

The development and the present situation of social policy in the Federal Republic of Germany (FRG) within the framework of the social-market-economy

Heinz Lampert

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Federal Republic of Germany (FRG)
within the Framework of the Social-Market-Economy**

by

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Beitrag Nr. 66

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Institut für Volkswirtschaftslehre
Universität Augsburg

Memminger Straße 14
8900 Augsburg
Tel.-Nr. (08 21) 5 98-(1)
Telex 5 3 830 uniang
Telefax (08 21) 5 98-323

UB Augsburg

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<08026623510025

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I. Social Policy as an Essential Component of the Social-Market-Economy

The social-market-economy (SM) is regarded by its initiators and advocates as a "third" way which, compared to capitalist and socialist economic systems, allows to establish a free and economically efficient but, at the same time, social and just structure of society and economy.¹ The aim of a social-market-economy is to realize the constitutionally guaranteed personal and economic freedom and a high economic efficiency based on this freedom and at the same time, i.e. *from the very start* and to the same extent, the goals of a social welfare state, namely social justice and security. Social policy is primarily not understood as an opportunity of correcting the negative social results of a free-enterprise system, i.e. not as a repair policy. It is rather understood as an anticipative policy of the system which is aimed at preventing social shortcomings. The attribute "social" in the term social-market-economy stands for the following:

- (i) This economic system promotes social justice and security because it is highly efficient in terms of its economy, capable of providing prosperity for all, and it offers good opportunities for individual development.
- (ii) This system meets the demand for justice, particularly with regard to equal starting opportunities, a fair assessment of performance and equality of treatment, because competition and markets, especially the labour markets, and also the business and shop rules are based on the aims of both economic freedom and social justice (postulate of a socially orientated system policy) (comp. LAMPERT [1990]).
- (iii) A multiform and complete system of social security can and is to be established on the basis of the highly efficient competitive economy.

In the following a survey of developments of social security and social policy will be given. Afterwards I will describe the present state of social policy, especially of the system of social security.

¹ Comp. for the conception and contents of the Social-Market-Economy H. Lampert [1991b] pp. 86 ff.; A. Müller-Armack [1974]; R. Blum [1978], pp. 153 ff.

Table 1. Periods and characteristics of social policy in Germany 1839 to 1945

	1839 - 1890	1890 - 1918	1918 - 1933	1933 - 1945
Constitutional background	Constitutional monarchy; since 1870 (Foundation of the Reichstag = democratic elected parliament) conservative and liberal parties dominating; labor party and trade unions repressed; 1813 - 1850: inauguration of (formal) civil rights step by step	Constitutional monarchy: socialdemocratic party and trade unions rapidly growing	Republic; parliamentary democracy, strong social-democratic and christian parties	Dictatorship
Economic background				
Rate of growth of NNP	0.8 - 4.1 %	1.8 - 3.3 %	- 10.9 - 1.6 %	10.3 - 13.4 %
Rate of investment	6.7 - 11.9 %	12.7 - 15.5 %	- 3.1 - 15.2 %	4.9 - 15.0 %
Share in net value added				
agriculture	45 - 35 %	32.2 - 23.4 %	23.4 - 17.1 %	17.1 - 15.1 %
industry	21 - 34 %	36.8 - 44.6 %	44.6 - 44.8 %	44.8 - 49.2 %
Real national product	doubled	nearly doubled	reduced 1928/1932	nearly doubled
Social transfers in % of NNP (5-years averages)	0.8 - 1.4 %	1.4 - 2.7 % (1910/13)	8.8 - 13.7 %	18.4 - 8.9 % (declining during period)
Fields of activity which were inaugurated respectively expanded and/or improved				
Protection of employees	Protection of young workers, later on of female workers, especially of mothers, later on of all workers	expanded and improved		
			1918: eight-hours working day protection of heavily handicapped	
Social security	Social security: 1883: health insurance 1884: accident insurance 1889: invalidity and old age insurance established by Bismarck	expanded and improved		
		1911: survivors insurance: employees become members of social insurance	1923: unemployment insurance established	1934: craftsmen compulsory members of social insurance
Labor market policy	—	—	Labor market policy 1918: freedom of coalition realized; free collective bargaining	} suspended
Policy of influencing the constitution of businesses and enterprises	—	—	1920: works councils	
Housing policy	—	—	1923: housing policy	no further development
Family policy	—	—		family policy by reduction of taxes and by paying family allowances

II. Survey of Developments

1. *The Roots of Social Policy in the FRG*

The history of social policy in the FRG started long before the FRG was founded, for this policy was based on the results of social policy, which had been pursued in between 1839 and 1945. In 1839 in Prussia the work of children up to 9 years in factories was forbidden, the work of young workers up to 16 years was restricted to 10 hours per day. Young workers were not allowed to work in between 21 and 5 o'clock as well as on sundays and holidays.

Table 1 indicates that German history of social policy until 1945 includes 4 periods, which differ with regard to the political background, i.e. the political constitution, with regard to the economic background and with regard to the substance of social policy.

Before pointing out remarkable and essential tendencies of development I will describe the social policy pursued in the FRG.

2. *Reconstruction 1949 to 1953 - Restoration and New Beginning*

The initial political and economic conditions from which West German social policy set out were extraordinarily unfavorable. Until 1947, the policy of the Western occupying powers was one of retaliation, destruction of the economic potential left after the war, and political and economic paralysis of Germany. About 20 % of industrial capacities, 25 % of housing, and 40 % of transport facilities had been destroyed. Until the currency reform of June 1948, the monetary situation remained chaotic. In 1946, the social product was about 40 % of the 1938 level, while population was about the same.

The need for social policy action was extraordinarily great. Forty percent of the population were direct victims of the war: widows or orphans, wounded or bombed-out. Until 1947, about 10 million refugees and expellees streamed into the Western Zones, increasing the population to about 50 million. Undernourishment was widespread.

The bases for economic growth were created when the Western Allies changed their policy towards Germany in 1947/48: dismantling ceased; political autonomy was returned to German authorities; production limitations were eased or abolished; West Germany became a member of the Marshall Plan. The currency reform, the abolition of rationing, of governmental directives for production, and of price controls for numerous goods, created the elementary preconditions for economic development.

