one side and the doctors and the Christian Democrats on the other. Among others, the bill had aimed to cap overall spending by way of a global budget, without resorting to rationing. Concepts of managed care and quality management are only slowly making their way into the system.

Reforms from within can also be found in the municipalities which, driven by fiscal shortage, are making constructive use of their constitutional autonomy. The modernisation of public administration in the 90s may be more momentous than many
federal acts that change legal regulations but do not touch the local organisation and implementation of services. Concepts of new public management are revolutionising local services for children and young people and Social Assistance offices. At the same time, new activating policies aim to provide routes for clients to become independent of Social Assistance, similar to reforms in the Netherlands, Britain and the USA, but, unlike Britain, emanating from local government with less grand rhetoric of a ‘new deal’. This may involve stepped-up social controls of clients, including prosecution of fraud, but not necessarily inroads upon entitlements and access to services. Innovations include delegating job creation to private companies and establishing networks between municipalities, eg for comparing administrative performance by means of benchmarking. The 1996 Federal Social Assistance Reform Act, unlike the reforms in Britain and in the USA of the same year, did not change the scheme very much and even included some improvements of services.

Recasting the welfare mix – new links between public and private

In the 1990s, there are few instances of straightforward privatisation – shifting provisions to market and family –, but rather new links between public and private. Changing the welfare mix need not be a zero-sum game – more private, less public – but extending private welfare production may require increased regulatory control by the state – just as a more active role of the (non-state) social insurance agencies requires more regulation by government as described earlier. This is what happens in Germany.

As regards money income, there is some trend towards shifting to private sources. While public pension can be expected to grow slower than before, increasing wealth enables people to increase private provisions for old age and for other risks of life. The burgeoning share market in the late 90s has kindled people’s capitalism much beyond what Ludwig Erhard ever envisaged. Buying shares is becoming a way of investing money and providing for old age for ordinary people. New laws, for example the Third Finance Promotion Act of 1998, regulate this new function of share markets and related investment and insurance markets. With the liberalisation of European and
global insurance and money markets, private insurance industries gain importance in Germany where they had little relevance before. The 1999/2000 reform plans of the government include a formal link between public and private pensions, by making private insurance compulsory to compensate for the slower growth of the still dominant public pensions.

The current debate about the future of Health Insurance reveals the tensions inherent in the ongoing change of the public-private mix. The report of the Advisory Committee to the Department of Health (1998) speaks of the health service as a ‘cost factor and future industry/growth industry’. This hints at two conflicting logics: Since the 1970s the expansion of health services has primarily been seen as a cost factor. Following the logic of the welfare state cost containment became an overriding goal. Speaking of health as a growth industry of the future, by contrast, indicates the logic of the market: of satisfying the demands of growing numbers of people who are prepared to pay more for their health, of boosting ‘production’ and of creating jobs in the process. This could be a major contribution to filling the service gap in the German economy and especially to providing more jobs for women. The question is whether the two logics can be reconciled. Can a growing health industry be run and financed under social insurance, preserving the standards of quasi-universalism, non-discrimination and solidarity-(contribution-)based finance?

The new Care Insurance shows most clearly that ‘more market’ can go hand in hand with ‘more state’. Governments, especially at the state level (Länder) and in the municipalities, are busy regulating the new private care providers to ensure the quality and reliability of services. In the field of labour-market policy, municipalities create new agencies to channel more people back into the labour market, and this often involves partnerships with new private agencies and consultants. Activation requires activity, not just leaving people to fend for themselves. Family policy is another instance in which ‘more private’ (here: ‘more family’) implies ‘more public’ (more ‘state’): all political parties advocate (and implement) higher child benefit, more tax deductions for families and massive extra pension entitlement for mothers.
As regards education, there is no sign that the system of dual vocational training is to be abolished. To the contrary, the availability of places (apprenticeships) offered under this scheme by the employers is closely observed by the political public. If the number of places does not match the demand – as for example in 1998 – the issue is soon scandalised. One of the first measures taken by the new government in 1998 was to install a special programme to create 100,000 new apprenticeships (renewed in 1999) – to similar effect as Blair’s work measures for youth, though accompanied by less rhetoric. As regards primary and secondary schools, unlike for example Britain, there is no relevant debate about reforms of management or about introducing private schooling as an element of educational reform, even though reports on bad results of German pupils in cross-national comparisons of educational performance do arouse concern. Only at the university level is there a – very late – move towards modernising management and admitting some private universities as innovative forces.

Conclusion: evolutionary change

All in all, true to its tradition of evolutionary adaptation to social change, the German welfare state in the 1990s is undergoing considerable change within the framework of old institutions and without rhetoric of grand reform. Old and new, continuity and discontinuity, are intertwined. In a new situation – the return of political conflict, economic and demographic challenges, the decline of social harmony – old institutions are reformed from within: they change substantially but retain basic characteristics and continue to be viewed as the same institutions.

The first example is the changing role of intermediate agencies: Social Insurance (in the specific German meaning of a non-state and employment-based way of organising social security), corporate actors in the health sector (sickness funds and monopolistic doctors’ associations) and local governments are revitalised as social policy agents, especially in health and Social Assistance. The second example are new links to private provisions and agencies (rather than mere ‘privatisation’), especially in the field of long-term care, old-age pensions and again Social Assistance. Comparing welfare states we therefore have to bear in mind that in some countries change may be
smoother and less visible but not necessarily smaller than in countries like Britain where visible institutional breaks are more common – such as the introduction of the National Health Service in 1948 and the introduction of Job Seekers Allowance in 1996 – and where a rhetoric of change prevails. As described earlier, Health Insurance has been thoroughly transformed over the years to near universality while it formally still is ‘Social Insurance’. More recently, Old-Age Pension Insurance, though particularly vulnerable to the ageing of the population due to its pay-as-you-go funding, is being successfully adapted to demographic change.

