Social Protection in Germany : Is there a Growing Intergenerational Inequity ?

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In early 2007 a three-part German television film showed impoverished aged German people sent to African death camps by a business-orientated regime erected by the young to counter demographic change. This fictional account situated in the year 2030 shows that questions of generational inequity reach popular discourse, raise emotions and represent new conflicts of interest. During the last decades social protection, a core idea of the German welfare state, secured votes for different parties through many elections with the idea that the state helped the weak (aged persons, powerless workers) by guaranteeing security (Kaufmann 2001, Ewald 1986). Is generational inequity the neglected conflict of interest that endangers the discursive hegemony of this idea ? Is generational equity just a media hype or are there real conflicts of interest behind these discussions ?

In this article I first want to define the concept of institutionalised generational relations. Then I will describe these relations in the mid 1990s with special reference to the pension system and labour market law in Germany, which I contrast afterwards with the present situation in these fields. An outlook on strategic options will conclude the article.

The term generation refers to different concepts like cohorts, age groups, descendent categories. For questions of generational equity it is useful to differentiate personal generational relations from institutionalized generational relations. Personal generational relations refer to connections between people who know each other as is the case within family generations. These connections are based on interactions. From empirical data we know that during the last decades in Germany personal relations between generations have been good, better than in the 1960s. A large body of literature also shows that financial transfers, communication and service transactions between family generations of young, middle aged and old people are numerous even in the case of local separation of households (Attias-Donfut, 1996 ; Bengtson et al., 1995 ; Kohli and Künemund, 2000). Therefore, rising concern with questions of generational inequity do not find an empirical basis in personal generational relations.

Institutionalized generational relations are connections that are set by institutions and may not be directly experienced by a person. They constitute a relation of conditions of life and collective experience between historical generations, cohorts and age groups. Generational relations in pension systems are one example. People who contribute to a pension system do not personally know the people who receive their money in form of pension payments in a pay-as-you-go scheme, but both groups are tied to each other by institutional rules. Similar institutionalised generational relations exist in the labour market. E.g. seniority rules are aimed to achieve job security, payments and mobility opportunities for the aged, but they also influence labour market chances for the young inside organisations or (young) unemployed people outside organisations. During the last two decades, public and scientific discussions on generational inequity have concentrated on the field of institutionalized generational relations. A high level of unemployment and the consolidation of social security budgets set the frame for these discussions.

A short view into the history of the concept of generational inequity shows that it first developed publicly in the mid 1980s in the USA and in New Zealand within (neoliberal) groups that tried to change the pension systems. However, the concept was introduced to the scientific community in the 1970s in the work of the (liberal) social philosopher Rawls and became significant in discussions about topically relevant dimensions of equity like environmental or identity issues. In Germany, *War of generations* is a weekly magazine issue since the late 1980s. The term generational equity was first used in the mid 1990s to legitimize pension policies by Norbert Blüm to introduce a demographic factor in pension payments. Whereas this proposed act of legislation failed, the term generational equity came into use across all party lines. It is now a central reference point for a group of young members of parliament belonging to all parties who are trying to incorporate the concept of generational equity in the German constitution.

Institutionalized generational inequity in the mid 1990s

There has been an ongoing debate about the quality of the “new” inequality of conflicting generations ever since the public debate on this agenda started in the 1980s. A strand of this debate argues that generational inequity simply tries to cover market interests in private pension systems. Real inequality in this field is still between rich and poor groups of the population, it is only for ideological reasons that new inequalities have been constructed. Contrasting this position is the view that “old” social inequalities between classes are features of industrial societies whereas postmodern societies are characterised by new social conflicts like tensions between age groups, ethnicities or gender. A realistic position in this field, which I would like to stress, sees “new inequality” as a new matter of perception rather than a new kind of reality. Interest conflicts between age groups, gender and ethnicities have existed for ages ; however they have been discussed more frequently in public only in recent times. There is a societal logic behind the new debate on generational inequity. For a long time, institutionalized generational relations were the unintentional by-product of politics that were directed towards other goals. In the following, I want to illustrate this argument with respect to pension politics and labour market politics in the mid 1990s in Germany with a special focus on generational equity. Later on, I want to contrast these fields with their development in the last decade after generational equity gained some relevance in the public debate. The development of policies is a complex field ; therefore, in this contrast before and after the generational equity debate, I do not make any claims of causality. I want to check whether there have been developments in German policies during the last decade that have influenced changes in institutionalised generational relations.

