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## Social insurance and the German political economy

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**Social Insurance  
and the German Political Economy**

**Philip Manow**

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### Abstract

Studies of the welfare state usually try to find out which factors have contributed to its ascendancy since the end of the nineteenth century and which factors explain the various approaches different countries took in providing a *new social insurance* to cover *new social risks* in industrialized society. Among the many paths government and society could have taken toward institutionalizing social security, why were particular ones chosen? The following question, however, has not yet been the subject of thorough investigation: To what extent is the welfare state itself an explanatory variable for the route taken by each industrialized country? Recently there has been a growing interest in the large variations among countries regarding their "social systems of production" (Boyer/Hollingsworth). But, interestingly, such research has failed to examine the welfare state's role in the development and stabilization of different systems of production. Using the history of the coevolution of the Bismarckian welfare state and the German 'corporative market economy' as an example, the author demonstrates that scholars who overlook the connection between the development of the welfare state and of national capitalism will be unable to adequately understand the inner workings of each.

### Zusammenfassung

Die Wohlfahrtsstaatsforschung hat bislang vor allem zu klären versucht, welche Faktoren für den Aufstieg des modernen Wohlfahrtsstaats seit Ende des letzten Jahrhunderts verantwortlich sind und worauf die große Bandbreite der Lösungswege zurückzuführen ist, die die Staaten hinsichtlich der institutionellen Gestalt der *neuen sozialen Versicherung* gegen die *neuen sozialen Risiken* einer Industriegesellschaft gewählt haben. In welchem Maße der Wohlfahrtsstaat selbst als eine erklärende Variable für den spezifischen Entwicklungsweg anzusehen ist, den diese Industriegesellschaften genommen haben, ist bislang nicht systematisch untersucht worden. Auch das neuerdings gewachsene Interesse an der von Nation zu Nation stark variierenden Gestalt ihrer jeweiligen „social systems of production“ (Boyer/Hollingsworth) hat dem Wohlfahrtsstaat als einem wichtigen Faktor bei der Ausbildung und Stabilisierung unterschiedlicher Produktionssysteme bislang keine Aufmerksamkeit geschenkt. Dieser Aufsatz zeigt exemplarisch anhand der Geschichte der Koevolution des Bismarck'schen Wohlfahrtsstaats mit der deutschen ‚korporativen Marktwirtschaft‘, daß die Vernachlässigung des Zusammenhangs zwischen Wohlfahrtsstaatsentwicklung und nationalem Kapitalismus einem angemessenen Verständnis der Funktionslogik beider Komplexe im Wege steht.

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## 1 Introduction

Although no consensus has been reached so far among academics concerning the question how many different ‘worlds of welfare capitalism’ need to be distinguished, there is general agreement on the number of different ‘worlds of comparative welfare state literature’ that can be identified. This is commonly acknowledged to be three (for a recent account see Kersbergen 1995: 10–23). It is usually agreed that the literature can be reasonably classified into the following: *industrialism*, a variant of the modernization theory that was particularly dominant in the 1960s and early 1970s (e.g., Rimlinger 1971); the *power resources approach*, which was largely a product of the neo-Marxist theories that prevailed in the 1970s (e.g., Korpi 1983), and a *statist/institutionalist approach*, which has become influential in the literature on the welfare state since the mid-1980s (e.g., Skocpol 1992). Whereas the first approach emphasized the intimate link between the development of the welfare state and functional differentiation in modern society, the introduction of universal male suffrage and the increase in the ‘wealth of nations’ as a result of the Industrial Revolution, the second stressed the strength of labor movements and the political influence of social democracy. Recently, this approach has been supplemented by an analysis of the importance of the Right, especially Catholic parties, in the development of the welfare state. According to the institutionalist school, of which Hugh Heclo was an early representative and which is most impressively embodied today by Theda Skocpol, the specific paths followed by different countries in the development of the welfare state can largely be explained by the specificities of state structures. In one country, these structures made it possible for relatively autonomous representatives of the state, such as enlightened civil service reformers, to implement deliberate reform strategies, while in another country the omnipresence of ‘machine politics’ hindered and delayed the emergence of universal social programs administered by an independent Weberian state bureaucracy (cf. Orloff 1993).

The same large body of literature, however, also contains a number of examples in which the causal relationship is reversed, emphasizing for instance the positive impact of the welfare state on industrial growth and on functional differentiation

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in society (cf. Vobruba 1989), the role of the welfare state in strengthening and shaping the labor movement (cf. Rothstein 1992; Steinmetz 1991, 1993),<sup>1</sup> or the crucial influence of the welfare state on the rise of an autonomous state bureaucracy (cf. Derthick 1979). It has mainly been the institutionalist approach that, by way of its often historically ideographic account of the development of the welfare state, has highlighted the importance of these multiple 'positive loops.'

However, since even in institutionalist accounts the prime interest continued to lie in the welfare state as a 'dependent variable,' neither the more general repercussions of the enormously expanded welfare state on the economy and society of contemporary capitalist systems, nor the early formative influence of the welfare state on industrial relations and the national regimes of production at the beginning of the century have been analyzed in a systematic way. Only recently has the 'covariation' of welfare and employment systems attracted attention from scholars (Kolberg 1992a, 1992b, 1992c; cf. Stephens 1994). However, this attention was primarily restricted to the Scandinavian welfare state model. No attempts have been made so far to link the literature on different welfare state models to the new trend in comparative political economy highlighting the institutional variety of contemporary capitalisms (cf. Hollingsworth/Schmitter/Streeck 1994),<sup>2</sup> while the literature on the 'varieties of capitalisms' itself has so far neglected the welfare state as a systematic factor of institutional variance in the form and performance of contemporary capitalist systems.

The aim of this paper is to bring these two bodies of literature closer together. The paper concentrates on the coevolution of the German welfare state and the German political economy. Its main thesis is that, in order to understand German capitalism, it is necessary to take account of the parallel development of and complex interplay between the system of industrial relations and the social insurance system. It is my contention that the parallel development of the German welfare state and German capitalism has led to patterns of mutual functionality between the two. In the following, three historical patterns or periods will be distin-

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1 Thus, Esping-Andersen, once a prominent representative of the power recourse approach, has conceded that "the labor movements' role cannot have been decisive in the original institutional designs [of welfare states], but only in their subsequent evolution. ... If we accept this, and if we also accept the strong possibility that once a given system has been institutionalized it is more likely to dictate the terms of labor-movement evolution - rather than vice versa - we are compelled to rethink the historical role of labor movements in the development of social policy. ... [This] accentuates the critical importance of studying the labor-movement-welfare-state problem as a cybernetic phenomenon: welfare states may be influenced by labor, but labor movement evolution is, itself, affected by the institutions of the welfare state" (Esping-Andersen 1994: 139).

2 See as a recent exception to the rule Mares (1996).

guished in the relationship between the social insurance system and the German production regime. The first period is characterized by the organizational coevolution of the social insurance system and the German unions. For the sake of establishing clear-cut periods without significant temporal overlap, this period could be said to extend approximately from 1880 to 1914. The emergence of a corporatist mode of interest intermediation both in industrial conflict and in the realm of social policy is then described. I maintain that the parallel emergence of a corporatist mode of interest intermediation in these areas was the result of mutual influence exercised by these policy domains, due to the fact that the Labor Ministry is responsible for both labor and social policy. This process took place mainly between 1914 and 1933, beginning with World War I and ending with the Weimar Republic. Finally, I investigate the role that social insurance has played in postwar Germany. My claim is that social insurance formed a central element of the 'negotiated adjustment' (Thelen 1991) that characterized the response of the German economy to the economic crisis of the 1970s and 1980s. In the final section, some broader implications of this analysis are discussed.

## **2 Social Insurance and the Trade Unions: Organizational Coevolution, 1880–1914**

It is well known that the rise of the German welfare state was part of a carrot-and-stick strategy. Repression of the working class through the *Sozialistengesetz* (Anti-Socialist-Law) of 1878 and the *Kaiserliche Botschaft* (Imperial Announcement) of 1881, in which the forthcoming social legislation was announced, were indeed closely linked. References abound which emphasize the fundamental link between the two, as seen by the relevant political actors of the time and by workers' representatives in the Social Democratic Party (SPD) and the unions (Ritter 1983). It is also often noted in retrospect that the stick failed, while the carrot happened to be quite successful.

The differing success of political repression on the one hand and social integration on the other can be better explained by looking at the end of the period of Bismarckian social legislation rather than the beginning of this period in the early 1880s. In 1889 the law concerning old-age and invalids' pensions was enacted as the last of the three bills which mark the beginning of the German welfare state. In the same year, the Reichstag refused to prolong the *Sozialistengesetz* beyond 1890. In 1892, the state severely discriminated against the voluntary funds of the workers' movement (*freie Hilfskassen*), which had significantly increased in number and had gained considerably more members while the *Sozialistengesetz* was in



force. These had to some extent served as substitute and camouflage organizations for the outlawed unions (Schönhoven 1980b). In the years that followed, this legal discrimination of the voluntary insurance schemes, which targeted the workers' movement, led to a massive shift of membership of organized workers from the voluntary to the statutory schemes introduced by the *Krankenversicherungsgesetz* (Health Insurance Law) of 1883 (Tennstedt 1983).

In the 12 years during which the *Sozialistengesetz* remained in force, the workers' organizations had largely survived, on the surface at least, as apolitical self-help organizations for workers (Schönhoven 1980b). It was both hoped and feared that the official recognition of the state's responsibility for the welfare of its citizens, which found expression in the introduction of social insurance by the Reich, would deprive these organizations of their main vocation, i.e., mutual insurance and collective self-help. However, the contrary was true: the particular institutional structure of the new insurance schemes for sickness (1883), accidents (1884), and disability and old age (1889) was to become an important organizational mainstay of the German labor movement. It was the principle of self-administration that guaranteed the important role played by union representatives in the administrative bodies of sickness funds, *Berufsgenossenschaften* (liability associations), and the new *Landesversicherungsanstalten* (regional insurance offices), albeit to different degrees. Self-administration thus came to represent an important stabilizing factor in unions' organizational development. As a result, the rapid development of the organizational structures of the German union movement in the 1890s went hand in hand with the development of the organizational structure of the new social insurance, and this coevolution was to influence the paths that the two would take.

The social insurance schemes had a stabilizing effect on the union movement, although this was the opposite of what government officials had intended. Even union leaders took some time to realize this and to change their strategy from outward rejection to strategic acceptance of the new social insurance system. The positive effect of social insurance on the labor movement was partly due to unintended consequences and partly to important modifications of the original concepts in the legislative process by which their repressive and paternalistic character was considerably weakened. Obstinacy on the part of the civil service elite in charge of drafting the legislation (Rosenberg 1927; Tennstedt 1994; Tennstedt / Winter 1995) and the need for political compromise in the Reichstag, together with the particular interests of the Länder, led to important modifications in Bismarck's original plan to establish a central social insurance bureaucracy (without protodemocratic elements of self-administration, *Selbstverwaltung*). This bureaucracy was originally intended to be staffed by civil servants (and not by delegates of the workers' and employers' associations) and financed solely or mainly by payments from the Reich (and not by contributions of the employers and em-

ployees). The social insurance schemes were supposed to pay out roughly equal benefits almost regardless of how long or how much a person had contributed. Instead, the new social security system created between 1883 and 1889 was essentially financed by contributions, and payments and benefits were related to a worker's income. The organizational structure of the new social insurance system was developed from existing forms of collective self-help and self-administration; in particular, the voluntary funds were incorporated in the health insurance scheme. Contributions were split equally between employers and employees, which justified the important role both parties played in the administration of the insurance schemes. Because the Reichstag refused to increase the rights of the Reich to collect taxes, Bismarck's plans to finance social insurance by a centrally collected tax on tobacco had to be abandoned. This restricted the influence of the central state in the administration of social insurance right from the outset.

