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41

**Social security: An obstacle to
full employment ?**

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Foreword

Social security systems in general, and their role and function in the globalized economy in particular, have become subject to debate. Two major strands of thinking can be identified.

There are those who speak of a profound crisis of the welfare state. They point to the excessively high cost of welfare payments and to the distortion of the market mechanism through income transfers. Public social security systems are considered inefficient, and are seen as an obstacle to market dynamism, economic growth and employment generation. It is asserted that social benefit levels would be over-generous, thereby stifling competitiveness and individual initiative and self-responsibility, keeping the unemployed from seriously looking for work, and resulting in excessive consumption and concomitant under-investment. Following this logic, the level of social spending is considered a cause of high unemployment, rather than a consequence of massive joblessness.

The opposite view holds that social security is not a hindrance, but - quite to the contrary - a necessary prerequisite and lubricant of economic globalization. Workers need to be protected from the risks posed to jobs and income by intensified international competition. If that protection is not sufficiently provided globalization will not be sustainable. This view is not only plausible but can be empirically substantiated. In ILO's 1997-98 World Labour Report a strong statistical link between economic openness and the level of social spending was found. The most open countries in the world economy are those with the highest level of social transfer payments. Hence, social welfare should not be seen as an anti-market device, but instead a precondition for the market to function properly.

The two paradigms on the welfare state have led to opposite proposals for social security reform. The critics of state social security have called for a retrenchment of transfer payments and a replacement of these schemes by private insurance schemes. Those who stress the positive function of welfare wish to maintain benefit levels, yet many among them see a need for adapting the system to a changed economic and social environment. This includes new labour market developments such as the growth of temporary employment contracts and work not covered by social security arrangements; and ageing society with a growing proportion of non-active population; new family structures and the eclipse of the previously dominant singly male breadwinner household; and urgent normative requirements including further progress on equal treatment of men and women in employment and occupation.

This paper addresses some of the key issues in the present debate on social protection from a German perspective. It originates from a speech given by Dr. Tegtmeier at an ILO workshop jointly organized by the Employment and Training Department and the Social Security Department on 21 September 1998. The ILO has started to prepare its World Labour Report 1999-2000, entitled "Income Security in a Changing World". For that purpose the ILO wishes to broaden its views on the subject by consulting competent outside experts. Mr. Tegtmeier has greatly influenced both labour market and social security reform in Germany and beyond.

I trust that the debate in the ILO will benefit from his paper.

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“Social Security - An Obstacle to Full Employment ?“

The subject of this paper “Social Security - An Obstacle to Full Employment?” is an interesting subject for a politician in the social field. After all, high unemployment is considered the most urgent problem of social policy in the industrialized nations at the moment, and rightly so. Quite a few analysts, especially those representing the leading Economic School, consider the “welfare state arrangements” (Franz Xaver Kaufmann) also as one, if not the cause of rising unemployment.

Generally, these representatives of the Economic School play the effects or failures of the macroeconomic instruments and the corresponding policies (economic, fiscal and monetary policies) low, while attributing the causes of misled developments all the more insistently to other areas. The results can be seen in various places around the globe.

The statements on the subject start out from the following premises:

1. Any economic or financial action (or failure to act) has an inherent social dimension. And vice versa. Disregard for these aspects involves the risk of sub-optimum results.
2. The time horizon of decision-makers oriented towards national economies or legislative periods often takes inadequate account of the consequences of long-term development trends. Hence, creative action with a long-term perspective is needed.
3. Rationality of action encountered in sub-systems and sub-policies must not necessarily bring an increase in the efficiency of the overall system (national economy, society), but can be in harsh contrast to it. Therefore an integrated policy approach is necessary. This is why a cooperative interaction of economy and society, e.g. in the framework of an alliance for jobs, is of persistent importance.

Social market economy: Formerly a guarantor of an efficient and humane economic system

During of the cold war the social market economy had, over decades, been the guarantee of the feasibility of a successful and, at the same time, humane economic system. Communist propaganda which, to stabilize its own system of society, used to paint a horrible picture of the market economy as an “exploitative, capitalistic system”, could be countered by the social market economy as a system based on market control which promised to realize economic performance, social security and the reduction of social inequalities alike.

The social state, on the basis of the concept of the social market economy, seemed to prove that it was possible to reconcile two hitherto seemingly incompatible systems, i.e. to implement social objectives on the basis of the ideals of a liberal economic order.