Since the economic and social misery in the immediate post-war years was all but universal, the first government of the Federal Republic of Germany under Chancellor Konrad Adenauer believed that an effective social policy was impossible without economic reconstruction. Hence, such economic measures as the introduction of the social-market-economy, the devaluation of the *Deutsche Mark*, export promotion, investment aid, reduction of income tax, employment creation, and particularly the stimulation of housing by subsidized credits, received priority over measures of social policy.

Social policy confronted two sets of tasks. The first was the care of widows, orphans, war victims, bombed-out persons, expellees and refugees. The *Bundesversorgungsgesetz* of 1950 provided for payments ensuring a minimum existence for widows, orphans, and war victims. The *Lastenausgleichsgesetz* of 1952 taxed owners of assets in order to compensate expellees, refugees, and bombed-out persons for part of the damage suffered by them; it provided for cost of living subsidies, and loans to start over again. The *Bundesvertriebenengesetz* of 1953 provided help for expellees and refugees to make a new beginning, as did the *Bundesevakuiertengesetz* of 1953. The *Heimkehrergesetz* of 1950 and the *Schwerbeschädigtengesetz* of 1953 aimed to help returned prisoners of war and seriously disabled war victims to reintegrate themselves into society and the economy.

It was, secondly, necessary to reorganize social security, labor markets, and the constitution of businesses (*Betriebsverfassung*) because in these areas the National Socialists had abolished all principles of democratic self-government, freedom of association, free collective bargaining (*Tarifautonomie*) and participation in management by employees. In 1950, equal participation by employers and employees was restored in the administration of health, accident, invalidity, old age and survivor insurance, and unemployment insurance. So were free collective bargaining and the right to strike or to lock out. In 1951, co-determination by employees on a basis of equality in supervisory boards (*Aufsichtsräte*) in the mining and steel industries was introduced. The *Betriebsverfassungsgesetz* of 1952 gave employees rights of co-

determination with respect to the regulation of internal matters of individual businesses.

In addition to these tasks, the first German Parliament also stimulated housing construction through special tax treatment of and subsidies for savings for construction (*Wohnungsbauprämien-gesetz* of 1952), and through reductions in land taxes (*Grundsteuer*), subsidized mortgages, and provisions allowing tax deductability of housing construction expenditures on the basis of the *Wohnungsbaugesetz* of 1951.

The First German Parliament elected for the years 1949 to 1953 had remarkable legislative achievements to its credit in all areas of political action, but particularly in the area of social policy. Some of the measures were essentially measures of reconstruction: time was short, and the misery had to be quickly eased by recourse to solutions which had proven themselves during the Weimar Republic. In addition, a deliberate decision was taken to provide for continuity by making the democratic institutions of the Weimar Republic (such as an independent administration in social matters, freedom of association, free collective bargaining, democratic constitution of businesses) the basis of the new developments. At the same time, however, the social policy of West Germany represented a remarkable new beginning and moved along new directions, e. g. with a policy of redistributing the burden of the war damage by means of the equalization of burdens (*Lastenausgleich*), an extraordinarily successful policy of housing construction - between 1950 and 1953, 1.46 million housing units were finished, of which 63 % were built with public money - and with codetermination in firms. Social policy during those years was therefore at once reconstructive and innovative.

3. *Reform and Expansion: 1954 to 1976*

The years 1954 to 1976 may be characterized as years of reform and expansion. Essential reforms and new developments of social policy were already introduced under the various Adenauer governments until 1962/63. The solution of the following tasks was begun during this decade:

- (i) Payment of family allowances for all employees and self-employed with three or more children (*Kindergeldgesetz* of 1954).

- (ii) The *Landwirtschaftsgesetz* of 1955 aimed at improving the position of farmers by raising farm incomes to the level of other incomes, as well as the improvement of farm productivity, and the *Gesetz über eine Altershilfe für die Landwirte* of 1957 drew self-employed farmers into the system of old-age-pensions.
- (iii) The periodical adaptation of old-age and invalidity pensions to the development of the incomes of employed persons, and also to price changes, by the introduction of the "dynamic" pension through the *Rentenneuregelungsgesetze* of 1957.
- (iv) The vigorous continuation of the policy towards a wider distribution of wealth, which had begun with the housing policy, by the payment of government subsidies for medium-term savings (*Sparprämien-gesetz* of 1959, and *Gesetz zur Förderung der Vermögensbildung der Arbeitnehmer* of 1961).
- (v) Guarantee of a legal claim on public assistance in case of social need also for citizens not covered by social insurance (*Bundessozialhilfegesetz* of 1961).

In the post-Adenauer era, the following must be considered innovations in the field of social policy:

- (vi) Payment of housing subsidies to low-income citizens, to ensure housing of adequate space and quality (*Gesetz über Wohnbeihilfen* of 1963).
- (vii) Continuing wage payments in case of illness by the employer for up to six weeks - a regulation which had already applied to salaried employees for decades (*Gesetz über Lohnfortzahlung im Krankheitsfall* of 1969).
- (viii) Financial support for university education through cost of living payments for needy students (*Bundesausbildungsförderungsgesetz* of 1971).
- (ix) Extension of co-determination by employees in the supervisory boards of large enterprises in addition to those in the mining and steel industries (*Mitbestimmungsgesetz* of 1976).

In numerous other areas, levels of services were increased or new types of services were introduced. This is particularly true for the protection of young workers

(*Jugendarbeitsschutzgesetz* of 1960, and its amendment by the *Gesetz zum Schutz der arbeitenden Jugend* of 1976), the Federal law on paid vacations (*Bundesurlaubsgesetz* of 1963), family allowances (the payments for which were extended in 1961, 1964, 1970, 1975, 1978, 1979 and 1981), health insurance services and pension insurance. The laws applying to co-determination in the private sector since 1952 were, with appropriate changes, also introduced in the public sector (*Personalvertretungsgesetze des Bundes* of 1955 and of the *Länder*). The development of labor market policy instruments for the financial encouragement of regional and occupational mobility was given a further push forward by the 1969 law to promote mobility (*Arbeitsförderungsgesetz*).

