

Meeting Tomorrow's Challenges:
Towards A Future-Proof Social Security System

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Ladies and Gentlemen,

First of all, I would like to thank you for the opportunity to speak to you today about the key elements of the reform programme which, more than any other theme, is currently occupying the minds of the Government – and, of course, the political opposition – in Germany. I am referring to the restructuring of our social security systems and employment policy, which is being done in order to establish them on a sound basis for the future.

Please do not expect an in-depth analysis of economic and social policy from a specialist in this field. My particular area of expertise is domestic policy. I was Parliamentary State Secretary to the Federal Minister of the Interior for four years, and for the last eighteen months, I have chaired the Bundestag Committee on Internal Affairs.

Nonetheless, I have chosen this topic because it is symptomatic of the situation in other European Union states as well, especially the relatively wealthy industrialized nations on our continent.

In Italy, France and of course in Germany, major demonstrations have taken place in recent weeks. Most of the protesters are working people, representatives of the political parties' youth organizations, anti-globalization campaigners, and, not least, older people.

The measures which they are protesting about are all similar in nature. They include a tightening of the rules governing the acceptance of reasonable job offers, higher demands on pensioners, and additional patient charges for doctors' appointments and hospital treatment. Governments which adopt this type of measure find themselves in turbulent waters. They are invariably penalized at regional elections, as we have seen not only in Germany, but also very recently in France. They see their poll ratings plummet. Yet none of their critics has a viable and convincing alternative to offer. So the governments – despite being under fire – are therefore saying that they will continue with their reform agenda, even if it is a painful process. They see no other option.

In my speech, I will map out the course that we have adopted in Germany. I do so from my perspective as a member of the SPD, the party which – together with the Greens – has formed the Government in Germany since 1998. But I will try to describe the situation as objectively

as possible. I will not draw a veil over the mistakes made by this coalition, and will outline the dilemma facing us. I will conclude by setting out the objectives that we are seeking to achieve.

German social policy is based on a clear commitment to the principle of solidarity, which has been refined over many decades. This means that the working members of society provide for those who are not yet, or are no longer, economically active. The strong provide for the weak, in the understanding that they too could find themselves in a situation in which they are reliant on others' support. In the workplace, employers and employees share the costs on a 50-50 basis. The key feature of the pensions system is the principle of social provision in old age, which reflects intergenerational justice. For civil servants, the pillars of the system are their duty of loyalty to the state and the state's resulting obligation to provide for the official's welfare. Health policy is based on the solidarity principle: the insured person co-finances the services which he or she may need if he or she becomes sick. However, everyone can expect to receive treatment and assistance – even if they are not yet gainfully employed or, as a non-employed wife (or occasionally husband), have paid no financial contributions of their own. During the decades of Germany's economic upswing, when there was economic stability and a balanced ratio between contributors, pensioners and the young generation, this system worked well. However, this balance no longer exists, and has not done so for many years. These are the reasons for the crisis:

- Despite a number of counter-measures and various employment promotion schemes within the framework of "active labour market policy", the unemployment figures remain at a high level. Nationwide, there are around 4.5 million jobless, which corresponds to an unemployment rate of almost 11 percent. In some regions, especially in eastern Germany, the rate is far higher.
- In Germany, labour is expensive. The problem is not so much wages and salaries but the high financial contributions, especially for unemployment, pensions and health insurance. Globalization enables and encourages many companies to shift all or part of their production to other countries. As a result, jobs disappear. This further weakens our social security systems which used to be financed by the contributors.
- Last but not least, let me mention "demographic change" – our ageing society. Today, four people work to support one retired person in Germany. By 2030, the ratio will have fallen to 2:1. In Germany, as in other industrialized countries, people are living longer, thanks to the very welcome advances in medical science. As a result, the

average pension term – i.e. the number of years spent in retirement – has increased from 9.9 to 16 years, and this upward trend will continue. But there is also a shortage of young people. In the 1950s and 1960s, the average family had 2.5 children. Today, it is just 1.3. Germany's birth rate is trailing behind almost every other country in Europe; only Italy's birth rate is lower.