Müller-Armack, probably the most well-known *spiritus rector* of the concept of a social market economy, wrote in this context: “... *based on the social market economy the ideals of freedom and social justice can indeed be reconciled*”; he also said: “*The social*

market economy is such an integration formula, with which an attempt is made to lead the essential forces of today's society towards real cooperation".

Is the social state in crisis?

In view of increasing unemployment figures and a past change of paradigms towards a supply-oriented policy, political and scientific criticism of the shape of the social state set in in the early 1980s. However, with a few exceptions, criticism aimed at partial changes within the social security system.

This changed increasingly in the course of the 1990s. With the discussion on economic globalization and the issue of the competitiveness of Germany as a business location, the discussion on the social state became sharper. The foundations of the German social system and its elements have never been rocked more than today. Never before has the concept of the social market economy and thus, its worthiness of being maintained, been questioned as much as today where the alleged constraints of globalization are used as an argument.

Many consider the successful developments in terms of growth and particularly employment in those countries which have a rather sceptical view of the concept of the social state - such as the United States - or the drastic cut-backs in the area of social security and labour market regulation - for example, in the United Kingdom or New Zealand - as proof that only an economic system based on pure market economy principles can ultimately survive in a globalized economy. Only a few years after the collapse of the centrally controlled planned economies in Eastern Europe the social state is talked into a deep identity crisis.

Is the concept of the social market economy a phase-out model? Is the compatibility of a liberal market economy system with social objectives proving to be an historical fallacy?

Social policy creates countervalue

It is legitimate and also necessary to review social policy in terms of the effects it has on the economic process. This is necessary in order to recognize and correct misguided developments in the social security system in time. Many scientific studies of recent years which analysed the influence of social policy on economic growth and employment, however, have a one-sided focus on the cost aspects of social policy - and speaking of "costs" the term is used in the widest economic sense (opportunity cost within the meaning of allocation losses).

Under economic aspects, social policy could be considered an investment, even though this is not the usual view. For a realistic assessment of the advantages of such investment the cost side must not be the only point under consideration. Of course the countervalue produced by social policy have to be taken into account.

The economic advantages of social policy, however, are as a rule disregarded to a large extent. Compared to the cost side, economic benefit analysis of social policy thus receives only little attention and is therefore only rarely reflected in scientific literature. Which is a pity since it is an interesting and important field of economics. In this context three aspects will be addressed.

Social policy enhances the acceptance of the social system

For one thing, every social system produces winners and losers. However, if the gap between winners and losers becomes too wide, large groups of the population experience social exclusion. This may lead to the loss of the basic societal consensus. Within certain limits, social policy may contribute to a more balanced distribution of opportunities. Social policy also gives the citizen a certain assurance that the community will help him to overcome difficult situations in life he may have incurred through his own fault or not. The citizen has the certainty that he may also in future participate in the life of the community. In this way social policy contributes much to a greater acceptance of the social system.

Looking back to the beginnings of the social state the first social laws were enacted not so much for humanitarian reasons; they were rather designed to rescue domestic peace, which was in jeopardy because of the social crisis. Under growing pressure from the labour movement and at the insistence of the ruling Reichskanzler Otto von Bismarck, the Reichstag introduced health insurance in 1883, industrial accident insurance in 1884 and invalidity and old age pension insurance in 1889. Social insurance was aimed at reconciling the workers with the state.

But also at present even politically stable societies are faced with social problems due to social disruption. And the costs caused by these problems may be quite considerable.

For example; in the United States the cost of crime is estimated to amount to four per cent of the American GNP. About seven per cent of the male active population are said to have been in conflict with the law in some way or other. Between 1980 and 1996 the prison population tripled. 1.6 million people, most of them black adolescents, are in prison. In the United States the rate of imprisonment is six times higher than in Germany. In Germany, 80 out of 100,000 inhabitants are in prison, whereas the corresponding figure for the United States is more than 500 out of 100,000. It can easily be imagined that this development is caused by the growing gulf between the rich and the poor.

The United States have certainly achieved an impressive growth in employment but it is rather disquieting to see that many remained excluded from the growth in prosperity achieved in the past one and a half decades. Compared with the 1980s the average wage in the United States hardly changed, but at the same time there has been a marked increase in the wage drift between the upper and lower wage groups. This means that the lower wage groups suffered a loss of real income compared with the past. If, in the long period of economic upswing, the American economic system was not able to achieve a growth in incomes for the lower wage groups as well, the question arises what will happen in the next recession?