4. *The Years of Trial and Crisis: 1977 and Beyond*

The social security system of the Federal Republic has had to meet severe tests during the years of low growth rates of GNP and high rates of unemployment between 1974 and 1985, and it was not able to do so without modifications in the levels of services provided. On the whole, the reductions in the services provided were neither painful nor antisocial. They related, first, to the payments for health insurance, i. e. to the rates of growth of payments for doctors, drugs, and hospital expenses (*Krankenversicherungskostendämpfungsgesetz* of 1977), which for years had shown such extremely high growth rates as to amount to a "cost explosion", and whose rates of growth had therefore to be slowed down in the future. They related, secondly, to a reduction in the rates of increase in the levels of old age and invalidity pensions (20th and 21st *Rentenanpassungsgesetz* of 1977 and 1978). They related, thirdly, to more stringent eligibility requirements for unemployment payments, and fourthly, to a reduction of subsidies for professional upgrading and training (*Arbeitsförderungskonsolidierungsgesetz* of 1981).

Economic stagnation has not prevented the social-liberal coalition, which has governed since 1969, from extending the system of social security further. In 1979, paid leave for mothers was extended from 2 to 6 months after the birth of the child (*Mutterschaftsurlaubsgesetz*). Artists were covered by social security in 1981 (*Künstlersozialversicherungsgesetz*).

Before describing the present state of social policy it should be pointed out that the economic conditions as a basis for social policy were favorable from 1950 until 1973: real rates of growth were high, unemployment declined, and real net income per

employee grew until 1975 (compare Table 2). In the years after the first explosion of oil prices in 1973 the number of unemployed rose to 1 million, and after the second explosion of oil prices in 1979/80 the number of unemployed rose to 2 million, due not only to growing prices of energy, but also due to a fast growing working population, to growth rates of wages which were higher than the growth rates of labor productivity and some less important causes.

Table 2. The Economic Development of the Federal Republic of Germany 1950 to 1989

Year/ Period	Gross National Product in Bill. Marks in Prices of		Real Rate of Growth in Prices of		Rate of Investment	Population in 1000	Employed Persons in 1000	Unemployed in 1000	Rate of Un- employ- ment	Real Net Income ^{a)} per employe in Marks
	1962	1980	1962	1980						
(1)	(2)		(3)		(4)	(5)	(6)	(7)	(8)	(9)
1950	143.6					49 989	20 376	1 869		7 730
1951-55			9.4		21.8			1 468	8.3	
1955	224.9					52 382	23 310	1 074		10 405
1956-60			6.6		24.2			641	3.1	
1960 ^{b)}	309.4	731.7				55 433	26 526	271		13 043
1961-65				4.8	26.1			167	0.8	
1965		922.7				58 619	28 006	147		16 965
1966-70				4.2	25.1			127	1.2	
1970		1 134.0				60 651	28 475	149		20 990
1971-75				2.1	24.3			472	2.1	
1975		1 258.0				61 829	27 871	1 074		23 127
1976-80				3.4	21.8			969	4.2	
1980		1 485.2				61 566	28 346	889		24 622
1981-85				1.2	20.6			1 986	8.1	
1985		1 578.1				61 024	28 611	2 304		22 756
1986-89				2.9	20.6			2 184	8.6	
1989		1 769.2				62 050	28 964	2 038		24 376

a) In Prices of 1985. b) Since 1960 including Saarland and Berlin.

Sources: Bundesminister für Arbeit 1978 and 1990.

5. *Stages and Characteristics of Development of Social Policy*

A well-founded analyses of the development shows the following remarkable tendencies and characteristics:

- (i) The expenses for achieving the goals of social policy have grown on a large scale in the course of time - depending on economic prosperity on the one hand and on the willingness of the political leadership on the other.
- (ii) Social policy was in the 19th and the beginning 20th century a policy of protecting peoples ability to work and peoples working income in case of loss because of illness, invalidity, accident, old age, unemployment or death of the bread-winner. After World War I it became more and more a policy of preventing risks, of widening the economic and social chances of people by education policy and of reducing differences in income, wealth and material freedom by redistribution of income and wealth in a manner which does not impair economic growth.
- (iii) The fields of political activities were - not only in Germany but all over Western Europe - inaugurated step by step in the following sequence:
 - protection of employees;
 - social security system;
 - labor market policy and policy of influencing the constitution of business and enterprises by co-determination;
 - housing policy;
 - education policy and wealth policy.

This means: politicians tried to solve social problems according to the urgency of the people's needs and also corresponding to the economic ability of financing the pursued policy.

- (iv) Within the above mentioned fields a nearly steady widening and improvement of measures is to be observed. For instance the protection of employees started with the protection of young workers in factories by restricting the working time and was gradually extended to all employees all over the economy and comprehends nowadays not only limits of the working-time but also paid vacations and times for giving notice of dismissal. The system of social security

is characterized by the tendency of covering as many risks as possible for more and more social groups as completely as possible.

III. The Present State

The following paragraphs describe the major existing regulations of social policy and their most important legal bases according to the present state in the different sectors of social policy. The sectors are discussed according to when they originated in the German Reich or the Federal Republic.

1. *Policy for the Protection of Workers and Employees*

The numerous measures to protect workers and employees aimed to

- (a) provide protection against accidents and dangers to health;
- (b) ensure sufficient free time for replacing the energy expended in work and for personal development; and
- (c) to ensure minimum conditions of protection against dismissal.

Basically, the protection of workers and employees consists of numerous regulations concerning the prevention of accidents, safety measures in firms, the determination of maximum daily and weekly working hours (8-hour day, 48-hour week as a rule); minimum vacations (18 paid working days for adult workers and employees); protection against arbitrary dismissals, and regulations of wage payments. As the nature and extent of the protection of workers and employees has been extended over time, it has at present come to cover all workers and employees. Numerous special regulations apply to youths, mothers, women, and severely handicapped. (On the legal bases, see LAMPERT [1991a], pp. 167-185).