I am sure that the scenario I have described is familiar to you. Similar trends are apparent in the other highly developed industrialized countries as well. In Germany, however, two other specific factors come into play:

1. Although almost 15 years have passed since the end of the Cold War and the fall of the Berlin Wall, we are still in the process of building a unified Germany. The great gift of German unity is presenting us with a great many financial and social problems at the same time. We have to dismantle the legacy of the GDR and address the consequences of its mismanagement and obsolete production processes. We have to modernize urban and rural infrastructure and the road and rail network, and generate an economic upturn which is self-sustaining. Substantial progress has been achieved, but the task is far from complete. Reconstructing eastern Germany – *Aufbau Ost*, as we call it – entails a massive amount of money: 1200 billion (equivalent to almost 2000 billion Australian dollars) have flowed into the project to date.
2. Another specific feature of Germany is its highly developed federal system. Many laws which we adopt in the German Bundestag must pass through the Bundesrat, the chamber representing the *Länder* or federal states. In the Bundestag, the red-green coalition has a slim majority. The Bundesrat, on the other hand, is dominated by the conservative-led *Länder*. This forces us to make compromises. Conflicting concepts of the future must be brought into line. This undermines the clarity of the political strategy and slows the pace of reform.

Let me pause briefly and clarify one point so that no misunderstandings arise. Germany still has a strong economy. In the export sector, we sold more goods and services in 2003 than any other country in the world. We enjoy high levels of prosperity; today's pensioners have, on the whole, a better life than any previous generation. A German songwriter recently quipped: "In

most other countries, people wish things were as bad as they are here." In terms of the prevailing mood in Germany, I admit that we do have a tendency to complain – but we do so from a very comfortable position! But for the reasons that I have outlined, we cannot continue along the same economic and social policy course as before. A great many changes are needed, and these changes should have been introduced some years ago. I say this to the Kohl Government, which guided the fortunes of my country until 1998, and I also say it to my own party. We too should have woken up to reality much earlier and told our citizens some unpleasant truths.

Against this background, in a policy statement in March 2003, Chancellor Gerhard Schröder set out the key elements of Agenda 2010 – a programme of reforms which will occupy our minds now and in the coming years. The aim is social and economic renewal, so that Germany can remain a country of prosperity and social justice under the very different conditions that now prevail. The reforms include the amendment of the legal provisions relating to job-seekers so that they can be placed in jobs more quickly and efficiently. To this end, we are in the process of radically reorganizing the local employment offices, which are managed by one of the major federal authorities.

However, more flexibility and individual initiative are being demanded from the unemployed as well. There is a greater incentive, but also greater pressure, to accept a job – even if it involves longer distances to travel and lower pay. Competition among training providers is also being intensified. The aim is to curb the trend towards early retirement and offer every young person, as far as possible, a training place or some other form of qualification – so that no one can make a career out of claiming income support. At present, a highly contentious issue being debated in Germany is the introduction of a "training levy". This system would reward companies which offer a large number of training places, but would oblige firms which offer little or no training to pay into a fund. As you can imagine, there is considerable resistance to this scheme.

The most difficult aspect of Agenda 2010, however, is the restructuring of health and pensions insurance. Pensions will not be increased this year, and may not be increased next year. From 1 April 2004, pensioners will also have to pay all of the nursing care insurance contribution, rather than paying a proportion, as was previously the case. The tax burden on pensions is being increased – but the contributions made by working people to pension schemes are now

tax-deductible. A "sustainability factor" is also being introduced into the pensions system. This means that in future, the rate at which pensions are increased annually is linked to the number of contributors to the system and to labour market trends.

From our pensioners' perspective, these are harsh reforms – hence the mounting protests from senior citizens' organizations. But we must not forget that today's pensioners are in a far better financial position than any generation before them. What's more, we must now ensure that the younger generations will also be able to build up their pension and health entitlements under acceptable conditions. They already have to pay more private contributions than was the case for today's older generation. Unfortunately, however, there is still little recognition that intergenerational justice also means that older people are responsible for the young generation.

Most of the public's anger, however, is directed at the health reform, which came into force at the start of the year. It obliges every patient to pay a "practice fee" of 10 (16.27 Australian dollars) when first visiting the doctor each quarter. Patients' contributions to the costs of drugs and hospital treatment have also increased. Besides these charges, the health reform also introduces a number of genuine reform measures: for example, it establishes an independent body to monitor the quality and responsible pricing of services provided by doctors, hospitals, the pharmaceuticals industry and health insurers. It also provides for the appointment of a Federal Government Commissioner for Patients' Affairs – i.e. an ombudswoman. Individual responsibility on the part of insured persons and a preventive approach to healthcare are being rewarded. But all this is barely registered by the public. The prevailing mood is outrage about the practice fee. People ignore the fact that children and young people under 18 are exempt, that the chronically sick are not expected to pay more than one percent of their income in total, and that social considerations continue to play a major role.

