Social Democrats and Greens propose drastic cuts in welfare, health, pensions

Germany's new budget: the beginning of the end of the welfare state

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Details have emerged on the cuts proposed in the German welfare system by the Social Democratic (SPD)—Green Party coalition government and SPD Finance Minister Hans Eichel.

Eichel is seeking to save a total of 30 billion marks over the next year, half of which will be deducted from the single largest government department, Employment and Social Services. The planned slashing of the department's budget will result in a cut of 12.8 billion marks and mean drastic reductions in all social security payments—from unemployment benefits to social assistance.

Also in the past week the government has revealed its plans for a dramatic “reform” of the health and pension system. For decades the German welfare state had the reputation of being one of the most progressive in Europe, providing a broad range of services and a financial safety net to the unemployed, sick and elderly.

Besides providing huge savings for the employers and imposing increasing costs on ordinary workers, the new budget fundamentally breaks with the principle upon which the German welfare state was built. Now the huge sums contributed over decades by workers to the pension and health funds are increasingly to be freed from state control and made available for speculation on the stock market and international exchanges.

To appreciate the political significance of the new measures it is useful to briefly review the historical origins of the German welfare system.

The very first measures providing insurance for workers in Germany date back to the rule of Chancellor Bismarck in the closing decades of the nineteenth century. Known as the “Iron Chancellor”, Bismarck was sufficiently astute to realise that it was necessary to offer certain concessions in order to make his government's dictatorial measures more palatable.

Confronted with a powerful and rapidly growing industrial proletariat, Bismarck moved to block its political development by banning the Social Democratic Party in 1878. In order to head off opposition to this intensely unpopular law, Bismarck introduced a broad programme of social protection for workers.

In 1883 a basic form of health insurance was introduced. A year later workers were provided protection for on-the-job accidents, and in 1889 an insurance system was introduced to provide long-term financial support for disabled workers. This latter law was to become the foundation for the pension funds established to provide workers with a comfortable income following retirement.

For much of the 20th century such provisions were improved and expanded by the government whenever class divisions reached fever pitch, so as to forestall a radicalisation of the workers (e.g., during the Weimar Republic and following the Second World War). The welfare system was based on the principle of “solidarity”, i.e., that the state would require equal contributions to the health and insurance schemes from both workers and employers.

Close collaboration between the employers and workers in developing the welfare state was a key factor in Germany‘s political stability and the “economic miracle” which the country experienced in the second part of the century. With these new measures, however, the employers are broadly freed from their responsibilty to contribute to the schemes and provide guarantees for their workers. Health and pension programmes are to be removed from government jurisdiction and subordinated to the vagaries of the market.

SPD and Green politicians alike argue that these fundamental changes are necessary to overcome huge deficits and a so-called “cost explosion” in pensions and health benefits. In fact, a number of experts have demonstrated that the “cost explosion” is fictitious. Over the last 20 years, for example, the cost of the German health insurance scheme as a percentage of gross national product has only risen from 5.87 percent to 5.95 percent. According to professor Heinz-J. Bontrup from the University of Gelsenkirchen: “Based on this growth there is no visible `dramatic` increase in health costs.” He continues, “...only after German reunification did financial problems arise in the state-regulated health insurance system. To a large extent the financial difficulties are not the result of a cost explosion but are, above all, due to a drop in contributions caused by high unemployment and low wage deals.”

Not only does the Red-Green coalition government regard mass unemployment as inevitable—at the moment nearly four million are officially unemployed in Germany and many millions more are underemployed—the government is also deliberately utilising mass unemployment to introduce cheap labour jobs on a broad scale.

As part of the “reform” package the government's Health Minister, Andrea Fischer (Green Party), is proposing major changes to health care in Germany. Up until now workers and professional people who paid regular contributions to the various health schemes were, in the event of sickness, able to visit specialists to obtain treatment. Government regulations created a framework within which the various health insurance agencies were required to provide consultation and treatment, including subsidised medicines. These rules are now to be relaxed, enabling the health agencies to prescribe on the basis of market-orientated criteria the most economic forms of treatment, or deny treatment altogether.

The new measures envisage increased use of the “cost-effective” house doctor to deal with most complaints. The aim is to limit as far as possible access to more expensive specialists and clinics and to minimise hospital stays. The number of subsidised medicines is to be drastically reduced and the present system of state subsidy for hospitals is to be done away with. Capital investment in hospitals will be slashed, resulting in hospital closures and reductions in service. Private insurance agencies will be responsible for subsidising the hospitals on a case by case basis. Hospitals will be rewarded, therefore, to the extent they can process patients on a sort of “assembly line” basis.

The consequences of such policies can be observed in a number of other countries, for example Britain and the Netherlands. In these countries similar measures, introduced some years ago, have resulted in a drastic deterioration in the quality of the health service and long waiting lists for patients requiring hospital treatment, including those suffering from chronic illnesses.

The government's proposals for pensions were outlined by Labour Minister and ex-trade union boss Walter Riester (SPD). In his initial statement Riester anounced plans for moving from a state-based pension system and adopting measures to *force* workers to enroll in alternative private pension schemes. His pronouncements unleashed a storm of protest and Riester has since declared that the element of compulsion in his original proposals will be dropped.

Nevertheless the government plans to proceed with measures which will erode the state-based pension system in favour of private schemes, thereby excluding the employers from any requirement to pay their own share toward pension funds. The employers‘ share is to be financed through increased contributions from ordinary workers, who will also be hit by additional indirect taxes, such as higher-priced petrol and increased costs for gas and electricity.

The net effect of the government‘s measures will be to reduce controls and regulations over pension and health funds and release additional billions to fuel a stock market boom. The sums involved are vast. In 1997 alone the three main pension funds for workers and professional people in Germany cashiered a total of 421 billion German marks.

The yearly turnover of the private health system alone already totals 250 billion marks. The whole issue of private health and medicine is regarded by one expert as Germany's “number one future prospect”. Many additional billions will be funneled into the private health schemes through the implementation of the government‘s plans.

The Eichel budget has provoked widespread opposition. Pharmaceutical companies have complained that the cuts will affect their profits and limit the finances necessary for research. Doctors, nurses and specialists have taken to the streets to protest the health care proposals and pensioner groups have made clear their opposition to the proposals. However, most of the interest groups have expressed their opposition while accepting market criteria in the sphere of health and welfare, limiting their protest to complaints about unfair treatment for their specific group.

In fact the real victims of these measures are the majority of ordinary working people who are being forced to sacrifice longstanding protective measures on the altar of the free market and stock exchange profitability. The net result will be an enormous intensification of the polarisation between rich and poor in Germany and, in view of the central role played historically by German welfare reforms, the further destabilisation of the country's political foundations, already shaken by the Balkan War.