Editorial

Gert G. Wagner,
Research Director
Social Risk Management, asks:

'Farewell to the Welfare State?'

Folk wisdom suggests that the German economy can no longer afford its strong welfare state. In the public domain a 'farewell to the welfare state' is under discussion. However, a closer look reveals that the high contribution rates to the statutory social insurance systems (health, unemployment, disability, old age and long-term care) are not a burden on firms because the employees pay those contributions out of their own pockets. There can be no doubt about this fact: in Germany the unit labour costs did not increase in the late 1990s relative to the major OECD countries, but – especially if measured on a domestic basis – rather decreased compared with those countries.

The real problem with the contribution rates is their acceptance by the employees and their families. If they feel that the social insurance system does not deliver a solid safety net, they will try to avoid contribution payments. They can do this by reducing the labour they supply. First, this is possible if spouses do not supply labour at all. The second option – which does not exist in most other western countries – is to work as a self-employed or as a 'marginally employed' person (who works less than 15 hours per week and earns not more than 325 euro per month). In Germany self-employed persons and the 'marginal employees' are not covered by statutory social insurance contributions. Thus, it is no surprise that a lot of people work in these sectors and do not pay contributions to the social insurances. Especially the sector of 'marginal employees' is exceptionally large, with more than 10% of all gainfully employed persons. Last but not least, as everywhere else in the world, employees can work less overtime or supply labour in the shadow economy.

Why do people try to avoid contributions to the statutory insurances? A strong safety net is earnestly desired by almost all people. Even in a society such as that in the US the demand for insurances is high. On average, private insurance contracts and self-insurance are not cheaper than mandated insurances. And for some risks, for example unemployment, there are no private insurance markets at all. If people are trying to avoid the contributions the reason must be the quality of the safety net which is provided. Thus, it must be the structure of the contributions, benefits and social services that is not persuasive in Germany, and not the level. A recent example is the poor service of the employment office (Arbeitsamt).

The real challenge for the German Welfare State is not a substantial lowering of expenditures of the statutory social insurances but a restructuring of the rules on contribution payments and how the monies are spent. In particular, social services and training services must be improved. Finding a good solution for a better social risk management will not be an easy task by any means, but farewell to the welfare state is certainly not the right answer.