2. *Functions and Development of the System of Social Benefits in the Federal Republic of Germany*

The system of social benefits in the Federal Republic has three functions. The *first* and most comprehensive function is to protect the members of the society against risks which may result from the loss of earned income due to sickness, accidents, age or unemployment, from the death of the bread-winner or from unplanned expenditure

in the case of sickness, accidents or death, and which either cannot be provided against by a private insurance or can be provided against to an extent only that is considered to be insufficient by those who bear the political responsibility (policy of social protection and security). This task is therefore fulfilled through accident, old-age, survivors' and disability, unemployment and health insurances, and also the system of welfare payments.

The *second* function is to cushion the social effects of structural changes that are inseparably bound up with the processes of economic development and to distribute the social adaption burdens in a just way in the society. This protective and compensatory function is fulfilled through the unemployment insurance system, the mobility-promoting system (financial assistance regarding reeducation, advanced vocational training and regional mobility) and redundancy payments on the basis of redundancy payments schemes. The *third* function is to reduce by transfer payments the severity of the economic consequences of greater differences in individual economic capacities and family status which are reflected in income and wealth differences. This task is accomplished through the more confined system of social security including accident, old-age, health and unemployment insurances since this system incorporates elements of social equalization as will be shown later. Income and wealth differences are evened out in particular by paying housing subsidies, children and family allowances and by pursuing a policy of a wider distribution of wealth.

From humble beginnings, the system of social benefits has continuously been developed in the Federal Republic for the past four decades.

The present state of the system of social security is summarized in Table 3.

Table 3
Membership, Major Payments and Financing of Social Security, Federal Republic of Germany *)

	Public Health Insurance System	Pension Insurance for Workers	Pension Insurance for Employees	Statutory Accident Insurance	Unemployment Insurance and Unemployment Assistance
Major Groups Covered Compulsarily	All workers and employees up to a certain level of income, which raises according to the average income (1991: 4875 DM per month); apprentices, students	All workers and apprentices	All employees	All workers, employees, farmers, coastal fishermen, working family members, apprentices, students at all school levels including kindergartens children	All workers and employees
Membership	About 90% of the population	About 17 million	About 16 million	About 52 million	About 22 million
Major Benefits	Free availability of physicians, medicines and hospital services. Preventive medicine. Sickness payments of 80% of wages from the 7th week of sickness onwards. Nonworking family members are insured without cost.	Preventive medicine, professional rehabilitation in case of premature disability. Disability, old age and survivor payments. (Old age pension after 40 insured years and average wage: 65% of last net wage. (1990: 1420 DM/month)). Annual increases accord.to the general development of incomes.	Professional rehabilitation in case of premature disability. Disability, old age and survivor payments. (Old age pension after 40 insured years and average wage: 65% of last net wage. (1990: 1420 DM/month)). Annual increases accord.to the general development of incomes.	Medical and professional rehabilitation after accidents and occupational diseases. Accident payments. Accident pensions. (In case of complete loss of ability to work, 2/3 of annual labor income.) Survivor benefits.	Job counselling, assistance with finding a job; retraining and advanced training with cost of living support, payments for up to 52 weeks of 68% of net wages. Supplementary benefits (<i>Arbeitslosenhilfe</i>) of 58% of net wages in case of need.
Financing	Equal contributions by employers and employees, together 12.5 % of wages and salaries	Equal contributions by employers and workers and employees, together 17.6% of wages and salaries. Federal subsidies (20 % of the expenses for pensions).	Equal contributions by employers and workers and employees, together 17.6% of wages and salaries. Federal subsidies (20 % of the expenses for pensions).	Employers' contributions	Equal contributions by employers and employees, together 6.8 %. Federal subsidies.
Amount of Payments 1989 Bill. DM	141.3	126.3 (including pension insurance for miners)	90.9	14.2	41.4
% of GNP	5.8	5.2	3.7	0.6	1.7

Source: LAMPERT 1991a, passim.

*) Without the Länder in the area of former German Democratic Republic

2. 1. Elements of the System of Social Benefits and their Quality

Because of limited space, some selected elements of the system can only be discussed in the following. Besides, the discussion cannot refer to all the various regulations, but has to confine itself to the essential ones.

2. 1. 1. Basic Features of Social Insurance

2. 1. 1. 1. Pension Insurance for Blue-collar and White-collar Workers

In the Federal Republic, all blue-collar and white-collar workers, small-scale employers, craftsmen, and mothers or fathers in the first three years after the birth of a child are compulsorily insured. Persons with civil service status have their own governmental social security institutions. The insurance covers the following risks: physical disability, incapacity for employment, old age, death of spouse and the state of being an orphan. The present contribution rate is 17.6 % of the wage up to a maximum amount of the monthly wage of DM 6,500. An exception are mothers or fathers bringing up children, who are insured without paying contributions during the first three years of the child. The above-mentioned rating limit may change depending on the development of average earned incomes. The employer and employee each pay half of the contribution. Apart from that, almost 20 % of the pension expenditure are born by the Federal Government.

The level of any pension depends on the following: 1. the period of insurance. Here, not only the contribution period, but also periods of training and education, sickness, unemployment and military service are taken into account; 2. the level of average earned incomes of all insured persons shortly before the calculation of the pension; 3. the proportion of the individual earned income to the average earned income of all employees during the working life; 4. the kind of pension. Employees who have earned an average income during a working life of 35 to 40 years, will receive an old-age pension amounting to 60 to 65 % of their net earnings (in 1990 60.1 % of DM 29,155 = DM 17,509 per year, provided 40 years of contribution to the insurance system), which will allow them to maintain their standard of living. Current pensions are annually uprated in line with the development of earned incomes.

The survivors' pension paid to older spouses and spouses who are either unable to work or bring up children is equal to 60 % of the pension of the deceased; for other

surviving spouses it amounts to 25 %; the pension of an orphan runs up to 20 % and of a child who lost one parent to 10 % of the pension of the deceased.

2. 1. 1. 2. Accident Insurance

With the exception of housewives who are not employed, almost all members of the society including children who go to kindergartens, pupils and students are insured by the statutory accident insurance scheme. The accident insurance system provides services for physical and vocational rehabilitation, compensation for people who suffer from injuries or occupational diseases and injury pensions if the earning capacity is decreased by 20 % or more or, on the occurrence of death, survivors' pensions.