In some Latin American countries, many of the rich live in areas surrounded by walls and protected by private guards. To escape from social conflict the rich withdraw into their own protected "intact" world. Similar developments are apparent also in the United States and other countries. A divided society where the rich seek refuge from social conflict in their own hermetically sealed "homelands" is not a desirable vision of the future.

Social policy creates more scope for structural change in the economy and the society

A second aspect is closely linked to what precedes. Existential economic fears among large groups of the population may constitute an enormous obstacle to the implementation of necessary and in fact indispensable structural reform. Social policy can do much to alleviate these fears and thus extend the scope for structural change in the economy and the society as a whole. The philosophy of the social market economy as an economic and social system emerged not without reason in a period where, after the Second World War, the formidable task of restructuring and of societal reorganization had to be tackled. The German social system was a contributing factor in Germany's development as one of the world's leading economic nations. It was the foundation and the driving force of economic reconstruction. It also contributed to the rapid internal stabilization of the young democracy in the Federal Republic. The social market economy was not the crowning conclusion of a process of renewal but its basic support throughout.

The completion and consolidation of internal German unity would not have been possible without the support of social policy either.

The rate of unemployment in Germany as a whole was 10.6 per cent in August 1998, 9 per cent for West Germany and 17.1 per cent for East Germany.

In the first half of 1998 GDP was 2.9 per cent higher in real terms than in the previous year. Also, in long-term comparison, continuous growth rates of the GDP took place.

Looking at the German social budget and the social expenditure rate clear evidence of the effects of the transformation process following unification which Germany has to cope with. Since 1990 the social expenditure ratio was continuously rising to 34.4 per cent in 1997. If we differentiate between the old and the new German States we get a clearer picture. In 1997 the social expenditure ratio for West Germany amounted to 31.7 per cent, whereas for East Germany it was 54.4 per cent. (See table 1)

Table 1: Social budget, social expenditure ratio and GDP.

Year	Social budget in bn DM	Social transfer 1) in % of GDP	GDP in bn of DM		
1960	65.6	21.7	302.7		
1961	73.0	22.0	331.7		
1962	80.7	22.4	360.8		
1963	86.9	22.7	382.4		
1964	95.7	22.8	420.2		
1965	106.6	23.2	459.2		
1966	117.6	24.1	488.2		
1967	127.6	25.8	494.4		
1968	137.5	25.8	533.3		
1969	152.4	25.5	597.0		
1970	175.8	26.0	675.1		
1971	201.3	26.9	749.5		
1972	228.7	27.8	823.1		
1973	258.6	28.2	917.3		
1974	298.1	30.3	983.8		
1975	343.2	33.4	1'026.0		
1976	368.3	32.9	1'120.3		
1977	391.5	32.8	1'195.0		
1978	412.6	32.1	1'283.4		
1979	438.1	31.6	1'388.4		
1980	474.1	32.2	1'471.5		
1981	507.3	33.1	1'534.8		
1982	524.5	33.0	1'588.1		
1983	533.7	32.0	1'668.5		
1984	551.8	31.5	1'750.9		
1985	573.2	31.4	1'823.2		
1986	601.0	31.2	1'925.3		
1987	627.2	31.5	1'990.5		
1988	654.3	31.2	2'096.0		
1989	671.9	30.2	West	East	2'224.4
1990 2)	731.5	29.0	29.1	-	2'522.8
1991	883.1	30.9	28.7	60.2	2'853.6
1992	998.9	32.4	29.2	66.8	3'078.6
1993	1059.0	33.5	30.4	60.6	3'163.7
1994	1108.3	33.3	30.5	55.8	3'328.2
1995	1177.9	34.0	31.3	55.1	3'459.6
1996	1236.1	34.9	32.1	56.0	3'541.5
1997 3)	1256.1	34.4	31.7	54.5	3'654.1
For information: social budget 1996					
	Total 4)	West	East		
		- DM bn -			
General system of which:	811	622	189		
-Statutory pension insurance	376	290	86		
-Health insurance	247	205	42		
-Care insurance	21	18	4		
-Employment promotion	139	86	53		
benefit system of the	88	86	2		
public sector					
Employer's benefits	97	88	9		
Compensations	17	15	2		
Social aid, social service	104	88	16		
Tax measures	67	61	6		