Pension policies are a matter for specialists. An account of the reforms to the retirement system since the 1950s would fill many pages. To describe the situation of the pension system in the mid 1990s with reference to generational equity, an idealized typical description of the system and its path of reform seem to be more fruitful. The main feature of the German pension system, introduced in 1957, consists of a public pay-as-you-go system. Its main mechanism of adaptation for minor changes consisted of a linkage between wage growth and pension growth ; a second method of adaptation for minor changes consisted of a linkage between contribution rates and the financial demand of the system. Major changes to the institutional retirement rules in the early 1970s (flexible retirement age), the 1980s (reduction of lifetime working hours) and the early 1990s (pre-retirement programme for eastern Germany) resulted in a massive early retirement programme for three decades. The average retirement age for men in West Germany dropped from 61.8 years for those born in 1904 (before major early retirement reforms) to 58.9 years for those born in 1924. In East Germany the average retirement age of men fell from 62.5 years in 1989 to 58 years in 1997 (Sackmann 2003, 2006). Despite different dominant rationales for early retirement programmes (which shifted from social policy arguments to employment policy and transformation coping), the direction of major regulatory initiative was clearly preferential for early retirement. Interests in this policy were strong, because it was supported by different political governments, parties, trade unions and employers' associations. However, it was a policy that had its costs. An earlier retirement age means pension payments are extended over a longer period of time. This development was amplified by a prolongation of the life expectancy which rose from 15.3 years (after the age of 60) in 1970-1972 in West Germany to 17.8 years (after the age of 60) in 1991-1993 in reunited Germany[1].

Growing problems of generational inequity in the late 1980s and mid 1990s can be interpreted as a result of the combination of these institutional arrangements. Both the rise of longevity and early retirement policies led to an increase in the duration of retirement. For men there was an approximate increase of about 5 years in the duration of retirement which is more than a quarter of the average duration of retirement. Despite the fact that male retirement cohorts were rather small as a result of the first and Second World Wars, this massive increase in the duration of retirement has raised costs in retirement payments considerably. The standard minor adaptation mechanisms of the pension system (wage linkage, contribution coverage) shifted these adaptation costs to adult workers. With subsequent pension reform measures, minor revisions (e.g. revisions of wage linkage, differentiation between insurance and non-insurance payments) were made to reduce this increase in costs, but the trend towards early retirement path was upheld.

Unintended effects of this policy accumulated in the 1990s : A rise in contribution rates to social security insurance, esp. retirement insurance, was seen as a cause for unemployment as it raised standard wages without increases in productivity. Major parts of the transformation costs were budgetary expenses for "non-insurance payments" of early retirement programmes which raised budget imbalances esp. in the early 1990s. Debt payments had to rise, putting a burden on future generations. Old age unemployment rose as employers tried to get rid of older workers nearing the early retirement age. Within the "war of generations" rhetoric these different crises were, in part, attributed to "greedy" old aged people taking their riches from the younger contributors and the future.

On top of these small crises, the legitimacy of the retirement insurance programme was increasingly questioned. Since the early 1980s a series of minor pension reforms took place and were justified with arguments that pensions were important for social security. A major reason for reform was that pensions had to be kept secure. Arguments for the necessity of the reform changed, in the early 1980s structural imbalances causing unemployment were seen as major cause, in the 1990s demographic change was accentuated as causal factor for problems. The social security minister Blüm, minister in the long period between 1983 and 1998, became famous for his slogan "One thing is surely true, pensions are secure" ("…*denn eins ist sicher : Die Rente*."). As this line of reasoning was used again and again, the public (supported by banks and private insurance companies) became distrustful of this policy. Blüm's slogan turned into a dictum now generally used to characterise double talk, something which is not true.