The health reform aims to curb the very strong tendency in Germany to visit the doctor for every minor ailment. It aims to reduce consumption of prescription drugs and encourage a sensible diet and lifestyle. We lead the field internationally in terms of the number of doctors' visits, but we are still no healthier than citizens in other comparable European states.

The overall aim is to reduce the level of contributions to the statutory health insurance schemes. This in turn – like the reforms in pensions provision and the new labour market policy measures – will lower Germany's non-wage labour costs, or at least keep them at a stable level. It is these costs – as I have already mentioned – that make labour so expensive in Germany, thus accelerating the exodus of companies. But these costs also make a large dent in workers' pay packets. We must constantly make this correlation clear to the public, and that is a difficult task. The reform is highly unpopular. That is why support for the SPD – which secured almost 39% of the vote at the parliamentary elections in autumn 2002 and was confirmed as the strongest party in the Bundestag – currently stands at just 25-27% in the opinion polls. If Bundestag elections took place in Germany tomorrow, the CDU/CSU could expect to secure an absolute majority – and this has been the case for months. Yet the popularity of our smaller coalition partner, the Greens, is largely unaffected by the reform debate. Their poll ratings remain stable, although we take all the tough decisions together. But this situation is not surprising. After all, labour, the economy and social security are the very issues which have long been associated with the Social Democrats. That is why public discontent and indignation against those responsible are having such an impact. The SPD's supporters do not see any "red thread" of social justice running through these measures. That is why more and more people are leaving the party, and that is why the trade unions' relationship with the governing party has clearly worsened.

In my view, many people who cling to the traditional ways of thinking are over-simplistic in their definition of "social justice". It does not just mean expecting the strong to shoulder heavier burdens than the weak. It also means fostering a commitment to the common good. And that means that a contribution must be made not only by the productive members of society but also by those who – quite rightly – rely on the help and advice of the state and the community when they find themselves in crisis or in need. But nor does it just mean redistribution from the top down. It also means redistribution between the generations: older people are being asked to make sacrifices in order to help the younger ones. And because more needs to be done for families in Germany, so that women and men can achieve a work/life balance, the state is investing in the expansion of all-day schools and day-care facilities for pre-school children – at a time when public budgets are tight. There are clear deficits in these areas in Germany compared with other European countries, which need to be addressed.

Ladies and gentlemen, what I have described to you is not a radical new start but a reform which preserves the pillars of our social security system. We are currently considering other changes too, such as a system of "citizens' insurance", but this debate is still in progress. One thing is clear, however: we need more contributors to the pensions and unemployment insurance schemes. It is also clear that our reforms must go hand in hand with a recovery of the economy. This is the only way to ensure that people accept what we are doing. At present, we are going round in circles: the mood in the country is worse than the reality, and as a result, there is a lack of courage and motivation to invest and consume – which in turn repeatedly slows down Germany's sputtering economy.

Above all, however, we must overcome egoism – the egoism of individuals as well as the lobby groups and professional associations which are very powerful in Germany. The major demonstrations against the social reforms which we are witnessing in Germany at present are not popular "grass roots" movements, but are steered by the trade unions and the major social lobby groups. I am critical of the trade unions in this respect, even though I myself have been a trade union member for many years. What they lack is a viable concept which offers a genuine alternative to the Government's measures.

On the other hand, it is in our interests to have strong trade unions. Over the decades, they have made a substantial contribution to domestic peace and a balance of social interests in Germany, and have secured many rights for workers which we maintain to the present day and want to maintain in future. These include co-determination, workplace labour relations, collective bargaining autonomy, and generous working hours and holiday entitlements. This entire framework of progress and benefits for the workforce in private companies and, of course, for workers, employees and civil servants in public service still stands – let me emphasize this point – on firm foundations.

If we can send out a clearer message that none of this is at risk, that the labour market and health reforms are taking effect, and that innovations in family policy facilitate a work/life balance and promote education, we will have overcome one of the toughest hurdles. Let me conclude by quoting a few sentences from the policy statement made by Chancellor Schröder at the end of March this year, one year after work on Agenda 2010 began:

"The concept of a social state has many critics today. There are those who preach the message that, in the era of globalization, only unbridled market liberalism can ensure competitiveness. In their reckoning, every society is divided into winners and losers. But there are also those who want to defend the old type of social state at any price. They confuse the "social state" with a "welfare state" and oppose any reform, claiming that this constitutes an "assault on justice".

Germany's progress towards new strength will be based on defending the social state, not eliminating it. That is our answer to all those who see reforms solely as a form of "renunciation" – and that includes those who constantly preach renunciation provided that it only applies to others."

Ladies and gentlemen, thank you for your attention.