Other	53	45	8
Total	1236	1005	232

- 1) Social transfers in per cent of GDP
2) Since 1990 (second semester) including new Länder
3) Estimated
4) Percentages may not add up to 100 because of rounding

In total the public budgets transferred 1,369 billion DM to the new German States. The major share of the transfers to the amount of 943 billion DM was shouldered by the national budget; the social insurance system contributed 236 billion DM. (See table 2)

Table 2: Transfers from West to East

Old Länder					
Year	(statutory) Pension insurance	Health insurance	Unemployment insurance	Care insurance	Total
1970	17.0	8.2	1.3		26.5
1971	17.0	8.2	1.3		26.5
1972	18.0	8.4	1.7		28.1
1973	18.0	9.2	1.7		28.9
1974	18.0	9.5	1.7		29.2
1975	18.0	10.5	2.0		30.5
1976	18.0	11.3	3.0		32.3
1977	18.0	11.4	3.0		32.4
1978	18.0	11.4	3.0		32.4
1979	18.0	11.2	3.0		32.2
1980	18.0	11.4	3.0		32.4
1981	18.0	11.8	3.0		32.8
1982	18.0	12.0	4.0		34.0
1983	18.5	11.8	4.6		34.9
1984	18.5	11.4	4.6		34.5
1985	from 1.6. 19.2	11.8	4.4		35.4
1986	19.2	12.2	4.0		35.4
1987	18.7	12.6	4.3		35.6
1988	18.7	12.9	4.3		35.9
1989	18.7	12.9	4.3		35.9
1990	18.7	12.5	4.3		35.5
1991	17.7	12.2	6.8		36.7
1992	17.7	12.5	6.3		36.5
1993	17.5	13.4	6.5		37.4
1994	19.2	13.4	6.5		39.1
1995	18.6	13.2	6.5	1.0	39.3
1996	19.2	13.4	6.5	from 1.7. 1.7	40.8
1997	20.3	13.6	6.5	1.7	42.1
1998	20.3	13.6	6.5	1.7	42.1
1999	20.2	13.6	6.5	1.7	42.0

New Länder					
Year	(statutory) Pension insurance	Health insurance	Unemployment insurance	Care insurance	Total
1990	18.7	12.8	4.3		35.8
1991	17.7	12.8	6.8		37.3
1992	17.7	12.7	6.3		36.7
1993	17.5	12.5	6.5		36.5

1994	19.2	13.0	6.5		38.7
1995	18.6	12.8	6.5	1.0	38.9
1996	19.2	13.4	6.5	from 1.7.	40.8
1997	20.3	14.0	6.5	1.7	42.5
1998	20.3	14.0	6.5	1.7	42.5
1999	20.2	14.0	6.5	1.7	42.4

Table 3: East West Transfer payments 1991-1999

	1991 Ist	1992 Ist	1993 Ist	1994 Ist	1995 Ist	1996 Ist	1997 Ist	1998 Provi sional	1999 Plan	1991- 1999
					bn DM					
Total Transfer all households	139	151	167	169	185	187	183	189	194	1564
of which:										
Federal budget	75	88	114	114	135	138	131	139	140	1074
of which special transfer (Einzelplan 11)	16.4	31.6	46.4	39.2	41.0	47.2	42.2	50.1	49.1	363
of which Allowance for										
- Pension insurance	7.5	8.6	10.0	12.5	14.1	15.3	16.7	19.8	21.9	126.4
- Public Employment Service (BA)	1.0	13.8	24.4	10.2	6.9	13.8	9.6	14.1	11.0	104.8
Social insurance	24	29	24	30	32	31	34	32	36	272
of which - Pension insurance (without federal allowance)	-	4.5	8.8	12.5	16.7	19.3	18.0	17.9	19.0	116.7
- Employment Service (without federal allowance)	23.6	24.6	15.1	17.4	15.1	11.8	16.6	14.3	17.0	155.5
Länder / districts (west)	5	5	9	14	11	11	11	11	11	88
“German Unity fund”	31	24	15	5	-	-	-	-	-	75
European Union	4	5	5	6	7	7	7	7	7	55

The transformation process in the new German States is to a large extent handled through the social insurance system and labour market policy for that matter. The contribution to unemployment insurance increased from 4.3 per cent in 1990 to 6.5 per cent in 1993.