In the mid 1990s generational inequity was a problem for retirement policies. Decades of early retirement policy had put enormous stress on the contribution side of the system. Revisions took place and led to imbalances which would result in younger contributors being confronted with rules in retirement that would be less pleasant for them in comparison to current pensioners. Furthermore, the collective good of a public retirement system was in a crisis of legitimacy, also threatening especially younger contributors, as a change of the system from a pay-as-you-go system to a funded pension insurance system would burden contributors during the transition phase.

A second field of institutionalised generational relations refers to the labour market institutions. I would like to sketch an idealized developmental logic of the last decades without going too much into technical details. Traditionally, the protective component of German labour law outside public service was not strong. However, since the 1950s, concepts of a normal employment contract (*Normalarbeitsvertrag*) gained influence in judicial practice. In the 1960s and 1970s, workers' councils were strengthened in dismissal situations, "social plans" and redundancy payments were normalised. As large areas of labour law were left to adjudication, a certain degree of unpredictability was a major component of arrangements in this field. Seniority rules, which were different to American tradition not part of German proceedings outside public service, gained importance in some social security rules (higher protection from dismissal for older workers, more comfortable rules for older workers receiving unemployment insurance). In the 1980s, "innovative" firms combined "social plans" in form of redundancy payments for older workers by sending them into long spells of (rather comfortable) unemployment before reaching early retirement ("*59er Regelung*"). Despite various changes to rules, similar practices were still common in the 1990s.

The flexibilization of labour law since the 1970s was rather modest in Germany. In the 1980s, requirements for the agreement on fixed term contracts were relaxed, allowing a series of fixed term contracts lasting up to about five years. As in most countries with a dual labour contract system, most fixed term contracts were used for young people. As public service, especially the university system, also made ample use of fixed term contracts, the qualification level of people on fixed term contracts is split between very qualified personnel working alongside personnel with low qualifications (Groß and Giesecke, 2004). Personnel with mid-level qualifications from the apprenticeship system was less often employed on fixed term contracts. Overall, the special linkage quality of the German apprenticeship system kept youth unemployment rate at a level similar to adult rates.

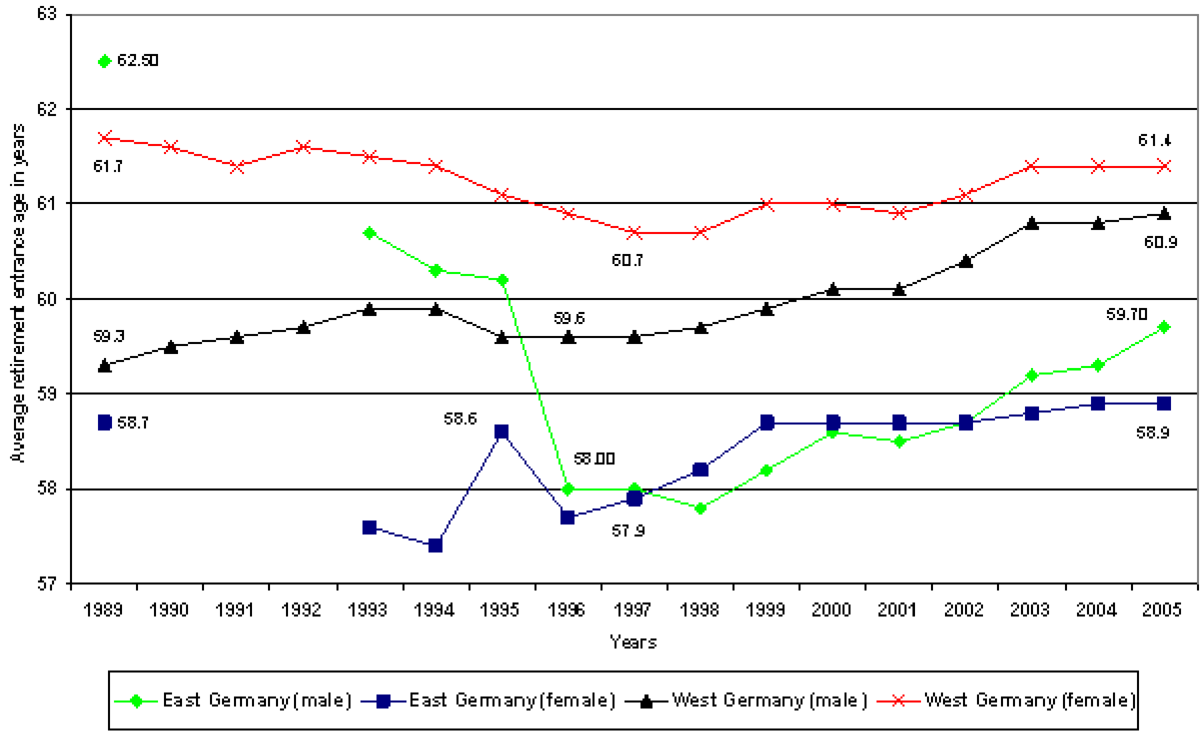
From an international perspective, this rather unusual feature kept generational tensions on the labour market low. The general rise of unemployment was a major problem for Germany, but generational inequity was not seen as a major problem. Rather, high unemployment rates among people over 50 years old were mainly attributed to employers' prejudices.