**Prospects**

Similar to Britain where New Labour ended 18 years of Conservative rule in 1997, the Social Democrats won the 1998 election to form a coalition with the Green Party after 16 years of government by the Christian-Democratic Party (including their Bavarian branch) and the Liberal Party. Even more than in Britain conservative policies left the basic institutions of the welfare state untouched or even extended them. During those years Germany faced similar socioeconomic problems as other western countries. Around the mid 90s, however, Germany came to be considered a laggard in adapting to the new exigencies of a globalising economy. Politicians pointed to the Netherlands, to Denmark, to Britain or the USA as models of reducing unemployment, of deregulating the economy and of successfully restructuring the welfare state. Unemployment figures were rising while they were falling elsewhere.

Political immobility seemed to prevail. The German political system makes it truly difficult to induce changes. It is highly fragmented with many ‘veto players’ (Schmidt 1998): the Constitutional Court interferes massively with social policy; in the second chamber of the federal parliament, the *Bundesrat*, where the states are represented, the parties in government are often in a minority; and the states and the municipalities have a say in finance, taxation and hospital planning.
The new Chancellor, Gerhard Schröder, took up the challenge of improving Germany’s competitiveness voiced by economic liberals, combined with a substantial concern for social justice – ‘innovation and justice’, as the slogan in the 1998 election campaign went. Schröder’s policy during his first year of office has been meandering. He started by fulfilling ‘social democratic’ pledges given in the election campaign (reversing cuts made by the Kohl government), but soon embarked on an unprecedented fiscal austerity programme that involved major cuts also in social security. It is difficult to predict which further avenues the new government will be taking. Paradoxically it may take a Social Democratic government to do the unpopular job of cutting and transforming the welfare state – what the Kohl government suggested for many years but never really delivered.

Schröder’s key concerns are reforms of Old-Age Insurance and Health Insurance, of taxation and, above all, fighting unemployment. The arena in which the problems of unemployment and societal reconstruction are to be deliberated is the so-called Alliance for Jobs, Vocational Training and Competitiveness which brings together the employers, the trade unions and government – a revival of the ingrained German model of industrial neocorporatism. While pension reform is under way though hotly contested and health reform came to nothing (or little), the de- (or rather re-) regulation of the labour market remains the big challenge of German society. There is a plethora of models and ideas in the debate and various pieces of legislation with little sense of direction, sometimes redrafted a few weeks later. Strategies include reducing the price of labour by lowering insurance contributions (particularly by way of a new ear-marked ecological tax); introducing a low pay sector with or without state subsidies; reinforcing ‘less eligibility’ of Social Assistance benefits; introducing new ‘welfare to work’ schemes; and re-regulating marginal employment. The role of women remains ambiguous: the German way of inducing women to stay at home still often prevails over active integration in the labour market.

The other two big challenges are education and ethnic cleavage/immigration. In these fields more far-reaching changes than in social security may be called for but here, too,
there is much rhetoric and little determined action, though some departures in higher education.

The future of the German welfare state is more open than for many years before. It waits to be seen if social cleavages will challenge the German model of social integration; if there will be a shift from the ‘transfer state’ to a ‘social investment state’ with more emphasis on education and employment and less on paying for time off employment; and if there will be revolutionary breaks or, as before, a smooth and evolutionary adaptation. It will also matter if the ongoing administrative modernisation will successfully transform the welfare state from within (and from below, by reform of local government) – a relevant issue irrespective of questions of policy which are at the centre of the debate. Judging from the German experience, the end of the era of the welfare state is not near. In 1999, Schröder and Blair joined forces in a programmatic paper on the Third Way. In principle, this is what the German ‘social state’ has always been about.

References
(including standard references not explicitly cited in the text)

a) Internet (information on German social security in English, French, Spanish and Turkish)

http://www.bma.bund.de

b) English


Rimlinger, Gaston V., 1971: Welfare Policy and Industrialization in Europe, America, and Russia, New York/London/Sydney/Toronto: John Wiley & Sons, Inc. [parts on Germany]


a) German

[see Schmidt 1998 for the authoritative, most comprehensive and up-to-date analysis of German social policy, including history, theory and cross-national comparison, from the point of view of political science]


Döhler, Marian/Manow, Philip, 1997: Strukturbildung von Politikfeldern, Opladen: Leske + Budrich. [Historical-theoretical analysis of health policy from point of view of political science]


Federal Statistical Office (Statistisches Bundesamt), 1964: Statistisches Jahrbuch, Stuttgart: Kohlhammer

Federal Statistical Office (Statistisches Bundesamt), 1999: Fachserie 1, Reihe 4.1.1, Stuttgart: Kohlhammer


*[comprehensive analysis of German society and politics, 1949-1999]*


*[best overview of the current institutional structure of the German welfare state, plus a history of German social policy since the 19th c.]*


**Obinger, Herbert/Wagschal, Uwe,** 1998: Drei Welten des Wohlfahrtsstaats? Das Stratifizierungskonzept in der clusteranalytischen Überprüfung, in: Lessenich,
Stephan/Ostner, Ilona (eds.), Welten des Wohlfahrtskapitalismus, Frankfurt/New York: Campus