Labour market policies contributed to a significant easing of the situation on the labour market. In August 1998 the number of beneficiaries of the major labour market instruments were as follows:

•Further training	153 600 persons
•Job creation	199 300 persons
•Structural adjustment	192 300 persons

Those who are familiar with the internal political situation in the new German States will have doubts whether without the support of social policy the population in the former GDR would have shown such a measure of acceptance of the rapid and tough transformation process. The social transfers have made the rapid change acceptable and indeed possible. Any criticism of the high level of social expenditure in Germany should therefore bear in mind that a large part of it is the consequence of German unification. Questions as to the mode of financing (budget or social insurance) are certainly more than justified.

Social policy increases and upgrades human resources

Third: In a globalized economic world the competitiveness and efficiency of a national economy is largely determined by the performance capacity of its people. The benefit we gain from globalization essentially depends on whether and to what extent we succeed in fostering and harnessing the skills and abilities of our workforce. Social policy contributes to upgrading and increasing the human resources of the overall economy by enabling a far greater number of people to invest in their skills and develop their talents. What is more, social protection encourages many more people to accept that a certain risk may be involved.

It is not without reason that Robert Reich, the former US Labor Minister, in an interview in the weekly magazine "Der Spiegel" recently praised the German educational policy and at the same time was highly critical of his own country. To the question whether we were witnessing the end of the middle-class society, he replied: *"Not necessarily. We have failed to do what you have done in Germany: provide the lower half of the population with a high minimum standard of education. Your vocational training is legendary, your school education very good. In our country many people do not have these opportunities. This entails a direct danger to economic growth."*

And, talking about the widening gulf between a small number of well-paid high-skill jobs on the one hand and the mass of low-wage jobs on the other, he added: *"That's how it is in America. Many people do not have the training for better jobs."*

His words of praise should not be left without some qualification. Quite a few elements of German educational policy are in need of reform or innovation. However, Robert Reich is right when he writes in his fundamental statement: *"There is no economic logic which requires a large number of low-wage jobs to reach full employment. The rapid technological change will enable a broad middle class to get work and good wages through technical skills."*

Social policy must remain economically sustainable

The network of social protection is therefore not only cost-generating. Over and above the social aspect, social policy also creates important economic countervailing values. Social policy can be an element of performance enhancement in the overall economy. It is thus not only a humanitarian act, but at the same time an essential, positive economic factor.

Therefore, a clear negative correlation between economic growth and social expenditure cannot empirically be established. It can be demonstrated that successful economic policy in terms of growth enhancement can be achieved both with financially tight and generous concepts of social policy.

On the other hand, social policy makers must not lose sight of the inseparable link between the overall economic capacity and the level of social protection. We can only distribute or redistribute what we have earned by economic activity. The social state must not make excessive demands on the potential of an economy. It has to adjust to future challenges.

Demographic change

Looking at the percentage in the total population of people aged 60 and over, the basic demographic situation is very similar in all EU countries, as it is in the other highly industrialized countries.

Table 4: Share of people over 60 in total population 1996

	Share in %
Italy	22,3
Greece	22,3
Sweden	21,9
Belgium	21,5
Spain	21,2
Japan	20,9
Germany	20,9
United Kingdom	20,5
France	20,3
Portugal	20,2
Denmark	19,9
Austria	19,8
Luxemburg	19,1
Finland	19,0
The Netherlands	17,3
For information:	
Japan	20,9
The United States	16,5

Source: Bundesinstitut für Bevölkerungsforschung beim Statistischen Bundesamt, 1997

In all industrial societies the percentage of elderly persons is growing because of two reasons: average life expectancy is on the increase, i.e. people get older, and birth rates are declining or stagnating at low levels. In 1995 in the EU there were just under 4 million live births compared with 3.7 million deaths. In 1965 it was 6.1 million live births compared with 3.5 million deaths.

The reason for the decline in the number of births is a significant change in the reproductive pattern of the population, which is particularly evident in the decreasing number of families with several children.

Within three decades, the birth rate in EU member countries went down by almost 50 per cent. Germany is an example for a closer look at this development and its foreseeable long-term effects, which can be considered a secular trend.