First and foremost, the necessity to build up an entirely new social insurance bureaucracy offered the unions and the SPD unprecedented opportunities for patronage, and they quickly succeeded in dominating the assemblies, first of all in the health insurance system and later also in pension schemes. The SPD and the unions had previously been excluded from any access to real political power in Wilhelminian Germany. However, administration of the social insurance schemes was a domain in which the right to vote was neither a symbolic right (as in the federal elections because of the lack of power of the Reichstag) nor was it a deeply distorted right (as in the elections in the Länder due to the *système censitaire*, the system of suffrage based on property qualifications). In the legislation on social insurance, equality and secrecy of votes led to real responsibility for workers in an area that was of direct interest to them. It was an example of basic 'democratic self-determination' in a nation in which democratic rights were still far from universal. Peter Flora and Jens Alber argue that the *social rights* granted to workers early on in Germany can be interpreted as a compensation for their lack of *political rights* at the end of the 19th century (see Flora / Alber 1981: 46–47). However, it is important to note that the elections for the social insurance administration also offered the first opportunity to exercise democratic influence in an area of immediate interest. Specific political rights of workers *merged* with their new social rights in the social insurance schemes.

Thus elections for the social insurance administration were "as contested as elections to the Reichstag" (Tennstedt 1977: 64, 65; my translation).<sup>3</sup> These elections

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3 For excellent accounts of the organizational coevolution of the trade unions and the social insurance bureaucracy, see Tennstedt (1977, 1983, 1993). For a highly critical account, see Billerbeck (1982). A good account of how the "welfare state and the working class in Imperial Germany shaped one another in complex ways" is also provided by George Steinmetz (1991, cited from p. 38). However, in my view Stein-

were dominated by the first mass-membership party of Wilhelminian Germany, the Social Democrats, and the most important mass organization, the Free Unions. While initially only less than 10% of those belonging to health insurance schemes were also union members, the overwhelming majority of the delegates in the assemblies, and hence on the executive boards of the schemes, were union members. This was due to a systematic and highly disciplined mobilization strategy on the part of the unions, as they had soon recognized (as of 1892) the extraordinary importance of social insurance for the labor movement. Those belonging to sickness funds who were not union members showed only minor interest in the elections (the participation rate was less than 10%; see Tennstedt 1983: 429–430).<sup>4</sup> The number of union representatives who played a *significant* role in the administration of the sickness, accident and old-age pension funds (excluding normal delegates to the funds' assemblies) has been estimated as being approximately 100,000–120,000 executive board members (Tennstedt 1977: 55, Footnote 44; 1983: 430). Set in relation to the overall number of trade union members in 1901 (about 481,000), a quarter of the members of the Free Unions would have been members of an executive board of a sickness fund. Although these numbers should be interpreted with caution, there can be no doubt about the extraordinary importance of the social insurance administration as a field of union activity. Since the assemblies of the sickness funds elected not only the executive boards of the funds but also the delegates in the assemblies of the old-age pension and accident insurance schemes and the representatives in the arbitration and advisory committees of all three insurance branches, the dominant role of the organized workers in health insurance quickly spread through the whole system.

The dominance of union delegates in the social insurance administrative bodies provided them with specific opportunities, in particular to allocate jobs and to administer quite considerable budgets.<sup>5</sup> For example, union activists who were

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metz overstates the “state’s ability to control the effects of worker participation” in the social insurance schemes (Steinmetz 1991: 30 and *passim*). In 1993, Steinmetz presents a slightly different interpretation, juxtaposing ‘central repression’ and ‘local representation’ of the organized workers. Thus he claims that the “advent of ‘protocorporatist’ interventions during the 1890s marked a significant break with the Bismarckian form of social policy” (Steinmetz 1993: 43). In my view, this interpretation is problematic, too. Steinmetz overstates the importance of the local Ghent system in Germany. The most important features of the Bismarckian social legislation were its nationwide coverage, and its centralized and occupation-oriented character. Unions’ participation in the system thus supported their *national* representation and their internal organization along industrial lines.

4 In 1892, the Social Democrat MP Paul Singer declared, that the “statutory funds have to become the rallying point of the class-conscious workers” (cited from Tennstedt 1983: 429, my translation).

5 In 1913, the cost of health insurance alone (about half a billion reichsmarks) accounted for a third of the costs of all local governments in Germany (Tennstedt 1993: 84).

put on black lists by employers could be employed as *Krankengeher* (sickness fund visitors) or became responsible for office work (Tennstedt 1977: 114). Florian Tennstedt estimated that around the year 1905 approximately 3,000–6,000 full-time positions in social insurance administration were controlled by the unions (see Ritter 1983: 51; Tennstedt 1983: 234). Compared to the full-time union positions at the time (approximately 980 in 1905) the importance of social insurance as a resource pool for the unions again becomes obvious. Moreover, the symbolic importance of the workers' self-administration in the social insurance system cannot be stressed too much. A career as a *Kassenbeamter* (an "insurance fund's civil servant") became the first major opportunity for workers to enter the professional domain, which had been previously exclusively dominated by the upper middle classes and the aristocratic elite of Wilhelminian Germany. The high social status associated with a civil servant-like occupation for workers' representatives increased further as a result of the close contact between government officials and *Kassenbeamten* that was necessary to solve the wide range of practical questions that arose in the day-to-day administration of the new system (Martiny 1975).

Needless to say, the state bureaucrats did not watch this development idly, but their countermeasures were either futile or came too late. The *Reichsversicherungsordnung* of 1911 (RVO), the most important social insurance reform since the social legislation of the 1880s, contained several provisions specifically designed to address the problem of the 'dominance of social democracy' (*Herrschaft der Sozialdemokratie*) in the administration of the social insurance system (Ritter 1983: 57; Tennstedt 1983: 432–437). However, when the RVO came into force in 1914, World War I had already profoundly changed the general political climate. Anxious not to have to fight on a second front in domestic affairs, the administrative elite and the high Military Command sought to appease the labor movement (Marks 1989: 83, 107–118; Feldmann 1992 [1966]). The unions were coopted by important war planning agencies against massive resistance from employers. The war economy thus gave rise to a proto-corporatist, tripartite committee structure at the national level in the *domain of industrial relations* (Feldmann 1992 [1966]; see below, Section 3).

Social insurance also provided an important organizational support structure for the unions in a second respect. Ever since the 1870s, the 'labor question' had been intertwined with the housing question, i.e., the serious undersupply of affordable housing fit for habitation by workers in the new and rapidly growing industrial centers of the Reich. Thus, from the very beginning, the new old-age and invalids' insurance schemes were also designed to address the housing problem. Article 129 of the *Invalidenversicherungsgesetz* (IVG, Old-age and Invalids' Insurance Law) stated that loans could be granted out of the old-age pension fund up to the value of 25% of its overall assets to cooperatives with the status of a public welfare in-

stitution (*gemeinnützige Baugenossenschaften*, non-profit housing associations), provided that these loans “exclusively or predominantly benefit the insured” (Article 26 RVO; since 1899, 50% of overall assets). Interest on loans to housing associations was allowed to be lower than the minimum interest rates stipulated by the state for social insurance investments. The housing associations aimed to ease the shortage of cheap, but clean and habitable accommodation for workers and their families; their task was to build new housing and to rent apartments to needy workers and their families. After the sharp reduction in the numbers of cooperatives in the wake of the economic crisis of 1873, the reemergence of the institution of workers’ self-help occurred concomitantly with the maturing of the old-age and invalids’ insurance schemes (see Table 1 and Figure 1 in the Appendix).<sup>6</sup> Estimates show that after 1900, housing associations covered 70% of their loans using money from the workers’ old-age pension schemes (Zimmermann 1991: 207–208). After the ‘revisionist’ position of leading social democrats and union officials had gained dominance over orthodox Marxist ideas (which regarded any involvement of the workers’ movement in running business at best as a futile enterprise and at worst as a betrayal of the common cause), the number of workers’ cooperatives rapidly increased, as did their importance. The German cooperative movement, which was originally a project undertaken by the lower middle classes and the self-employed, took on a strong working-class bias after the turn of the century (cf. Novy / Prinz 1985).

Housing associations, which not only erected buildings but also administered them, were also relatively large bureaucratic bodies. They, too, offered opportunities for patronage and thus supplied the unions with jobs and resources to allocate. Dense, decentralized networks with many shared members developed between the unions, the SPD, health insurance and pension schemes, housing cooperatives, and local savings and loan associations. The resources at the disposition of these networks made membership attractive. In other words, they offered selective incentives for the unions and the SPD. Moreover, cooperative housing provided the unions and the SPD with the means to impose a certain degree of control on their membership. Collecting membership fees, mobilizing members for demonstrations or strikes, passing on relevant information, and establishing normative commitments outweighing the temptation to exit or free ride – in short, creating what Lipset, Trow and Coleman referred to as an occupational community – proved to be easier if membership was concentrated in certain places and not spread out over a town.

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6 An additional important factor for the rapid growth of the numbers of friendly societies was the enactment of the *Genossenschaftsgesetz* (Law on Cooperatives) of 1889, which limited the liability of a cooperative’s members in the case of insolvency. This especially fostered the growth of workers’ housing associations since here the financial assets necessary were quite considerable.