After reviewing the situation of institutionalised generational relations in the mid 1990s, one could say that generational inequity was a major problem for the pension system. Decades of early retirement policies resulted in a considerable crisis. Interest conflicts between generations were articulated within a generational equity debate, but they did not change politics which followed the developmental logic of the decades before. Within labour market law, some generational tensions were perceptible in the mid 1990s. However, special features of the qualification system (such as the practice of apprentices) kept youth unemployment low. Generational equity was not seen as a major problem for the labour market.

Institutionalised Generational Inequity in the Middle of the First Decade in 21st Century

In the following chapter I would like to discuss the recent situation of institutionalised generational relations in the fields of pensions and labour market law. In the pension system, there were major evolutions during the last decade which changed the direction of the system. In an idealized way one could say that three new elements were added. A rise in contributions, the traditional minor means of adapting pensions, was blocked. Contribution rates were kept constant, wage-related social security payments were seen as a major problem of the employment system. Fundamental for this achievement was a break with the early retirement path. In 1996 deductions were introduced that permanently lowered pensions of all people going into early retirement. This instrument was effective (Figure 1) : The mean real retirement entrance age rose from 59.7 years in 1996 to 60.8 years in 2005. Especially strong was the movement of retirement age among men : In eastern Germany it went up from 58 years in 1996 to 59.7 years in 2005, in western Germany from 59.6 years in 1996 to 60.9 years in 2005. In contrast to the preceding decades, the average retirement age has increased more than life expectancy during the last decade which means that the duration of retirement has not been augmented during the last decade. Agreements at the round table for employment produced parts of the above mentioned change. The round table was, in general, a rather unsuccessful corporatist instrument of discussion between trade unions, employers' organisations and the federal government. The round table agreed on the direction of a prolongation of working life to lower social security components of wages. A third new element of pension politics was the *Riester Rente*, a subsidized private pension plan meant to compensate lower public pension payments in the next decades. Although the financial proportion of the *Riester Rente* (and similar instruments during the last years) is rather small (especially if one considers the inequality in usage of this voluntary component), the symbolic meaning of the *Riester Rente* is important. The legitimacy of the public pay-as-you-go system was lowered as the lack of security surrounding public pensions was a major marketing instrument used by private insurance companies and banks offering their *Riester* products.

Figure 1 : Average retirement entrance age in Germany, 1989-2005



Sources : for 1989 East German data : Reinberg A. et Hummel M. (1999), Bildung und Beschäftigung im vereinigten Deutschland, *Nuremberg. For all other data : Verband Deutscher Rentenversicherungsträger (2006),* Rentenversicherung in Zeitreihen*, Frankfurt/M., p. 78*

If one considers the implications of the change in pension politics for generational inequity, one will have to concede that there was a shift in balance. Most instruments used during the decades afore moved burdens to younger contributors. In the last decade, there was a more balanced policy which cut contribution rates and efficiently shifted the entrance age to retirement. There are still some unbalanced elements against the interests of the retired cohorts as pension payments have grown more slowly than wages. The de-legitimisation of public pensions seems to be against the interests of the younger generation as alternative components are still unpredictable.