If the earning capacity is completely lost, the pension will amount to two thirds of the annual average earnings of the injured person, at least, however, to two thirds of 60 % of the average wage of all insured. Depending on the field of occupation, it will not exceed DM 39,600 to 71,280. Survivors' pensions are equal to four tenths (for older incapacitated survivors or those who bring up children) or three tenths of the full pension. If the earning capacity is reduced, the actual pension will be that percentage of the full pension which corresponds to the degree of earning capacity reduction. Accident pensions are also annually updated in line with wage and salary developments.

Insurance protection covers accidents on the way to the firm and occupational diseases as well. Occupational diseases are dealt with in the same way as accidents.

The benefits are exclusively financed by employers' contributions.

2. 1. 1. 3. Public Health Insurance

All blue-collar and white-collar workers are compulsorily insured by the public health insurance system if their monthly income does not exceed DM 4,825. Old-age pensioners, students and the unemployed are also insured. On average, employees must make contributions amounting to 12.5 % of their income or, at a maximum, of DM 4,825. The employer and the employee each pay half of the contribution. The services encompass measures to prevent sickness, such as enlightenment on health matters and precautionary medical check-ups, free medical and dental services, free hospital treatment, and almost free provision of medicine, remedies, aids and artificial

dentures. Sickness payments of 80 % of the wage are made to insured contributors from the seventh week of sickness onwards. During the first six weeks of sickness, the employer continues to pay the full wage.

Family members of a contributor who are not employed are insured free of charge, i.e. they are entitled to all benefits in kind of the health insurance system. Approximately two fifths of all benefits in kind are allotted to those coinsured family members.

2. 1. 1. 4. Unemployment Insurance and Mobility-promoting System

Blue-collar and white-collar workers in the Federal Republic who work at least 18 hours a week, are compulsorily insured against the risk of unemployment. The monthly contribution amounts to 6.8 % of the wage up to a contribution rating limit of DM 6,500. Again, the employer and the employee each pay half of the contribution.

On occurrence of unemployment, employees are entitled to unemployment compensation. Those unemployed who have to support children will receive 68 %, others 63 % of their net wages. Contributions to the pension and health insurances are paid out of the unemployment insurance fund. Depending on the period of employment before getting unemployed and the age of the unemployed, the period of support varies between 156 and 832 days.

When the period of entitlement to unemployment compensation has expired, the unemployed will be entitled to supplementary benefits if they cannot make their living in another way. Supplementary benefits amount to 58 % of the net wage for unemployed people having children and to 56 % for those without children.

The mobility-promoting system, however, provides services that are more important in economic and social terms than unemployment benefits. Those services do not only include free assistance with finding a job, careers guidance and vocational counselling, but first of all financial support for vocational and advanced vocational training and reeducation in the form of paying the training costs and the costs of living at the rate of 65 % to 73 % of the wage.

2. 1. 1. 5. Basic Features of Welfare Payments

Since 1961, persons normally residing in the Federal Republic - including foreigners and stateless persons - who are unable either to earn their own living or who have no recourse to third parties, have a legal claim to personal and economic assistance on the basis of the *Sozialhilfegesetz*. This assistance includes, first, aid with living expenses, i.e. a guarantee to them of the needs of everyday existence. It includes, secondly, assistance in special circumstances: help with schooling and training, in case of sickness, pregnancy, disabilities, nursing requirements, and old age.

Welfare payments are intended, first of all, to allow the recipient to lead a life of human dignity, and secondly to enable him to become independent of this assistance as soon as possible. Hence, the way in which assistance is provided is adapted to circumstances of the individual case. Welfare payments are a matter for the states and local authorities (Gemeinden), not the federal government. In 1989, social welfare payments required DM 28.7 billion, i.e. 4.1 % of the Social Budget, or 1.3 % of the GNP (BUNDESMINISTER FÜR ARBEIT UND SOZIALORDNUNG [1990b]).

2. 2. Driving Forces and Tendencies of Development

The political driving force of the development of the social security system has been the triumphant advance of the idea of a social welfare state in Europe after World War II. The economic basis has been a growth previously unknown in the history of German economy. The development of the system of social benefits has been characterized by the following tendencies:

- (i) a gradual extension of social security in terms of the risks covered², the scope and amount of payments³ and the groups of people covered⁴;

2 Examples are the introduction of a lost-pay compensation in cases of bankruptcy (1974) which makes up for losses of pay an employee suffers when his employer goes bankrupt, and also the introduction of allowances for bringing up children and the consideration of the period of bringing up children in the old-age insurance system (1986).

3 Examples are the introduction of the minimum-income-based pension and a flexible retirement age (1972), and also the permanent improvement of the services in kind provided by the health insurance system.

4 Examples are the following: The pension insurance system was opened to the self-employed and housewives in 1972, the social insurance coverage was extended to artists in 1981, and the accident insurance coverage to children going to kindergartens, pupils and students in 1971.

- (ii) a gradual and dynamic development of monetary transfers, i.e. their dependence on the development of average earned incomes;
- (iii) the replacement of the principle of taking the minimum standard of living as a basis of income compensation payments by the principle of saving the standard of living.

These developments together with the enormous fall in employment resulting from the growth decline that had started in 1974, and its consequences regarding the system of social benefits, i.e. an accelerated increase in the quota of social benefits from 26.7 % in 1970 to 33.7 % in 1975, caused a heated discussion on the controversial issue of the limits of a social welfare state.

Since 1982, the quota of social benefits has been maintained on a level of approximately 31 %. Despite varied and partially irrefutable criticism of individual regulations, politicians and scientists largely agree that the social welfare state of the Federal Republic has followed the way of achieving the aim stated in the Virginia Declaration of Basic Rights from June 12, 1776. The sentence concerned states that out of all the different types and forms of government that one is the best which is able to develop the highest degree of happiness and security.

3. *Labor Market Policy*

Labor market policy in the Federal Republic is intended to help everybody able and willing to work to find the best possible continuous employment in accordance with his inclinations and abilities. The instruments are a policy of avoiding and eliminating disequilibrium in labor markets and a policy of regulating the organization of the market. Instruments of avoiding and eliminating disequilibrium are primarily governmental occupational and work counselling, assistance with finding a job (*Arbeitsvermittlung*) which is a government monopoly, financial contributions to retraining and further training, and wage subsidies for employees who would be otherwise difficult to place, such as older workers or unqualified youths.