What was important for the development of German unions, and for German industrial relations in general, was the fact that these emerging networks usually had a local character, but that their selective incentives were not exclusively aimed at certain professions or trades. For example, a worker was eligible for an apartment built by a housing association and financed by the workers' old-age pension scheme through his (rarely her) membership in the scheme, membership being obligatory for all (industrial) workers up to an annual wage of 2,000 reichsmarks. Eligibility was thus not linked to membership in any particular union. In the conflict between the different development options of localism versus centralism, craft unionism versus trade unionism or syndicalism versus revisionism, which dominated internal debates in the unions soon after the end of the *Sozialistengesetz* (Schönhoven 1980a, 1985), this was to become an important factor and helped to tip the balance in favor of the proponents of the centralist/reformist strategy. Perhaps even more important was the fact that the new social insurance system on the whole did not deprive the workers' movement of its most important functions, i.e., of providing their members with insurance against the risks of sickness, disability, or unemployment, but it did deprive the old, small craft unions, which still belonged to the tradition of guilds and benefit societies, of theirs. Their exclusive social insurance packages with nontransferable entitlements had a restrictive effect on the mobility of their members. It is a counterfactual but not implausible proposition that the rapid modernization process in the German union movement in the second half of the 1890s, which led to the emergence of powerful industrial unions with a centralized bureaucracy, would not have taken place at such a speed and would not have been so smooth without the latent support provided by the structure and scope of the new social insurance system.<sup>7</sup> Thus the specific nature of the German development can evidently be attributed, among other things, to the fact that the transfer of important welfare functions from the unions as "particularistic class organization[s] ... to the nation state" has not led to a general "decrease in subcultural integration of the workers" (Streeck 1981: 67; my translation). This was especially due to the fact that the emerging welfare system in Germany remained quasi-public in character because it contained important elements of self-administration. The shift in welfare responsibility from the unions to the nation-state was only partially completed. Thus the structure of the new social insurance system actually led to a massive *increase* in subcultural integration in the case of the new unions, as these played a major role in the self-administration of the social insurance system. They

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7 The pattern of organizational coevolution of the unions and the social insurance system is especially clear in the case of the "workers' secretariats [which] were set up to parallel the administrative structure of the welfare system" (Marks 1989: 103) and which had mainly advisory functions. On the *Arbeitersekretariate* (workers' secretariats), see Martiny (1975) in particular; note also the provision of supplementary private insurance through the unions and workers' cooperatives (Trischler 1994).

were able to use its resources for particularistic purposes, e.g., in offering special packages to supplement the benefits of the statutory insurance as selective incentives for their members (Trischler 1994). However social insurance had a disintegrative effect with respect to the older sections of the union movement, which were still influenced by the tradition of the guilds, friendly societies, and organizations of mutual assistance (*Unterstützungsvereine*; see Schönhoven 1980b). The integration of the workers into the new state, which social legislation was supposed to foster (and which it did finally bring about), was thus not accomplished by the creation of a relationship of direct loyalty between individual workers and the state (as Bismarck had hoped), but was essentially mediated by the unions. "The new social policies worked *through* the socialist unions rather than bypassing them" (Steinmetz 1993: 43; italics in original).

The importance of mutual organizational support between unions and the social insurance system became most evident when the white-collar movement tried to imitate the successful model of the organizational coevolution of the Free Unions and the *Invalidenversicherung*. In an almost classic case of "mimetic isomorphism" (Meyer / Rowan 1991, DiMaggio / Powell 1991), the internally fragmented white-collar movement discovered the promise of unity and organizational stability in a special insurance for white-collar workers. The *Angestelltenversicherungsgesetz* (White-Collar Workers' Insurance Law) of 20 December 1911 (Reichsgesetzblatt [Reich Law Gazette] I, p. 989), which is still often interpreted as an instance of an étatist 'divide and rule' strategy toward the unified working class in the abstract (the Marxian 'class in itself'; see, for example, Esping-Andersen / Korpi 1984: 180), should rather be regarded as the result of a bottom-up process in which intensive campaigning was carried out by the white-collar movement in an attempt to achieve both organizational stability and official recognition of the 'well-founded rights' of its members (Prinz 1991). The white-collar movement finally succeeded in gaining a separate insurance branch, which again offered jobs, important financial resources, and the means to allow only their members to benefit from both. It seems important to note in this context that the cleavage between blue- and white-collar workers, which was institutionally fixed by their separate social insurance systems (which themselves were closely linked to the respective unions of blue- and white-collar workers; Kocka 1981), can be seen as one of the major impediments for the development of enterprise unionism in Germany.<sup>8</sup>

Everything that has been said above about the relationship between the workers' insurance system and the unions also applies here. The white-collar unions soon came to dominate the self-administration of the white-collar workers' insurance system, and the relationship between housing associations and the white-collar

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8 As Hockerts pointedly remarked, in Germany "the white collar-worker ... is the definitory product of social insurance legislation" (Hockerts 1985: 302).

unions developed in much the same way as in the case of the workers' pension scheme. Here the Articles 219–228 of the *Angestelltenversicherungsgesetz* regulated the investment of the assets in just the same way as the regulations laid down in the *Invalidenversicherungsgesetz*. Article 225 allowed interest rates to drop below the minimum rate of return for investments (set by the state) if loans were given to enterprises that were “exclusively or predominantly beneficial to the insured.”<sup>9</sup> This opened up the way for supplying the special housing associations of the white-collar workers' unions with cheap money.<sup>10</sup> After World War I, when the basic target for investments by the pension funds changed from investment in state bonds (to finance the war) to investment in the housing associations (to ensure that there was sufficient housing for soldiers returning from the war and to generally ameliorate housing conditions), the links between the unions, pension funds and the housing associations were strengthened. Thus, in 1918, the *Gemeinnützige Gesellschaft für Angestelltenheimstätten* (Gagfah) was founded in Berlin as part of the white-collar pension scheme.<sup>11</sup> Between 1924 and 1933, the white-collar workers' insurance scheme spent 828.7 million reichsmarks on the Gagfah (Herrmann 1936: 57). In the case of the white-collar old-age pension scheme, the function of the financial involvement of the social insurance system in the provision of new housing becomes most evident. Whereas the involvement of the *Invalidenversicherung* was mainly justified with reference to the health risks and the resulting financial burden placed on the pension scheme caused by the poor housing conditions for workers (high rates of disability caused by tuberculosis), this could not be the primary motivation for the activities of the old-age pension scheme in the case of the significantly better off white-collar workers. It seems clear that they served as an external inducement for union membership.

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9 See the identical Article 164 Section 3 IVG and Article 1356, Section 4 RVO, later Article 26 Section 12 RVO.

10 See the *Richtlinien für die Mitwirkung der Reichsversicherungsanstalt für Angestellte an der Verbesserung der allgemeinen Wohnungsverhältnisse*, February 1914 (*Angestelltenversicherung* 1914: 26–27).

11 The housing associations with strong links to the blue-collar pension scheme were founded in accordance with the administrative domain of the *Landesversicherungsanstalten* (LVA, regional insurance offices), of which there were 31 in 1915. The administrative domains of the LVA themselves did not perfectly coincide with the administrative districts and provinces of the Länder. At times this allowed the LVA to follow quite autonomous strategies. The financial support for housing associations, which was not always welcomed by conservative state governments, is a case in point. In 1924, as a social democratic countermeasure to the foundation of the Gagfah, the *Deutsche Wohnungsfürsorge AG für Beamte, Angestellte und Arbeiter* (Dewog) tried to unify the efforts of the workers' insurance system in the construction business (cf. Novy/Prinz 1985). Union activity in the domain of workers' cooperatives increased significantly after 1920, since many who had hoped during the immediate postwar years that large-scale socialization would bring German capitalism a step closer to socialism had already been profoundly disappointed by that time.



To sum up briefly the argument of this section, the new social insurance system provided the trade unions with Olsonian 'selective incentives,' which were of crucial importance for the emergence, overall organizational stability, and specific shape of modern industrial unions in Germany. The pattern of organizational coevolution of the social insurance system and the unions was the result of a specific historical sequence. During their repression between 1878 and 1890, the organizational development of the unions was hindered and delayed. While the process of industrialization continued to proceed rapidly, a corresponding development of the unions was suppressed. When the ban on workers' political representation was lifted in 1890, this offered some latecomer's advantages to the proponents of a modernized, centralized, sectorwide union movement: "It was the state [with its repressive policies towards the unions] ... which had stimulated the rapid conquest of elitist guild traditions and had accelerated the development of modern means of interest articulation which transcended individual trades and involved modern, centralist interindustrial forms of organization" (Tenfelde 1985: 214). The 'victorious breakthrough' of the modern industrial union in the last quarter of the 19th century (see Ritter/Tenfelde 1996 [1976]) was especially supported by the simultaneous emergence of a social insurance system, a system that was originally designed to weaken the workers' movement. The mutually reinforcing development of the new unions and the new social insurance system led to the kind of dualism between *voluntary organizations* and *obligatory institutions* that plays a crucial role in the emergence and stability of corporatist arrangements (cf. Lehbruch 1977).<sup>12</sup> As the next two sections will demonstrate, the "protocorporatism" introduced by the Bismarckian social insurance legislation "laid the groundwork for the full-fledged corporatism of Weimar and adumbrated the main lines of West Germany's 'social partnership'" (Steinmetz 1993: 44).

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12 This dualism thus historically precedes and functionally complements the important dualism between *statutory* works councils and unions as *voluntary organizations* that is normally emphasized in the literature on German industrial relations (cf. Thelen 1991).

### 3 Social Insurance and the State: The Emergence of a Corporatist Mode of Interest Intermediation, 1914–1933

In a systematic analysis of the relationship between the social insurance system and the particular institutional form of German capitalism, another important point to take note of is the fact that social policy and industrial relations in Germany have both always fallen within the regulative responsibility of one and the same administrative actor, first the Reich Interior Office (*Reichsamt des Inneren*), later, after 1918, the Reich Labor Ministry (*Reichsarbeitsministerium*), and after 1949 the Federal Ministry of Labor and Social Affairs (*Bundesministerium für Arbeit und Sozialordnung*).<sup>13</sup> In a country like Germany, in which the bureaucracy has played such an important role in the development of society and in which the degree of “factionalism” between the ministries has been and continues to be pronounced, the idea of important sectoral variances in interest intermediation, as well as the idea of spillover effects between policy sectors due to shared administrative responsibilities, seems to be especially appropriate (Lehmbruch 1987, 1991, 1995).

From early on the social legislation of the 1880s had given the Reich Interior Office a domain of “natural competence” that also comprised factory legislation and the regulation of occupational health and safety. The Reich Interior Office and later on the Reich Labor Ministry were strong ministries which, as far as social insurance was concerned, were neither involved in serious horizontal conflicts over their bureaucratic domains nor in vertical conflicts with the Länder, since the social insurance system had been the responsibility of the Reich right from the beginning. In addition, the relative autonomy of the Reich Interior Office and the Reich Labor Ministry vis-à-vis business interests was quite pronounced, since the Reich Economics Ministry (founded as the Reich Economics Office, *Reichswirtschaftsamt*, in 1917 and called the *Reichswirtschaftsministerium* since 1919) did not always play the role of advocate as far as business interests were concerned.<sup>14</sup>

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13 Furthermore, the Reich Office of the Interior, the Reich Ministry of Labor and the Federal Ministry of Labor showed an extraordinarily high degree of continuity in terms of staff. In addition: despite the high degree of overall political volatility in Weimar Germany, the *Reichsarbeitsministerium* was headed from 1920 to 1929 without interruption by Heinrich Brauns (Center Party). This allowed a coherent political strategy and a systematic promotion policy to be pursued within the ministry. Indeed, the Center Party and social policy proved to be the two most important mainstays of the crisis-ridden First German Republic.

14 All major social laws in Germany from 1883 (health insurance) to 1927 (unemployment insurance) were enacted despite substantial resistance from the business community. This even holds true for most of the major social reforms in the Federal Republic, ranging from Adenauer’s pension reform in 1957 to long-term care insurance

In fact, it was this ministry's alleged indifference to business interests and its strong propensity for interventionism and economic planning that prompted the foundation of a special economic committee (*diktatorischer Wirtschaftsausschuß*) at the cabinet level in the early Weimar Republic and the Office for Demobilization (*Demobilmachungsamt*) in 1918 (Winkler 1985: 196; Biechele 1972: 80–86; Bähr 1989: 16).