For a quarter of a century Germany has had a low birth rate and at the same time the secular growth in life expectancy continued. In the ten years between 1983 and 1993 alone, the life expectancy of 65 year olds increased by 1.4 years, which is an increase by 1.7 months for each calendar year. And there is no indication that the trend of birth rates or life expectancy is going to change over the next decade. In Japan, for example, the current life expectancy of men 65 years is two years more than in Germany.

The low birth rates of the past 25 years and the still rising life expectancy are leading to a profound shift in the age structure of the population. Over the next decades the number of older persons will go up considerably; their share in the population will notably increase. Conversely, the younger and middle generations will decrease in numbers as a result of the declining birth rate. According to the intermediate variant of the model calculations of the Inter-Departmental Working Group for Population Issues at the German Ministry of the Interior, the share of the over 60 year olds will rise from about 21 per cent in 1996 to nearly 36 per cent by the year 2030. For comparison: in 1960 not more than 17 per cent of the population was over 60 in Germany as a whole.

The number of persons aged 60 and over is projected to rise from 16.9 million at the beginning of 1995 to roughly 25.3 million in the year 2030.

This changes the face of our society; the age structure becomes different. The older age cohorts will be more strongly represented in the potential labour force. And there will be a shift in the ratio between the economically active persons and those who have ceased to be active. This development will be felt at the latest from the year 2020 onwards when the baby boom generations born before the mid-1960s start to reach retirement age.

In its "Report on the Demographic Situation in the Member States in 1997", the European Commission makes the following assessment of the population developments in the European Union:

- Demographic change has caused additional tensions in the labour market in the past ten years. Together with the increased labour force participation of women, the entry into the labour market of the last baby boom generations has contributed to a rise in the manpower supply.
- Henceforth changes in the labour force participation will be of prime importance for the development of the manpower supply. As from 2015 the labour force potential will decline as a result of the population development. This can only be offset by an increase in the activity rate of women and a higher degree of economic activity among persons over 55. Yet the latter can only be achieved with a prolongation of working life.

Even though the labour force potential will remain relatively stable up until the year 2015, the population development will lead to a continuous increase in the average age of the potential labour force. From 1995 to 2015 the share of the age group 20 to 29 years will drop by 20 per cent, that of the 30 to 49 year olds will remain constant, whereas the proportion of 50 to 64 year old persons will go up by as much as 26 per cent. This creates new challenges not only for the labour market and for work organization but also for further vocational training.

Social market economy: A concept also for the future

The social market economy is all in all a sustainable and beneficial concept, also for the future. It should therefore be defended against its critics. And without an adequate social protection as desired by society a market economy is not a social market economy. In a social market economy, social policy is far more than only a means to combat poverty and plight.

If the social protection systems keep within the confines of the macroeconomic capacities and adapt to the changed framework conditions, there is no need to limit social policy to the fight against poverty and plight. Any demands to this effect are to be rejected outright. They would neither meet the needs of the citizens nor would they correspond to the economic requirements.

A representative opinion poll commissioned by the weekly "Die Zeit" and published in early August showed that, contrary to allegations of a conflict between the generations, Germans, for example, wish to keep a statutory pension system which guarantees security in old age. Whereas three out of four respondents consider reforms to be necessary, only one out of five favour a radical change. Accordingly, 73 per cent of the respondents reject the idea of a basic pension. So Germans have a strong preference for a statutory pension system which has more to offer than a national welfare scheme for old age with benefits just above subsistence levels.

But the population, in particular the younger generation, is more open towards private provision, and the tremendous value increases in the financial markets over recent years have certainly contributed to this attitude. This can at least be assumed in the light of the frequent wish to invest in equities. But the recent developments at the stock exchanges should have led to a more sober assessment of the actual long-term possibilities and risks of the stock market.

The financial crisis in South East Asia and Russian Federation and its massive impact on the trading centres throughout the world should give us food for thought with regard to old-age pension schemes. Events have once again shown the importance of a statutory pay-as-you-go pension system for the provision of security in old age, a pension system whose financing rests on the real ability of the economy and is not based on the virtual and highly volatile developments in the world of finance. Undeniably the financial markets could also decouple themselves lastingly and fully from the real economy. Yet is not much help to the individual pensioner if he has to find that his pension entitlements have fallen prey to a volatile world of finance.