The organization of the labor market is characterized by the freedom of association and unrestricted collective bargaining. It has proved to be advantageous for both the workers and society that trade unions are organized along industrial lines, i.e. that one

union represents all persons employed in an industry, and that wild-cat strikes are illegal, i.e. that unions must accept responsibility for strikes.

As Table 4 shows, incomes from labor have risen substantially. The average number of weekly hours worked in industry has fallen from 48.1 in 1950 to 40.1 in 1989 (BUNDESMINISTER FÜR ARBEIT UND SOZIALORDNUNG [1990], T. 4.4).

Table 4

Wages and Salaries Per Employee and Wages as Proportion of GNP, 1950 to 1989

	Annual Wages and Salaries per Employee				Annual Net Real Income per Employee in Prices of 1985		Wages as Proportion of GNP (adjusted)
	Gross		Net		DM	1970 = 100	%
	DM 1970 = 100		DM 1970 = 100				
1950	2918	21	2551	24	7730	37	75.7
1960	6155	44	5178	48	13043	62	69.5
1970	13841	100	10726	100	20990	100	72.6
1980	28880	209	20387	190	24622	117	74.2
1985	33889	245	22756	212	22756	108	70.2
1989	38309	277	25327	236	24376	116	67.2

Source: BUNDESMINISTER FÜR ARBEIT UND SOZIALORDNUNG 1990b, Tables 1.13, 1.14, 1.15 and 1.9.

4. *Co-determination of Workers and Employees in Plants and Firms*

The *Betriebsverfassungsgesetz* of 1972 as well as the 1972 Federal *Personalvertretungsgesetz* (as amended in 1974) and the *Personalvertretungsgesetze* of the *Länder* give persons employed the right to an internal organization of plants within which the individual rights and elementary interests of the employed, e.g. with respect to a safe work place, can be safeguarded. The employees and their elected works council have rights to information, to raise grievances and to participate in the decisions on the surroundings within which work proceeds, the manner in which the work process proceeds, social matters (e.g. numbers of hours worked), personnel matters (e.g. hiring, firing, or transfer) and economic matters (e.g. changes in the location of plants). The laws on co-determination in the mining and steel industries of 1951 and the 1976 general law on co-determination for corporations with a labor force of 2000 or more go further: workers and unions outside the enterprise together may nominate the same number of representatives in the supervisory bodies as the owners; the workers' representatives have all the rights of a member of the supervisory board, such as supervision of the business policies of the board of management, appointment of directors, approval of the balance sheet and the profit and loss statement.

While co-determination was initially highly controversial, it has since become generally accepted, by a large proportion of employers as well. Co-determination seems to be a method of taking care of the workers and employees interests, which is superior to nationalization.

5. *Housing Policy*

In view of the housing shortage in 1950 of about 50 % of the then-existing stock of housing (then amounting to 9.5 million housing units), the influx of expellees and demographic developments, a policy to stimulate housing construction was obviously urgently called for. It is generally accepted as proven that the measures to stimulate housing construction have been of decisive assistance in bringing about that development of housing construction in the Federal Republic which is summarized in Table 5.

Table 5
Development of Housing Construction in the Federal Republic, 1950-1987

	No. of Housing Units	No. of Persons per Housing Unit	Investment in Housing Construction during the Period in Bill. DM	From the Investment were ... % Public Means
1950	10 082 000	4.67	18.28	31.6
1950 - 59	16 139 000	3.43	51.84	16.6
1960	20 807 000	2.95	132.55	5.5
1960 - 69	25 406 000	2.42	208.89	5.6
1970	26 279 000	2.32		
1970 - 79				
1980				
1980 - 88				
1987				

Source: LAMPERT 1991.



Housing policy emphasized two particular aims: to stimulate the construction of housing for "broad strata of the population" at low rents or carrying cost in case of home ownership; and a wide distribution of home ownership. Since 1950, when the first *Wohnungsbaugesetz* was passed, three categories of housing construction have existed:

- (i) "Freely financed" housing construction. It has been stimulated by
 - a) the payment of premiums by the state on savings made to finance housing construction: this premium amounted to 18 % of amounts saved, up to an annual upper limit until 1982 and 14 % since then; or alternatively and at the discretion of the saver, favorable tax treatment of savings deposited in special saving institutions (*Bausparkassen*).
 - b) Increased depreciation for owner-occupied houses and condominiums.
- (ii) "Tax-favored" housing construction. It is further stimulated by exempting it from land taxes for ten years, from the purchase taxes and land acquisition, and by Government guarantees of the mortgages. Housing units are subject to different size limitations depending upon the size of the household.
- (iii) "Social" housing construction. It receives all the preferential treatment accorded to "tax-favored" housing and in addition public subsidies in the form of loans or contributions to interest and mortgage repayments. There are limitations on the size and equipment of the housing units, and on house rents. Only persons whose income does not exceed certain limits are eligible. Even so, almost 80 % of all households are eligible.

A central problem of housing policy is that, because of the strict protection against the termination of the tenancy by the owner (*Kündigungsschutzgesetz*), households which were originally eligible for social housing retain their entitlement even when they cease to meet the eligibility requirements with respect to size of family or level of income, and, without being obliged to pay correspondingly higher rents either. It is estimated that of the more than 6 million social housing units in existence, at least 30 % are occupied by families whose incomes are too high, and an additional 5 % by families who have ceased to have a right to so large a social housing unit because the size of their families has declined.

Since 1957, more than 40 to 50 % of the housing annually completed have been one or two family houses. In 1973, 40 % of all workers' households, 37 % of employees'

households, 41 % of civil servants' households and 67 % of the households of self-employed persons owned a house and land.

The stimulation of tax-favored and social housing benefits lower income groups indirectly by increasing the supply of rent-controlled housing. Since 1965, direct benefits through the payment of housing subsidies (*Wohngeld*) have also existed. The subsidies are paid to tenants as contributions to rent payments, and to owner-occupiers as a contribution to interest and mortgage repayments. The level of the direct housing subsidies depends on the size of household, family income, and the share of rental payments in total income. As Table 7 shows, in 1989 the stimulation of housing construction including direct housing subsidies (*Wohngeld*) involved state expenditures of DM 11.9 billion.