The Reich Economics Ministry also developed out of the Reich Interior Office. Soon afterwards, in 1918, the new Reich Labor Ministry emerged from the Reich Economics Ministry as a result of another split of competences (for a detailed account of the history of the Reich Labor Ministry, see RAM 1929: 12–23; for the Reich Economics Ministry, see Hubatsch 1978). It is important to note here that *laissez-faire* attitudes were by no means prominent in the Reich Economics Ministry. The experience of the Great Depression<sup>15</sup> and later (and more importantly) the war economy had led to its pronounced interventionist stance and to deep skepticism toward the free play of market forces (cf. Anderson 1973: 290–293). Instead, visions of *Gemeinwirtschaft* (cooperative economy) and *gebundene Wirtschaft* (bounded economy) ruled supreme (Biechele 1972; Winkler 1985: 191–198; Huber 1978: 861–862). From the viewpoint of a “critical experience” theory of the development of sectoral interest systems (cf. Lehbruch 1987), it is significant that the administrative responsibilities of the Reich Labor Ministry and the Reich Economics Ministry were not split up until after the war. The war thus provided the two ministries with a shared background of experience and a similar response toward the question of how best to solve the severe economic and social crisis facing Germany after World War I.<sup>16</sup>

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(*Pflegeversicherung*) in 1993, which was labeled a “declaration of war against business” by Tyll Necker, the president of the German employers' association.

15 The early German social legislation in the 1880s drafted by the Reich Interior Office was conducted in an era of economic antiliberalism and deep skepticism towards the self-healing forces of the market (Stolleis 1979). The Great Depression was fresh in people's memory. Bismarck, in particular, vigorously blocked several attempts to work out private insurance solutions to the “social question” (and thus even traded the enactment of his statist vision against the significant delay of any solution to the pressing social problems; cf. Tennstedt / Winter 1995).

16 Moreover, the relative weight of the two ministries differed: while the Reich Economics Ministry still had to make compromises with the Prussian Trade Ministry (*Preußisches Ministerium für Handel und Gewerbe*) and with the respective ministries of the other Länder, the Reich Labor Ministry possessed more autonomy in relation to the Länder and thus was able to be more influential. While the Länder retained competences in economic regulation, they possessed only delegated competences in social policy. Through the instrument of obligatory arbitrations of labor conflicts (in the industrial, agricultural and public sphere), the Reich Labor Ministry even resembled a central steering agency in questions of *industrial policy*. The “productivity-oriented

Thus the Reich Labor Ministry did not need to fear a great deal of intragovernmental resistance to its efforts of conciliation in the conflict between labor and capital by a policy of granting employers' and employees' associations public status, thus centralizing and integrating them into tripartite or bipartite decision-making bodies and creating a broad range of responsibilities for 'associational self-administration' or 'social self-determination' (Sinzheimer). On the contrary, ideas of a corporate (*ständische*) organization of both society and the economy to a large extent formed common ground between the Reich Ministries of Labor and of Economics. When the government planned to give substance to the well-known Article 165 of the Weimar Constitution, the Reich Ministries of Labor and of Economics differed sharply about how best to achieve this goal, but the goal itself remained rather uncontroversial. Article 165 explicitly recognized the associations of labor and capital and promised to supplement the system of political representation with an all-embracing system of 'functional representation,' of which the Reich Economic Council (*Reichswirtschaftsrat*) was to be the 'institutional apotheosis.' While the Labor Ministry wanted to supplement the existing chambers of industry and trade, artisans, and agriculture by 'chambers of labor' at the local, district, and national level, integrating the workers' councils into the chambers of labor and all central chambers into the Reich Economic Council (*Reichswirtschaftsrat*), the Economics Ministry wanted to guarantee equal representation for workers by coopting them into the existing chambers (cf. Ritter 1996 [1994]; Schäffer 1920). It is true that very different belief systems lay behind the two conceptions and that the practical implications of each would have been fundamentally different. What is of interest here, however, is that the disposition toward massive state intervention in the *structures of the economy* in favor of a corporatist organization was more or less equally developed in both ministries. In addition, the liberal opposition within the government to this interventionist tendency was mainly directed against the more authoritarian and plan-oriented concept of the Reich Economics Ministry (Biechele 1972; Ritter 1996 [1994]), and not against the 'social self-determination' model favored by the Labor Ministry.

Although all attempts at establishing an overt and comprehensive corporatist structure failed, a general orientation toward such a goal clearly prevailed in the Reich Labor Ministry throughout the Weimar Republic. The idea of 'economic self-administration,' i.e., self-administration based on collective contracts between the central organizations representing the interests of capital and labor and based on a rough 'balance of class powers' between them, was the leitmotiv that inspired the Reich Labor Ministry in both its social and its labor policy. This formula became effective not on a grand scale, but in a number of detailed provisions and decrees through which the Labor Ministry acted as a highly competent

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social policy" of Reichsminister Brauns was an expression of this comprehensive economic competence of the Reich Labor Ministry (Bähr 1989: 52–62).

'architect of political order' (Anderson). It should be emphasized here that the operationalization of the general formula of social self-determination by the Labor Ministry *in the realm of industrial conflicts* was greatly influenced by the kind of institutional equilibrium that had evolved earlier *in the realm of social policy*. A prominent factor in this context was the principle of parity (*Parität*; cf. Lehbruch 1996a, 1996b, 1997). Parity soon became a peace formula that proved to have almost universal applicability, transcending the domain of social policy and industrial conflict proper.<sup>17</sup> However, it was precisely here, in the domain of social policy and industrial conflict, that the old interdenominational peace formula was revived. Parity between the organized interests of capital and labor was to become the dominant mode of 'cleavage management' in German capitalism.

Due to the dual administrative responsibility of the Reich Interior Office and the Reich Labor Ministry for social policy and labor policy, the history of the two policy domains in Germany can in fact be regarded over a long period of time as the history of spillover and spillback effects between them. For this process of mutual influence, it was to become important that, in the realm of social insurance, the parity between workers' and employers' organizations had evolved quite early. In the accident insurance and in the old-age and invalids' pension scheme the principle of parity in employers' and employees' representation was a prominent element in their organizational structure. Although the executive boards in both insurance branches were dominated either by employers or by

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17 See the Weimar 'school conflict,' in which the Center Party fought for parity between one-denominational and interdenominational schools (*Konfessionsschulen* and *Simultanschulen*; Grünthal 1968) or the parity between civil and military defense, which came up in the 1950s in West Germany in the discussion on rearmament. Of course, *paritätische Mitbestimmung* (codetermination) has its roots here too. Parity is defined by Lehbruch (1997: 57) as "an institutionalized system of conflict accommodation among corporate actors with (corporate) equality, as different from a liberal system based on individual autonomy." It is highly plausible, but has not yet been substantiated by in-depth historical studies, that the spread of the principle of parity was due (among other factors) to the prominent role it played in the political program of the Catholic Center party. With its 'struggle for parity,' the Center Party fought for a proportional share of Catholic civil servants in the Prussian state administration (Baumeister 1987; Hunt 1980; Ross 1988). Due to a policy of "negative patronage" (Eschenburg), Catholics (as well as Jews and social democrats) had almost no access to a career as a civil servant. The diffusion of the principle of parity from the Center Party's political program to state policies can be explained by the important role that ministerial bureaucrats belonging to the Catholic church played in the Reich Interior Office and the Labor Ministry. One of the reasons for the prominence of the "center patronage" (Max Weber) in the Reich Interior Office was that the Reich ministries had no independent bureaucratic foundation (which instead was the responsibility of the Länder) and thus sought political support in the Reichstag (Weber 1988 [1918]: 415–416). Here, the Center party held a pivotal position.

civil servants, the insured and their employers were represented equally in a number of auxiliary committees. This was also the case in the sickness funds, although here the workers dominated the assemblies and the executive boards in accordance with their share of contributions in a ratio of 2 to 1.<sup>18</sup>

Therefore, in the emerging social insurance system, organized workers and employers were integrated in a multifaceted system of collaboration long before the state (and business) had officially recognized the role of the unions as the legitimate representatives of the workers' interests. As outlined above, the prominent position of the unions in the administrative bodies of the social insurance system was originally not the result of conscious design, but mainly of processes of organizational adaptation that were unforeseen (and contrary to the intentions of the state bureaucrats). However, once a protocorporatist system of conflict mediation had been established in the area of social insurance, this served as a model for mediation of conflicts between labor and capital as well. Furthermore, the involvement of unions and employers' associations in the administration of the social insurance system provided important 'external' support for a corporatist form of mediation in industrial disputes. What had previously been a development by chance now became a development by intention and conscious political design.

The success of the principle of parity as the dominant mode of conflict resolution was result of a dialectical process in which the state and the forces of capital and labor took turns playing the initiating or the supporting role. Parity was first introduced in the social insurance schemes in the form of a parity between the insured and the employers in certain committees and advisory and arbitration boards. This was a relatively uncontroversial step since it did not imply a direct recognition of unions and it was legitimated by the way in which social insurance was financed. Once the institutional evolution described above had led to a de facto parity between the *organizations* of the insured (the workers) and the employers in the social insurance system, it became easier to introduce equal representation of the corporate actors on both sides in other areas as well. Parity between *unions* and *employers' associations* in relevant administrative bodies was first introduced in the wake of massive state interventionism in the war economy (*Hilfsdienstgesetz* [Auxiliary Service Law] of 1916). Here, parity was extended for the first time to issues of industrial relations (see especially Feldman 1992 [1966]). After the war, both parties wanted to free themselves from the interventionist 'state socialism' of the war economy and tried to protect themselves from the syndicalist and radical socialist currents in the early Weimar *Räterepublik*. There-

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18 Another important instance of parity representation was the labor or industrial courts (*Gewerbegerichte*). "National legislation in 1890 stipulated that workers were to have equal numbers of representatives on the courts, to be elected by the direct and secret ballots of all males" (Steinmetz 1991: 27-28).

fore, their collaboration was voluntary and independent of the state, again following the bipartite pattern (*Zentrale Arbeitsgemeinschaft*, ZAG [Central Working Association] of 1918). The establishment of the ZAG is a particularly striking example of the extent to which the 'corporate bargaining channel' had gained dominance over the 'numerical democracy channel' (Stein Rokkan) for the German labor movement and, correspondingly, the extent to which power had shifted from the party to the unions. Unions were integrated into the institutional complex of welfare and labor relations to such an extent that according to their view they could do without the help of 'paper stones' (i.e. their ballots). This hope was soon to be dashed. However, the fragmented and paralyzed party politics of the Weimar republic did not offer good prospects for the electoral strategy either. Thus, again, a pattern emerged in which the *state* was supposed to stabilize the corporatist arrangements between capital and labor that the two parties themselves were not able to sustain.