But the financial crisis in South East Asia also shows that unemployment cannot be prevented for good if the government largely refrains from regulating the labour market and from providing social security as liberal economists have demanded time and again. High labour market flexibility and a low level of social security or even a total lack of it do not guarantee a low level or total absence of unemployment.

It is assumed that the countries afflicted by the financial crisis, i.e. Indonesia, the Republic of Korea and Thailand, will experience a massive rise in unemployment. I understand that the ILO expects unemployment rates in Thailand and the Republic of Korea to rise to around 11 per cent in the course of this year and does not rule out that the rate in Indonesia might even exceed 20 per cent. But economists also reckon with a marked surge in unemployment in New Zealand, which in itself is not involved in the financial crisis but whose real economy is increasingly caught in the whirl of events.

Even if it has faded into obscurity in view of the remarkable past economic prosperity of these countries, unemployment is a risk which is substantially determined by overall societal and even global economic developments and therefore cannot be avoided by relinquishing social protection. Time will tell in how far the clearly apparent social tensions in the “Tiger states” can be kept in check. Hopefully in the future of these countries the lack of good institutional social protection mechanisms does not turn out to be the Achilles heel in the efforts to overcome the crisis.

Social market economy: A concept not only for industrialized countries

Even today the concept of the social market economy is still an attractive alternative to a pure market economy. The social market economy is no “fair-weather concept”. Hence a social market economy might be a possible societal alternative for the countries of Asia, Latin America and Eastern Europe which will hopefully soon be “rising” again. In 1966 Müller-Armack wrote: *“It [- the social market economy -] is ... a solution which might be necessary in one form or other for all those states which strive to achieve also social objectives on the basis of individual freedom. Basically not only the Federal Republic of Germany but the entire free world faces the challenge to reconcile liberal structures and social protection.”*

This does not mean to simply copy Germany’s achievements in the area of social security. This would in fact by far overtax the capacities of other economies. In the Federal Republic of Germany, too, the social network became closer only with increasing prosperity. There is no reason to criticize developing countries for adopting a cautious social policy approach commensurate with their level of development.

More employment in Germany is possible.

Already in 1996 the Institute for Employment Research had used the macro-econometric SYSIFO model to simulate the effects of employment measures such as shorter working hours, wage policy measures, changes in the tax burden and measures affecting the demand side.

Synergy effects, and quite considerable ones, arise when measures are combined to form strategy packages. This means if employment measures are part of a coherent programme, a “plus” in employment can be expected.

The results of the simulations are interesting and astonishing. Depending on the chosen strategy package, the employment figures could rise by more than 2 million persons by the year 2000. By the year 2005 the employment effect would be even more pronounced.

One of the promising measures would be an increase in the share of part-time employment. Some 5 per cent increase in the rate of part-time employment would create some 500, 000 jobs by the year 2000.

Another remarkable finding of this study is that a classical demand-based policy embedded in a European offensive to stimulate the economy, that is a European-wide increase in government investment, would lower unemployment figures in Germany by 200, 000 to 300, 000 and would lead to a decrease in the debt-equity ratio. Experience has shown that demand policy at the national level would fall flat, as was the case with the solo effort of France in the early 1980s.

A reduction of the tax burden would also have considerable employment effects. A package of measures composed of an increase in collectively agreed wages, which would offset inflation, a 40 per cent reduction in overtime, an additional increase in the rate of part-time employment by about 5 per cent, the elimination of trade tax and an year-on-year decrease of the rate of social insurance contributions by 1 per cent would, by the year 2000, raise employment by about 2.4 million and bring down unemployment by around 1.5 million.

A simulated introduction of the 35-hour week also revealed major employment effects by the year 2000. According to this simulation, the number of unemployed persons would fall by over 500, 000.

Of course it would be naive to simply project these results onto reality. Such models can only give a fairly adequate simulation of the macro level, and here in particular the demand aspects. But the model normally disregards the effects of the measures on the micro level which in turn may have repercussions on the macro level.

Especially in view of the identified effectiveness of an introduction of the 35-hour week by the year 2000, which the simulation has shown to bring considerable quantitative improvements, it has to be noted that working hour reductions would cause organizational problems for the small and medium-sized enterprises.

None the less the simulation results confirm that action in the field of employment policy is indeed possible and can make a substantial contribution to bringing down unemployment. The simulation outcome regarding the strategy packages shows that creative action is called for from employers, trade unions and policy-makers alike.

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