In addition to the problem touched upon above, that about 35 % of all families enjoying social housing have ceased to meet the eligibility requirements, there are two further problems. The first is that, despite the fact that the number of children is one of the criteria of eligibility for social housing and despite the measures to stimulate housing construction, many families with three or more children continue to occupy inadequate housing. The second is that the combination of rent controls, strict controls over the termination of leases by the landlord and high yields available from stocks and bonds has reduced incentives for investment in housing. This probably explains why the annual average supply of new housing in the Federal Republic has fallen so drastically between 1975 and 1979.

6. Family Policy

The state principle of protecting and promoting families is stipulated in the Basic Law of the Federal Republic. Seven policy instruments reduce the increased economic burdens on families with children as compared to married couples without children or unmarried persons:

- (i) child tax allowances of DM 3,042 per child in tax rating;
- (ii) household tax allowances for single persons having children at an amount of DM 5,616 per child;

- (iii) education and training tax allowances between DM 1,800 and DM 4,200 depending on the age and accommodation of children;
- (iv) allowances for bringing up children amounting to DM 600 per moth and child for a period of 24 months if one of the parents reduces its employment to less than 19 hours a week⁵;
- (v) the payment of family allowances of DM 50 per month for the first, DM 130 for the second, DM 220 for the third, and DM 240 for the fourth and further children, with payment continuing up to the 18th year or, if the child is in school, up to the 27th year, regardless of the income of the parents;
- (vi) families are also relieved by regulations on payments for the education and training of children and youths. As stipulated in the "*Bundesausbildungsförderungsgesetz*", pupils at secondary schools from form 10, mature students at schools leading to higher qualifications and students at professional schools and universities can receive allowances or payments consisting of an allowance (50 %) and, at the same time, a noninterest loan (50 %) up to a maximum of DM 900 a month. The level of payments depends on the income and wealth of the pupil or student, his spouse and his parents;
- (vii) though not exclusively, families particularly benefit from housing subsidies. If the income of a family does not exceed a certain level, a housing subsidy is granted depending on the number of family members, the family income and the rent. Housing subsidies are provided in the form of rent allowances or burden allowances for owners of apartments. In 1988, 6.8 % of all private households received average housing subsidies of DM 148 per month. Among the 1.858 million recipient households, old-age pensioners were predominant (35.1 %). The unemployed (16.6 %) and workers (14.5 %) followed. The Federal Government and the states each finance half of the housing subsidies.

As Table 7 shows, 89.2 billion was spent in 1989 for the promotion of marriage and the family, i.e. 13.1 % of the social budget (STATISTISCHES JAHRBUCH DER BUNDESREPUBLIK [1990], p. 433).

⁵ If the earnings of the parents exceed a certain level, the allowances for bringing up children will be curtailed in proportion to the earnings from the seventh month onwards.

7. *Wealth Policy*

As in other countries, the distribution of money and real assets in the Federal Republic is very uneven. To some extent this has been due to the favorable tax treatment of investments, i.e. in housing and shipbuilding and of retained earnings, to stimulate the capital formation essential for reconstruction after the war. The measures for the stimulation of house ownership in force since 1952, described in section 5 above on housing policy, were supplemented in 1959 by payments of government premiums for savings in the form of bank accounts, shares and bonds, and insurance. Earners of incomes up to DM 24,000 per annum (DM 48,000 for a married couple) received premiums of 14 % of the new savings (18 % before 1975) up to a maximum savings of DM 800 (DM 1,600 per married couple). In 1981, these premiums were abolished because of the deterioration in the government's budgetary situation. Since 1961, it has been possible to insert in collective bargaining agreements clauses which increase the assets of employed persons. Workers whose income is less than DM 24,000 per annum (DM 48,000 for a married couple) receive additional governmental payments of 30 to 40 % for savings of up to DM 936 per year. So far as the private social policy of individual firms is concerned, more than 1,350 enterprises have profit-sharing schemes which cover 1.1 million employees (GUSKI und SCHNEIDER [1986]).

8. *Social Policy towards the "Mittelstand"*

Considerable sums are spent in the Federal Republic to maintain small and medium-sized types of self-employment among artisans, trade, industry, and above all, agriculture, and to guarantee their economic existence. Small and medium-sized enterprises are supported by public financial aid in the form of credits, subsidies, and government guarantees. Independent artisans are compulsorily covered by social security. Independent farmers are covered by a specially-created pension scheme which covers them not only for retirement but also against disability. In maintaining enterprises of this type in existence in agriculture, special emphasis has been given to favorable tax treatment and direct subsidies.

VI. The Balance Sheet of Social Policy

Despite a number of shortcomings and unsolved problems, social policy in the Federal Republic has made substantial contributions towards freeing the great majority of the population from fear and misery, to allow them to lead a life of human dignity and to develop their personality, to ensure their health, to create a democratic and open society and to equalize economic opportunities. It has done so by taking over the standard risks associated with old age, sickness, invalidity, death of the bread winner, and unemployment. The method by which it has done so is that of a policy of physical and professional rehabilitation, by developing the internal constitution of plants and firms, by creating preconditions on the labor markets which allowed real incomes to rise, by a policy of promoting schooling and training, and by equalizing differences in opportunities by tax, housing and family policies.

Table 6 depicts the material aspects of the social security system. Table 7 shows how the volume of social security payments in 1989 was distributed among different purposes. Table 8 gives the type and the sources of financing.

Table 6
Social Payments as a Proportion of GNP and Social Expenditures
per Capita, Federal Republic, 1950-1989

	GNP Bill. DM	Social Budget		Social Payments as a Proportion of GNP	Social Payments per Capita	
		Bill. DM	Change over the Preceding Period (%)		DM	Change over the Preceding Period (%)
1950 ¹	98.6	16.7	-	17.1	333	-
1960	303.0	68.8	311.9	22.7	1243	273.3
1970	675.7	180.1	161.7	26.7	2970	138.9
1980	1485.2	478.5	165.7	32.2	7747	160.8
1989	2260.4	678.5	41.8	30.0	11270	45.5

¹ Because of substantial methodological changes, not fully comparable with later years.