While the interest in continuing collaboration with the unions, especially on the employers' side, vanished as soon as the danger of massive socialization withered away and as general economic developments became much more favorable to capital, the state now used this voluntary arrangement as an important building block for its new social and labor policy. Thus the Reich Labor Ministry essentially stabilized a system of collective governance from the outside

- by declaring solutions reached by (collective) bargaining to be generally binding even on firms and workers who were not members of the associations of capital and labor involved (*Allgemeinverbindlichkeitserklärungen; erga omnes*),
- by declaring arbitration in disputes between labor and capital to be binding, even if one of the conflicting parties did not consent to the mandatory arbitration (*Zwangsschlichtung*),
- by passing legislation to prohibit private contracts that undermined minimum standards set by collective agreements (*Unabdingbarkeit*)
- and by declaring that previous collective agreements should serve as fall-back solutions if new collective agreements failed to be reached (*Unmittelbarkeit*).

The legal definition of *Tariffähigkeit* (the capacity to be a partner to collective bargaining agreements) was laid down by the state in a number of laws and decrees and had the effect of excluding employer-friendly 'yellow' unions from participation in arbitration committees, from membership in the Central Economic Council, and from access to the administration of social insurance.<sup>19</sup> In this latter

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19 The law concerning the elections to the social insurance administration (*Gesetz über Wahlen nach der RVO, dem AVG und dem RKG* vom 8.4.1927; RGBl. [Reich Law Gazette] I, p. 95; see Hanow 1927) granted a privileged position to unions and employ-

respect, the Reich Labor Ministry used the parity between unions and employers in the social insurance system as an instrument to achieve 'political closure' on the union side in order to establish a stable network for the representation of the workers' interests. The Labor Ministry thus used subtle techniques of 'legal engineering' to help the three leading unions (Social Democrat, Liberal, and Christian Democrat) achieve 'oligopolistic representation.'<sup>20</sup> The path leading toward trade and industry unions and away from company unions thus began as the result of the specific historical sequence of state repression and late industrialization together with the organizational coevolution of unions and social insurance, and went on to become institutionalized by political design, i.e., state legislation.

The thesis put forward in this section was that the emerging system of social insurance not only favored the emergence of powerful and centralized industrial unions (see above, Section 2), but that the social insurance schemes also provided a model for the integration of unions and employers' associations in a comprehensive system designed to accommodate their conflicting interests. The reciprocal influence exercised by social policy and industrial relations was essentially due to the fact the Reich Labor Ministry was responsible for both policy sectors. The principle of parity between the major central organizations representing the interests of labor and capital in a number of committees and boards (predominantly in the social insurance administration and on arbitration committees), in particular, became a routinized pattern of settling conflicts in German industrial relations. In this respect, we may speak of a dialectical interplay between a more

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ers' associations. They held the right to propose delegates for the social insurance assemblies. As long as either side proposed only as many delegates as there were positions to fill, an actual election did not take place (so-called *Friedenswahlen*, literally 'peace elections'). A few additional provisions discriminated in favor of the established unions and against so-called free lists. The definition of who had the right to propose delegates for the social insurance administration referred to the law, in which the right of representation in the Reich Economic Council was laid down. With regard to unions and employers' associations, these were the same organizations that signed the so-called Stinnes-Legien Agreement, which led to the Central Working Association (see Hanow 1927: 370–371; Schäffer 1920). Here, again, we have the peculiar mix of voluntary collective agreements and state-imposed collective governance that is characteristic of Weimar social policy. The abstract legal term 'central associations' in social welfare on the side of the doctors' associations and sickness funds was defined in much the same way by the Reich Labor Ministry, thus guaranteeing the "managed co-existence of representational monopolies for social groups under the umbrella of the state" (Lehmbruch 1997: 56; for the social welfare associations see Sachße/Tennstedt 1988; for the associations of the sickness funds and physicians see Döhler/Manow 1997: 132).

20 At the same time, the Reich Labor Ministry also protected the unions from syndicalist developments by means of the 'juridification' of the range of tasks allocated to works councils and by hindering the creation of so-called free, non-union-based lists in the social insurance administration.



'authoritarian' and a more 'liberal' corporatization of social sectors, because the greater extent of legitimate state interventionism in the realm of social insurance was used to stabilize a system of collective bargaining of a more voluntary nature in the field of industrial relations.

While the attempt to impose a system of collective bargaining on unions and business 'from above' finally failed and was followed by the extinction of the unions and by massive and uncoordinated economic interventionism under the Nazi regime (cf. Bähr 1989), nearly all elements of the Weimar system of collective self-governance were incorporated in the postwar consensus from which 'German capitalism' derived its special character, with the most important exception that, after 1945, obligatory state arbitration was substituted by guaranteed 'autonomy' of capital and labor in resolving industrial disputes (*Tarifautonomie*). The collective bargaining system, which could only be upheld by increasingly authoritarian state intervention during the Weimar years, was reestablished and its organization strengthened after 1945 (cf. Drewes 1958). At the same time, the interests of and power relations between the main actors (state bureaucracy, unions, business associations and the political parties) had changed profoundly, changes that will be examined in the following.

#### 4 Social Insurance and the Post-war Consensus: The Emergence of the 'Externalization Regime,' 1945–1995

The institutional arrangement described above, even if it has been termed somewhat loosely as 'corporatist', should be distinguished from a pattern of corporatist concertation. The structures described here are basic and cannot be established or destroyed at will and ad hoc, and do not allow unrestricted entry and exit. Instead, they define actors' long-term interests and preferences and determine the resources available to them. The label 'corporatist' thus does not refer to a process (concertation), but to a structure, an "institutional framework of incentives and constraints" (Soskice 1995: 2). It also refers here not so much to macrolevel coordination between capital and labor, but to arrangements at the micro-level. In industrial relations, this structure is essentially characterized by a pattern of "*decentralized* compromise and *local* commitments" between capital and labor "supplementing, underpinning and sometimes superseding the high politics of class accommodation at national level" (Streeck 1995: 8, italics added). The peculiar 'anticyclical' pattern of *central* corporatist coordination in Germany provides further evidence for this thesis. In this section, I shall outline how social insurance became a central element in the institutional ensemble that can be labeled 'German capitalism' or 'corporative market economy' (Abelshauser 1995: 7).

However, before describing some of the features of the complex interplay between the German postwar production regime and the social insurance system, I shall first outline some of the more important changes that occurred in the social insurance system and in German industrial relations after World War II. In this context, several observations need to be made. In postwar Germany, social insurance lost its close *political* and *cultural* link with the unions. The significant extension of social benefits to cover groups not in dependent employment (craftsmen, the self-employed, refugees, artists, students, etc.) on the one hand and the unification of the unions into *Einheitsgewerkschaften* (unitary unions) on the other hand loosened the relationship between specific unions and their 'own' social insurance funds. The cleavage between blue- and white-collar workers persisted to some extent, but this was now mainly due to the division of Germany. While East Germany followed a social policy in the tradition of a productivist 'workers' social policy,' the contrasting concept of status maintenance became the main social policy objective in the West (cf. Manow 1997).<sup>21</sup> This had important consequences for the overall direction of social policy in West Germany. A specific orientation of social policy became dominant, characterized, for example, by

- a strong emphasis on the link between contributions and benefits (i.e. a limitation of the state's redistributive capacity),
- the predominance of status maintenance (in contrast to 'help for the needy'),
- an orientation toward the sole (male) breadwinner model,<sup>22</sup>
- an orientation toward a 'standard employment relationship' in social legislation,
- and a predominance of transfer payments over services ("service lean and transfer heavy" [Esping-Andersen 1996: 67]),

which together with other regulations (particularly regarding taxation) discouraged women from joining the labor force. In addition, social policy emphasized

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21 At the same time, the split between reformist and syndicalist/communist unions, which was to become significant in some Western European labor movements in the postwar era, corresponded in Germany to a *territorial* split between East and West (Niethammer 1977: 304). The division of Germany profoundly discredited communism as a political option in the West.

22 This in turn had consequences for unions' strategies: "The family's virtually complete dependence on the male earner's income and entitlements meant that unions came to battle for job security (seniority principles, the regulation of hiring and firing practices)" (Esping-Andersen 1996: 75). In collective bargaining between unions and employers, the regulation of entering and leaving the labor force became an important issue, not only in the sense of 'social closure' (Weber), but also in the sense of regulating pathways into and out of employment, which the German welfare state offered to both parties.

the concept of a clear-cut and definitive exit from employment on reaching old age (in contrast to a system of gradual retirement).<sup>23</sup> These elements of social policy, which had previously been specific to the white-collar insurance system, now became characteristic of the West German welfare state as a whole.

Of further importance was the fact that war had once again destroyed nearly all the social insurance system's financial assets, especially those of the pension schemes. As a consequence, the pension reform of 1957 (followed by the *Drittes Rentenversicherungs-Änderungsgesetz* [Third Pension Reform] of 1969) gradually changed the way in which pensions were financed from a funded scheme to a pay-as-you-go model. Hence, the social insurance system's long-term capital assets shrank, while transfer payments increased enormously. Less and less capital was therefore accumulated by the system to be used, for instance, for investing in housing associations. The state or private investors now increasingly provided subsidized housing and assumed the role that had previously been played by building cooperatives (cf. Fig. 45 in Alber 1989: 214; Schulz 1991: 490–491).<sup>24</sup> Moreover, the Nazi regime had removed all union members from leading positions in the self-administration of the social insurance (and from the entire complex of workers' cooperatives, savings and loans associations etc.). The long-term effects of this measure on the political character of the self-administration should not be underestimated. Taken together, it seems safe to say that social insurance lost its function of furthering the 'subcultural integration' of the workers in post-war Germany. Again, as in the last quarter of the 19th century, the welfare state served the goal of 'national integration,' but workers were no longer the main target of integrative measures. In a divided Germany, national integration had taken on a different meaning.

However, even though the *subcultural* links between the unions and the social insurance system became weaker, important and close 'interest links' between the unions and the social insurance system persisted. After the war, intense reform debates on social policy were triggered by the de facto bankruptcy of the system and the intentions of the SPD emigrants returning from exile to modernize it,

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23 In the blue-collar insurance schemes, pensions traditionally were conceived of as compensations for the diminishing ability to work in old age. In contrast, pensions in the white-collar insurance system were designed to allow for a clear-cut transition from working life to retirement, a period in which the standard of living enjoyed up to that point was to be maintained. Here, the implicit ideal was of course the civil servant, who at a certain age received a 'bonus' or gratitude payment for his (seldom her) service.

24 The current cost-containment measures in the old-age pension scheme are forcing both the white-collar and the miners' insurance funds (*Knappschaft*) to sell all of their apartments and buildings. The Gagfah, for example, owns 30,000 apartments in Berlin with a total value of approximately 7 billion DM.

having witnessed the universality and egalitarianism of the Scandinavian welfare states and the Beveridge reform. In these debates, the German unions sided with those who supported the old system (Hockerts 1980, 1982; Baldwin 1990). This was not only because the unions had established a strong stake in the administration of social insurance, but also because workers had gained significant entitlements in the old system. The introduction of an egalitarian *Volksversicherung* (people's insurance) with universal and flat-rate benefits, the workers feared, would lead to the loss of entitlements that had already been gained. Unions feared extensive redistribution of wealth in favor of social groups that had never or only rarely contributed to the system (Baldwin 1990: 201, 203). This redistribution would take place especially at the expense of their main clientele, the highly skilled and well-paid *Facharbeiter* (skilled workers).

Initially, during the 'economic miracle' (*Wirtschaftswunder*) of the 1950s and most of the 1960s, when full employment and high growth rates prevailed, the costs of a social policy that emphasized status maintenance were not too heavy a load to bear. Favorable economic (and demographic) conditions allowed for a rapid extension of coverage and a significant improvement in social insurance benefits. The generous extension of welfare entitlements subsequently became part of the 'German model' again not so much by design as by default. In addition to the intention of following a path of development in clear contrast to the East German productivist, unitary, and centralist approach, another important rationale of West German social policy was the aim of maintaining the 'attraction' of the system (in the literal sense of the word) for the East German population, since the inflow of skilled workers from East Germany eased the labor shortage in the West German economy from the Korea boom until 1961. However, the restoration of comprehensive welfare functions to be assumed by the state first had to be enacted against considerable opposition from the business community and from the Minister of Economics, Ludwig Erhard (Abelshauser 1995). In Erhard's view, an 'egalitarian' distribution of stock-market shares and interests would guarantee that the nation's increased wealth benefited a broad section of the population and would thus render traditional redistributive social policy superfluous.

Instead of *either* Erhard's vision of a 'people's capitalism' *or* the social democratic vision of a German Beveridge reform, the path chosen was the reconstruction and extension of the Bismarckian welfare state. This was to have an important impact on the production regime that gradually emerged in postwar Germany, something that can be best illustrated by the example of the pension schemes. It was important in this area of social insurance that 'status maintenance' significantly eased the transition from work to retirement. The function of pensions to almost entirely substitute wages was institutionalized by coupling pension adjustments to the development of wages. This was introduced by the important pension re-

form of 1957. Wage-linked pensions were a guarantee that the standard of living afforded by personal income during employment would be maintained during retirement. With pensions that enabled them to maintain their standard of living, workers could move from employment to retirement without any transitional stages. Of course, both workers and firms took this function of pensions into account when calculating their supply and demand strategies.

Other regulations also proved to be important. In this context, early legislation that allowed white-collar workers to retire at the age of 60 with full benefits if they had been unemployed for more than 1 year (and had contributed for at least 15 years) should be mentioned. This regulation was introduced for salaried employees in the wake of the Great Depression of 1929, because periods of unemployment were judged to be longer for them than for blue-collar workers.<sup>25</sup> This regulation was prolonged several times throughout the 1930s and was finally re-enacted for the whole of West Germany in 1955. Blue-collar workers came to benefit from this regulation with the pension reform of 1957, which put them on an equal footing with the salaried employees in several other important respects as well (Nitsche 1986). In this context, the change in the definition of 'disability' (*Erwerbsunfähigkeit*) deserves special mention, which in the case of blue-collar workers had been defined as a loss of *two thirds* of an individual's working capacity, whereas disability pensions were granted to white-collar workers even if they had only lost *half* of their working capacity. The pension reform of 1957 extended the more generous definition of the white-collar worker insurance to blue-collar workers. It can be regarded as an almost logical development that in the late 1960s and early 1970s in the wake of the first recession in postwar Germany, a legal interpretation of partial disability became dominant in which the situation on the labor market was taken into consideration. In conjunction with this new interpretation, pensions were not only to be granted if an individual's working capacity was reduced by more than a half, but also if his or her working capacity was reduced by less than half but no appropriate part-time job could be offered to the applicant (within 1 year *and* within the area of a worker's domicile; Seidel 1990). This so-called concrete approach (*konkrete Betrachtungsweise*) opened enormous 'moral hazard' opportunities for employers and employees. Pension policy assumed de facto responsibility for the labor market risks of all the insured with any degree of alleged reduction in working capacity, while unemployment insurance was henceforth responsible only for those who still had full earning capacity (see Figure 2 in the Appendix).

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25 Here, again, the important objective of the white collar insurance system, *status maintenance*, was a causal factor. The unemployment insurance law stated that an unemployed person only had to accept other employment if this work could be considered 'reasonable' (*zumutbar*) in view of the person's previous employment and skills. Proletarianization was the greatest fear of the white-collar workers.

Thus, pension policy became increasingly an instrument of labor market policy. The social insurance system became a central element in the decentralized “negotiated adjustment” (Thelen 1991), which has been the characteristic reaction of the German economy to the less favorable economic conditions that have prevailed since the late 1960s. This was of course facilitated by the fact that unions and business representatives both participated in the self-administration of the pension system. In this function they were also core members of the almost arcane political network that includes, in addition to employers and union representatives, a handful of academic experts, ministerial bureaucrats, and a small group of political experts determining the direction of German pension policy.<sup>26</sup> The practice of using pension policy for labor market adjustments and a policy of economic restructuring was first introduced when the period of high growth ended in 1966/1967. The *grosse Koalition* (Grand Coalition) formed by the Christian Democrats and the Social Democrats came to power in 1966, in part as a result of this first postwar recession. The Social Democrats, in particular, planned to combat Germany’s first recession with ‘active policy’ and ‘integrated planning.’ Concomitant with this attitude, the traditionally fragmented view of different social insurance branches, each responsible for a specific risk, was abandoned, and a more ‘holistic approach’ was adopted. Thus politicians and experts not only considered the role social insurance could play in a Keynesian policy of countercyclical spending (especially via the time lag in pension adjustments), but also thought about the beneficial effects on the labor market that a generous pension policy might have. This ‘policy linkage’ (Wilensky) between labor policy and pension policy was again supported by the specific administrative responsibility of the Federal Ministry of Labor and Social Affairs and by the bipartite structure of the German social insurance system. Thus, when the first oil crisis hit the German economy, corporatist arrangements between labor and capital were not supplemented by a government policy of full employment, massive deficit spending, and low interest rates<sup>27</sup> or by a centrally coordinated income policy, but mainly by social policy. In other words, the German variant of a policy of full employment was designed to achieve full employment not as a result of a state-induced increase in the demand for labor, but by a decrease in the supply of labor via the social insurance system. In Germany, social policy, and not income policy, appears “to constitute a core domain of liberal corporatism” (Lehmbruch 1977: 96). In fact, a strong earnings-related social insurance scheme, which allows for early exit from the labor market without a significant reduction in potential entitle-

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26 That is not to say that pension policy is a policy domain without popular interest left entirely to a handful of specialists. However, although the topic of pensions is politically a very salient one, it has long been largely uncontroversial at least between the CDU and the SPD.

27 One of the reasons why this option was not feasible was of course the independence of the German central bank; cf. Scharpf (1987).

ments, can be seen as a functional equivalent to full employment in that it protects those still working from wage competition with those who have been laid off. Given the deeply ingrained fears of inflation in Germany and the fact that the postwar economic miracle of the 1950s and 1960s was and still is interpreted as an achievement of non-interventionist *Ordnungspolitik*, it is reasonable to doubt that the commitment to full employment is as strongly developed within the German SPD and the unions as in the Austrian or Swedish labor movement (cf. Flanagan/Soskice/Ulman 1983: 264–266).<sup>28</sup>

Consequently, what might be referred to as an “externalization regime” emerged in Germany in the wake of the recession of the 1970s and 1980s (Oppen 1997: 257 see also Jacobs / Kohli / Rein 1991). In this context, externalization refers to two tendencies: (1) the externalization of certain groups (older workers, women, disabled persons, immigrant workers) out of the active workforce into ‘acceptable’ alternative roles (welfare recipient, ‘unpaid labor’ within the family, etc.) and (2) the externalization of the costs of economic restructuring for a broader risk community to bear. This strategy perfectly matched the interests of unions and business associations and those of works councils and company executives at the shopfloor level and also served a macro-economic rationale for quite some time. An important implication of this arrangement was that the dual structure of the relationship between labor and capital remained largely intact in spite of the severe economic crisis of the 1970s and 1980s. The effects of the economic crisis were primarily cushioned by social policy. This allowed unions and business associations to maintain their collaborative relations. Contrary to many forecasts, the system of collective bargaining did not break down and proved to be more than a ‘fair weather’ phenomenon. In Germany, the wage spread remained low and the coverage of collective bargaining arrangements continued to be broad, even though union membership declined slightly and unemployment grew enormously (cf. Streeck 1995: 6, 12, 18).

But the other side of the externalization regime is also making itself increasingly felt. Since both social policy and taxation severely discriminate against part-time employment and in favor of the ‘male breadwinner’ family model, part-time jobs

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28 “The unions were not likely to be strongly deterred in their choice of a wage policy by potentially adverse output or substitution effects on the employment of such groups as foreigners, college graduates, women seeking part-time employment, school leavers seeking apprenticeships, or even workers past the age of fifty whose share in unemployment was reduced after the 1967 recession by a lowering of the legal retirement age in 1973 and by contractual provision for greater job security ... Between 1973 and 1977, the unemployment rates among these demographic groups were substantially higher than the total unemployment rate and *with the exception of unemployment of older men* increased more rapidly” (Flanagan/Soskice/Ulman 1983: 269–270; italics added).

are unattractive. Moreover, since employers in Germany can lay off older workers without provoking significant unrest within the company (high replacement ratios and generous early retirement provisions) and without incurring notable additional costs for the company, there is no incentive for them to offer part-time positions. As a result, the market for part-time employment is significantly underdeveloped in Germany, and almost all those in part-time employment are women (see Table 2 in the Appendix). Thus broad categories of workers have qualified for disability pensions and left the labor market entirely, even though they may still have partial (or even nearly full) working capacity. Disability became the single most important reason for early retirement in Germany (see Tables 3a and 3b in the Appendix). A total of 33.1% of men and 42.2% of women who retired early because of disability in the West in 1994 (38.8% and 56.6%, respectively, in the five Länder of the former East Germany<sup>29</sup>) did so due to the lack of appropriate part-time employment (see Figure 3 in the Appendix). The average retirement age for workers in this category in 1995 was 52.7 years for men and 50.9 years for women (see Table 3a in the Appendix). These structural adjustments, particularly in the five new Länder, are taking place with the help of massive 'subsidies' from the pension funds. Altogether, pensions paid because of unemployment and because of disability cost the pension schemes more than 20 billion DM per year. This amounts to more than 5% of all pension transfers. These are essentially the costs incurred by labor market risks for which the unemployment insurance should be responsible. It should also be pointed out that these calculations are based on a static viewpoint. If the loss in contributions is taken into account as well as the longer time period over which pensions are drawn, the financial burden on the old-age pension system is much higher. As a result, there are very few older workers in the German labor force (see Table 4 in the Appendix). The total number of workers and the number of women in the labor force remain relatively low compared to other OECD countries (see Table 5 in the Appendix). In contrast to the very large number of small pensions near the level of social assistance (mainly for women), very generous pensions account for a significant share of transfers: "the top quintile pensioner group in Germany almost receives 30 percent of total public pension transfers" (Esping-Andersen 1996: 71).