Source: BUNDESMINISTER FÜR ARBEIT UND SOZIALORDNUNG 1990b, Tables 7.3 and 7.4. For the year 1950: INSTITUT DER DEUTSCHEN WIRTSCHAFT 1981, Table 29 and 1991, Table 48.

Table 7
The Social Budget of the Federal Republic of Germany, by Functions, 1989

Expenditure Category	Mill. DM	%
<i>Total Social Budget</i>	678 465	100.0
<i>Marriage and Family</i>	89 193	13.1
Children	53 656	
Spouses	31 919	
Maternity	3 618	
<i>Health</i>	223 102	32.9
Prevention	15 410	
Illness	157 820	
Accidents at Work and Work-related Illness	15 713	
General Invalidity	34 159	
<i>Employment</i>	55 413	8.2
Training, Education	11 704	
Other Mobility	9 361	
Unemployment	34 348	
<i>Old Age and Survivors</i>	272 722	40.2
Old Age	260 683	
Survivors	12 039	
<i>Consequences of Political Events</i>	4 489	0.7
<i>Housing</i>	11 996	1.8
<i>Promotion of Savings</i>	17 638	2.6
<i>General Support</i>	3 913	0.6

Source: BUNDESMINISTER FÜR ARBEIT UND SOZIALORDNUNG [1990a], p. 205.

Table 8
Financing of the Social Budget of the Federal Republic of Germany,
by Type and Source, 1989

Type of Finance	%	Source of Finance	%
<i>Total Social Budget</i>	100	<i>Total Social Budget</i>	100
<i>Contributions</i>	64.4	<i>Firms</i>	31.1
by the Insured	27.7	<i>Federal Government</i>	19.9
Actual Contributions		<i>States</i>	11.2
by Employers	23.6	<i>Local Authorities</i>	8.4
Imputed Contributions	13.1	<i>Social Security</i>	0.3
by Employers		<i>Private Organizations</i>	0.6
<i>Subsidies</i>	33.7	<i>Private Households</i>	28.5
from Public Funds	31.8		
from Non-Public Funds	1.9		
<i>Other Income</i>	1.9		

Source: BUNDESMINISTER FÜR ARBEIT UND SOZIALORDNUNG [1990a], p. 211 f.

The scientific literature has identified the following shortcomings and gaps in governmental social policy (see the extensive discussion in LAMPERT [1991a], pp. 432 ff.):

- (i) Social policy continues to focus on the economically active members of society; in other words social policy towards the child has been neglected (LÜSCHER [1979]), as has that towards the family with several children, the housewife who is not in the labor market, and the physically and the mentally handicapped.
- (ii) It has become very difficult to find one's way around the system of payments, and responsibility is dispersed among institutions.
- (iii) Social assistance has been depersonalized, as legalization (*Verrechlichung*) and centralization have shifted responsibilities from the states and local authorities to the Federal Government, and as monetary transfers have come to dominate over personal services.
- (iv) The statistical information about social reality has shortcomings and gaps, and is therefore inadequate to determine the need for social services and assistance, or to determine what social services are needed by particular groups and social strata. This situation is, however, gradually being improved as the Federal Government is now obliged to report to Parliament, e.g. on the situation of the family and of youth, on the development of subsidies, and also by the nomination of a scientific commission of enquiry (e.g. the TRANSFER-ENQUETE-KOMMISSION [1981]).

Besides these shortcomings there are two problems, which are to be solved. The first problem is the capacity for financing the benefits. The second problem which is closely linked with the first one is related to the limits of burdening employees and firms.

A relatively high rate of unemployment since 1975, resulting in a revenue shortfall and expenditure increase and an unfavourable development of the ratio of old-age pensioners to the gainfully employed raised the problem of how to finance the increasing social expenditure particularly with regard to pension and health insurances. The "*Rentenreformgesetz 1992*" passed in 1989 has in all probability

provided the opportunity of a financial consolidation for at least the next 15 years. The "*Gesundheitsreformgesetz*" passed in 1988, which has increased the contribution of the insured towards the costs of artificial dentures and aids and set maximum prices the health insurance system is prepared to pay for certain groups of drugs, also seems to contribute to falling expenditure growth rates.

The second problem is burdening employees who are subject to compulsory insurance with contributions amounting to as much as 35 % of their wages meanwhile. This high degree of burdens encourages employees to avoid contribution payments by reducing the labour supply and/or by illicit work, and the insured to develop a mentality of claiming as much as possible which endangers solidarity. On the other hand, the firms as contributors are restricted with respect to their flexibility and competitiveness. Therefore, it seems to be an important task of social policy to hold back on further expanding benefits and to try not to exceed the contribution level reached so far. This task becomes even more important when considering that the two German states have united and the former German Democratic Republic has taken over the West German system of social benefits. This means that financial assistance on a large scale on the part of the western parts of the Federal Republic is unavoidable.

V. The Transferability of Social Policy Development of Industrialized Countries to Less Industrialized Countries outside Europe

The description and the analyses of social policy in Germany, especially in the FRG have shown how and why this policy developed. Though other countries have the chance of learning from this experience and from experiences, which comparable post-industrial western countries have made, it should not and cannot be expected that social policy should or could be shaped within the same time and in the same way in respect to its quantity and quality. This is not possible and not desirable because of the following reasons:

- (i) The economic and social development in less developed countries outside western Europe and North America is running faster; therefore the social problems are more numerous within a defined period of time and have to be solved faster.

- (ii) Traditions, convictions, way of life, economic systems and traditional forms of social security were set out to rapid changes by colonial powers; social policy must take this into account.
- (iii) Modern medicine makes population grow faster in the developing countries than it grew in earlier times in the post-industrial countries.
- (iv) The modern systems of information and communication as well as goals of social policy, proclaimed by international organisations, like for instance ILO or WHO, cause high expectations in many countries; these expectations cannot rest unfulfilled if social peace is to be secured.

Nevertheless historic experience teaches to take note of the fact that (steady) economic growth is a necessary condition of successful social policy in a society with growing population and that redistribution is easier to accomplish on the basis of a growing than of a constant national product.

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