For quite a while, there was a virtue cycle of economic adjustment. High labor costs making it necessary to modernize and rationalize production were compensated by high replacement ratios and generous early retirement provisions, so that modernization could take place without severe industrial unrest. Today, this pattern has become a "self-reinforcing negative spiral" (Esping-Andersen 1996: 68) driven by "unfavorable population dependency ratios due to the swelling numbers of retirees coupled to a stagnant and even shrinking workforce ... The upshot

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29 The 5 new Länder in the territory that was once East Germany, henceforth referred to as the new Länder.



is prohibitively heavy fixed labor costs which, in turn, discourage employment growth or, alternatively, spur the growth of informal sector jobs or self-employment" (Esping-Andersen 1996: 68). Unemployment (4.3 million; about 11.2% of the total workforce as of August 1997) is now at an all-time high in postwar Germany. Social insurance contributions account for more than 40% of gross wages (see Table 6 in the Appendix). The social insurance system, already under severe stress because of the economic crisis, also has to bear the additional financial burdens incurred by German unification (see Table 7 in the Appendix).

As a consequence, a number of changes and reforms are currently being discussed. Some of them have already been enacted. To name only a few of the most recent ones, a reform of disability pensions is under debate, a (partial) change from a pay-as-you-go to a funded system is being discussed, the retirement age for women has been raised from 60 to 65, and the age at which pensions can be drawn after long-term unemployment is to gradually rise from 60 to 65. The current Conservative Liberal coalition has plans to significantly reduce the replacement ratio from nearly 70% to 64% of average net wages (for an overview of the current debate over pension reform see Gatter / Schmähl 1996).<sup>30</sup> Unemployment benefits have been reduced and the criteria for eligibility have become stricter. Finally, the recent health-care reform bill began abandoning one of the central principles of the German social insurance model, i.e., the principle of parity between labor and capital in financing social insurance, albeit in a very gradual way. This list could easily be extended. However, even without a detailed survey of current welfare reforms, it is evident that the reforms go beyond the usual need for cost containment. It is no exaggeration to state that they call into question some of the compromises made between labor and capital on which the collaborative relations between these two parties have been based in the postwar era. Thus adjustments in the realm of social policy may well have repercussions on the system of industrial relations. Making the 'externalization regime' less attractive for organized workers and employers may result in the reappearance of disputes at the shopfloor level and in the corporatist arrangements between capital and labor. Insofar as the political agreement made with those workers who have already retired is up for renegotiation by way of significant cuts in pensions, high *political* costs may be incurred. Either way, the German externalization regime of the 1970s, 1980s, and early 1990s seems to no longer be sustainable.

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30 These numbers refer to the replacement ratio after the 'standard' employment career of 45 years of uninterrupted employment and, consequentially, insurance within an old-age pension scheme.

## 5 Conclusion

German capitalism as a distinctive way of coordinating economic activity is largely the historic result of a complex interplay between the system of social security and the system of industrial relations. In this paper I reconstructed the history of this interplay in three steps. Section 2 emphasized the early coevolutionary pattern between the Bismarckian social insurance schemes and the German union movement. I argued that the pattern of organizational coevolution between the social insurance system and the unions led to the emergence of modernized, centralized, sectorwide unions. The simultaneousness of political repression and social legislation did not result in a weakened workers' movement. On the contrary, the prominent involvement of the unions in the administration of the social insurance schemes became an important organizational backbone for them. In Section 3 I showed that the mutually reinforcing development of the new unions and the new social insurance system has not only led to a dualism between *voluntary organizations* and *obligatory institutions*, which is said to be a crucial precondition for the emergence and stability of corporatist arrangements. What is more, the participation of both organized labor and capital in the administration of the social insurance schemes offered a model for the accommodation of conflicts between the 'social partners' in *industrial conflicts* as well. It is here – in the overlapping domains of social insurance and industrial relations – that 'corporative self-determination' and the principle of parity representation between labor and capital became salient organizational features of the German model. In Section 4 I tried to show that since the late 1960s the established rules of corporative collaboration between labor and capital put a high premium on a strategy which externalizes the costs of economic adjustment by passing them onto broader risk communities via the welfare state. However, since the German welfare state is almost exclusively financed by contributions of employers and employees, a 'tragedy of the commons' problem has emerged here. Today, the limits of the externalization game make themselves painfully felt. Cost externalization with the help of the welfare state leads to an intensified negative spiral of high non-wage labor costs setting incentives to radically rationalize production. Rationalization results in severe downsizing either through massive layoffs or through the multiple pathways into early retirement which the German welfare state so generously provides. Therefore, the costs of the externalization game again lead to higher non-wage labor costs via rising social insurance contributions and so on.

Finally, this paper makes a more general point. We still know relatively little about the systematic relationship between national welfare-state development and the formation of distinct national forms of capitalism. Tracing the multiple

causal links between both spheres from the early formative period of national capitalism until today and analyzing the long-term consequences of these early constellations for current interest equilibria between unions, employers and the state will give us a better understanding of the developmental logic and functioning of both spheres. This paper is intended to contribute to such a better understanding.

## Appendix

Tables

Figures

References

Table 1 Development of the *Baugenossenschaften* (housing associations) in Germany, 1869 to 1919

Year	Number of associations	Number of newly founded associations	Number of liquidations	Assets (in RM)	Reserve Funds (in RM)	External Funding (in RM)
1869	2	– <sup>a</sup>	–	1,830	–	
1875	53	–	–	654,844	49,869	<b>1,955,670</b>
		1876–1880				
1880	36	13	30	29,509	27,634	<b>289,662</b>
		1881–1885				
1885	33	3	6	36,339	30,031	<b>279,463</b>
		1886–1890				
1890	50	38	21	26,153	19,996	<b>303,096</b>
		1891–1895				
1895	132	113	31	719,173	141,862	<b>249,091</b>
		1896–1900				
1900	385	294	41	5,499,122	995,068	<b>30,375,719</b>
		1901–1905				
1905	641	352	69	25,840,778	2,786,003	<b>124,020,473</b>
		1906–1910				
1910	1,056	518	103	41,618,563	7,325,598	<b>362,598,548</b>
		1911–1915				
1915	1,534	491	125	45,910,106	10,062,185	<b>544,863,752</b>
		1916–1919				
1919	2,266	932	76	55,407,561	13,622,907	<b>584,227,284</b>

The gray cells show newly founded associations and liquidations over a period of time.

a No data available.

RM reichsmarks

Source: Crüger (1924: 440).

If we compare this data – especially the figures in the last column showing the extent of external funding – with the figures showing the expenditures of the blue-collar pension insurance for the purpose of supplying workers with housing (see Table 2), it becomes clear that the housing associations were financed almost exclusively by money coming from the workers' pension insurance.

Table 2 Incidence and composition of part-time employment (in %)

	Part-time employment as a proportion of employment								Part-time employment as a proportion of total employment				Women's share in part-time employment			
	Men				Women											
	'73	'83	'93	'95	'73	'83	'93	'95	'73	'83	'93	'95	'73	'83	'93	'95
Germany	1.8	1.7	2.9	3.6	24.4	30.0	32.0	33.8	10.1	12.6	15.1	16.3	89.0	91.9	88.6	87.4
France	1.7	2.5	4.1	5.0	12.9	20.1	26.3	28.9	5.9	9.6	13.7	15.6	82.3	84.3	83.3	82.0
UK	2.3	3.3	6.6	7.7	39.1	42.4	43.9	44.3	16.0	19.4	23.4	24.1	90.9	89.8	84.5	82.3
Japan	6.8	7.3	11.4	10.1	25.1	29.8	35.2	34.9	13.9	16.2	21.1	20.1	70.0	72.9	67.7	70.1
USA <sup>a</sup>	8.6	10.8	11.0	11.0	26.8	28.1	25.5	27.4	15.6	18.4	17.6	18.6	66.0	66.8	66.0	68.0

a Break in series after 1993.

Source: OECD (1996: 192).

Table 3a Average pension age, 1960 to 1995<sup>a</sup>

Year <sup>b</sup>	Pensions because of								
	reduced earning capacity			old age			reduced earning capacity and old age		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
1960	55.8	56.2	56.0	65.2	63.9	64.7	59.4	58.8	59.2
1965	57.1	57.6	57.3	65.4	63.9	64.8	61.4	60.7	61.1
1970	57.7	59.0	58.3	65.2	63.3	64.3	61.6	61.3	61.5
1975	56.3	59.2	57.8	64.1	63.0	63.6	61.2	61.2	61.2
1980	54.5	57.7	56.2	62.2	61.9	62.1	58.5	59.8	59.2
1985	53.7	54.3	53.8	62.5	62.9	62.7	58.7	60.4	59.5
1990	53.8	52.7	53.4	62.7	63.5	63.1	59.5	61.6	60.6
1991	54.1	52.8	53.7	62.7	63.5	63.2	59.6	61.5	60.5
1992	54.0	52.8	53.6	63.1	63.8	63.4	59.7	61.6	60.6
1993 <sup>c</sup>	53.3	51.2	52.5	63.0	62.9	63.0	60.1	60.6	60.3
1994	53.0	51.0	52.3	62.7	62.9	62.8	60.0	60.4	60.2
1995	52.7	50.9	52.0	62.3	62.5	62.4	59.8	60.3	60.9

a Values are influenced by legal modifications and by changes in the age structure of the population.

b Up to 1980, only blue-collar and white-collar workers' insurance systems are included (without miners' insurance).

c Data before 1993 are valid only for West Germany.

Source: Verband Deutscher Rentenversicherungsträger (1997).

Table 3b Retirement according to type of pension, 1960 to 1995

Year <sup>a</sup>	Pensions because of				All pensions
	disability, reduced earning capacity and unemployment <sup>b</sup>		old age		
	( <sup>1</sup> )	%	( <sup>1</sup> )	%	
1960	251,785	64.7	137,476	35.3	389,261
1965	241,515	50.1	240,181	49.9	481,696
1970	285,774	48.5	302,931	51.5	588,705
1975	303,502	45.0	371,728	55.0	675,230
1980	396,638	62.4	238,594	37.6	635,280
1985	312,277	51.3	296,184	48.7	608,515
1990	298,868	40.4	441,638	59.6	740,639
1991	276,375	42.1	380,486	57.9	656,980
1992	286,684	41.4	405,232	58.6	692,119
1993 <sup>c</sup>	429,144	40.6	628,503	59.4	1,059,361
1994	546,790	45.5	654,582	54.5	1,202,841
1995	635,690	49.1	659,129	50.9	1,295,249

a Until 1980 only blue-collar and white collar workers' insurance (without miners' insurance).

b Includes miners' pensions at the age of 60.

c Data before 1993 are valid only for West Germany.

Source: Verband Deutscher Rentenversicherungsträger (1997).

Table 4 Labor force participation rates of older workers (in %), 1960 to 1995

		Men		Women		Total	
		55–64	65 & over	55–64	65 & over	55–64	65 & over
Germany	1962	83.0	23.2	28.2	7.9	52.9	14.0
	1970	82.2	19.9	29.9	6.5	52.0	11.7
	1975	68.1	10.8	24.8	4.5	42.4	6.9
	1980	65.5	7.0	27.2	3.1	42.8	4.5
	1985	57.5	5.2	23.9	2.5	38.4	3.4
	1990	52.0	–	22.4	–	36.8	–
	1995	48.8	–	27.0	–	37.8	–
United Kingdom	1960	94.2	25.1	28.6	5.6	58.8	12.9
	1970	91.3	20.2	39.3	6.4	63.9	11.7
	1975	87.8	15.8	40.3	4.9	62.8	9.1
	1980	81.8	10.5	39.2	3.6	59.6	6.3
	1985	66.4	7.6	34.1	3.2	49.7	4.9
	1990	68.1	–	38.7	–	53.0	–
	1995	62.5	–	40.9	–	51.5	–
United States	1960	84.7	30.3	37.0	9.9	60.1	19.2
	1970	80.7	25.7	42.2	9.0	60.4	16.0
	1975	74.6	20.7	40.7	7.8	56.6	13.0
	1980	71.2	18.3	41.0	7.6	55.1	11.9
	1985	67.3	15.2	41.7	6.8	53.7	10.2
	1990	67.8	–	45.2	–	55.9	–
	1995	66.0	–	49.2	–	57.2	–
Japan	1960	85.6	56.9	46.7	25.6	66.4	39.6
	1970	86.6	49.4	44.4	17.9	64.1	31.8
	1975	86.0	44.4	43.7	15.3	62.6	27.9
	1980	85.4	41.0	45.3	15.5	63.1	25.5
	1985	83.0	37.0	45.3	15.5	62.9	24.3
	1990	80.4	–	46.5	–	62.9	–
	1995	80.8	–	47.5	–	63.7	–

Sources: Data 1960 to 1985: OECD (1988: 144–145). Data 1990 to 1995: OECD (1996: 187–189). Data for labor force participation of persons older than 65 not available.



Table 5 Labor force participation rates by sex (in %)

	Men				Women				Total <sup>a</sup>			
	1973	1983	1993	1995 <sup>b</sup>	1973	1983	1993	1995 <sup>b</sup>	1973	1983	1993	1995 <sup>b</sup>
Germany	89.6	82.6	81.2	80.3	50.3	52.5	61.8	61.3	69.4	67.5	71.7	71.0
France	85.2	78.4	74.5	74.8	50.1	54.3	59.0	60.0	67.8	66.4	66.7	67.3
UK	93.0	87.5	84.0	82.1	53.2	57.2	65.3	65.4	73.0	72.4	74.7	73.8
Japan	90.1	89.1	90.2	90.8	54.0	57.2	61.8	62.2	71.7	73.0	76.1	76.5
USA	86.2	84.7	84.7	85.0	51.1	61.9	69.0	70.7	68.4	73.2	76.8	77.8

*a* Defined as the total labor force divided by the working-age population.

*b* Secretariat estimates based on OECD Economic Outlook, No. 59, June 1996.

Source: OECD (1996: 196–197).

Table 6 Social Insurance Contributions 1950 to 1995 (in % of gross wage)

Year	Contribution rates (in % of gross wage) <sup>a</sup>				
	Total	Old-age	Health <sup>b</sup>	Unemployment	Long-term-care
1950	20.0	10.0	6.0	4.0	
1955	20.2	11.0	6.2	3.0	
1960	24.4	14.0	8.4	2.0	
1965	25.2	14.0	9.9	1.3	
1970	26.5	17.0	8.2 <sup>b</sup>	1.3	
1975	30.5	18.0	10.5	2.0	
1980	32.4	18.0	11.4	3.0	
1985	35.1	19.2	11.8	4.1	
1990	35.6	18.7	12.6	4.3	
1991 <sup>c</sup>	36.7	17.7	12.2	6.8	
1992	36.8	17.7	12.8	6.3	
1993	37.4	17.5	13.4	6.5	
1994	38.9	19.2	13.2	6.5	
1995	39.3	18.6	13.2	6.5	1.0
1996	41.0	19.2	13.6	6.5	1.7

*a* Joint contribution rate of both employers and employees.

*b* Average contribution rate to all funds, from 1950 to 1969 to blue-collar workers' funds only.

*c* Since 1991 only the Länder in Western Germany.

Source: BMA (1997).

Table 7 Public transfers from West Germany to East Germany (in billion DM)

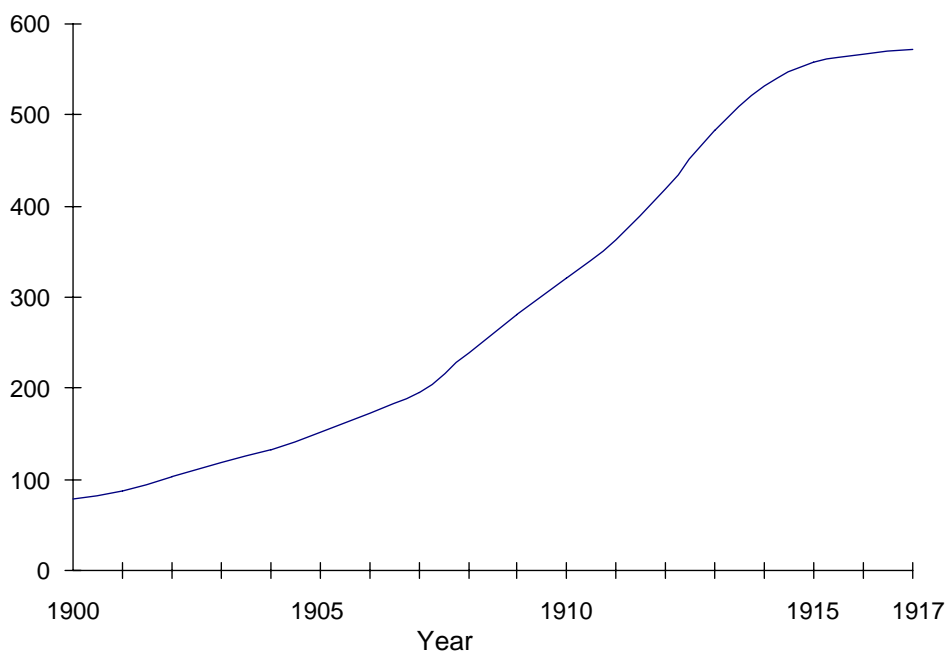
	1991	1992	1993	1994	1995	1996 <sup>a</sup>	1997 <sup>a</sup>
Unemployment insurance	24	25	15	17	16	16	18
Old-age pension scheme	–	5	9	12	17	18	16
Total social insurance transfers	24	30	24	29	33	34	34
Total public transfers	106	115	129	125	140	134	130
Social insurance transfers in % of total public transfers	22.64	26.09	18.60	23.20	23.57	25.37	26.15

<sup>a</sup> Data based on the 1996 budget and the 1997 draft budget of the German government.

Source: Deutsche Bundesbank (1996: 19).

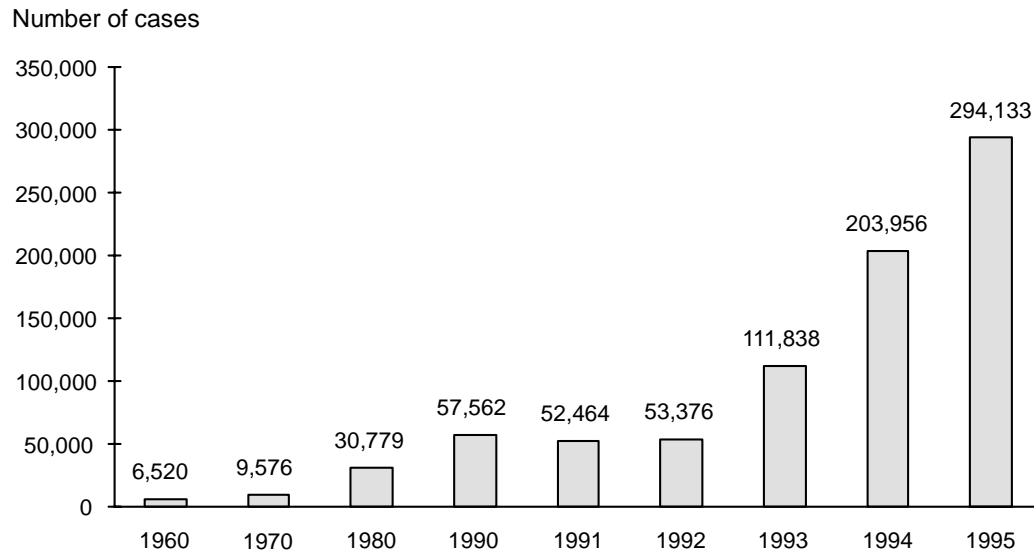
Figure 1 Expenditures of the *Invalidenversicherung* (blue-collar old-age and disability insurance) for workers' housing 1900 to 1917

Expenditures (in mill. RM)



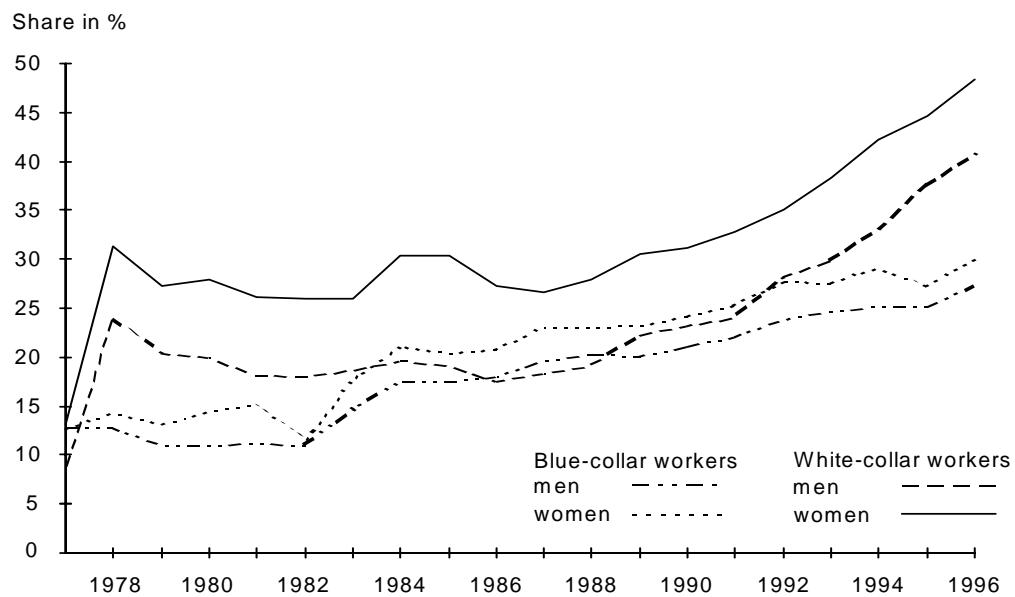
RM reichsmarks

Sources: RAM (1916) and Kolb (1928: 88).

Figure 2 Early retirement due to unemployment, 1960 to 1995<sup>a</sup>

a Data for years 1960 to 1992 for West Germany only, data for 1993 to 1995 for West and East Germany.

Figure 3 Early retirement due to reduced working capacity and lack of part-time employment, 1977 to 1996 (West Germany only), as a share of all pensions due to reduced working capacity



Source: Verband Deutscher Rentenversicherungsträger (VDR), 1997: VDR Ref. 5.2.2 Statistik.

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