In labour market law, the second field of institutionalised generational relations, there have also been some important changes during the last decade. German policy was focused on changing rules for the unemployed whereas rules for the employed were hardly touched. The major act during the last decade, Hartz IV-legislation, has changed conditions for the long-term unemployed. Insurance components were replaced by a baseline system. This especially affects older workers by raising the incentive to get reemployed. Rising employment rates among older workers can be attributed in part to these changes in the labour market law. But, in general, a flexibilization of the labour market via a change in the rules for the unemployed is rather limited. The only initiative to change the rules for the employed (in form of a German government plan to prolong the probation period to two years) was cancelled after witnessing wide-spread youth protests in France against similar plans.

With regard to generational inequity the labour market law saw only minor shifts. The major problem is still seen in high unemployment rates. Age segmentation of labour markets as a result of a half-hearted modification of labour law has not been a major concern within public or scientific debate during the last decade.

Future ways

Security was a major guiding idea for social policy in the decades after the Second World War in Germany. Within pension policies, and to a lower degree also within labour market policies, the institutionalized form of this guiding idea had some unintended side effects which especially affected young people in their life chances.

As there were no checks for short-sighted early retirement policies, the public pay-as-you-go-system was seriously put under stress. Considerable generational inequity because of rising contributions, extending the duration of retirement and the de-legitimization of the whole institution was a result of this policy. For three decades this constellation followed a distinct path dependency. The public and scientific debate (as well as the formation of alternative interests) was influenced by a debate on generational equity which influenced subsequent changes in the system. Since the middle of the 1990s, a reorientation of pension politics has taken place. The trend towards early retirement has been stopped and a new trend towards a prolongation of working life has been put in place by efficient new institutional elements. During the last decade, programmes have been more balanced with respect to generational inequity. However, a never-ending chain of pension reforms, especially the introduction of voluntary private pension system elements, have triggered a wide-spread de-legitimization of the public pay-as-you-go-system which might be a burden for future generations.

A lesson to be drawn from the experience of the last decade could be that changing the retirement entrance age can be a powerful instrument for minor and major adaptations to pension systems. Costs, benefits and the fine-tuning of institutionalized generational relations are influenced by this instrument. In the current discussion, there are three different ways this instrument can be further strengthened. One direction would be to completely dismantle the legal retirement age. Whereas this is in accordance with current legal anti-ageism trends (Macinol 2006), this seems to be a rather risky instrument with respect to differences in the social power of groups. Resourceful old aged employees can set their retirement age according to their intentions under this possible new regulation, but underprivileged older workers might lose their right to a predictable retirement phase. A second direction of retirement age policy, following current legislation in Germany, is the change of the retirement age by legal acts well before reinforcing it. The advantage of this approach is that public debate can influence the course and speed of the direction of this policy. A disadvantage of this adaptive mechanism is that it is often too late in its fine-tuning of changes. A big drawback of legislative adaptation mechanisms is that they are not able to counter the de-legitimization processes of institutions. As each new piece of legislation has to take into consideration possible future crisis, it even strengthens the de-legitimization of the institution. A third direction for retirement age policy would be to automatize changes in the retirement age. This would take advantage of automatic minor adaptive mechanisms used during the last four decades like an institutional linkage between contribution rates and pension payments, or between pension and wage growth insofar as there is a predictable way of handling unforeseen changes in environment without having to alarm the public. An automatized change in retirement age (e.g. steered by the numeric relation of contributions and pension payments) would also have the advantage of neutrality with regard to generational inequity which the former minor adaptation methods did not have. The risk of a de-legitimization of the public pension system, which was rather real in the 1990s because of rising contributions (of the younger generation), could also be reduced with respect to the possible future risk of dramatically diminishing pension payments (for older generations).

In labour market law, the second field of institutionalized generational relations, changes during the last decades have been less accentuated (and less effective). In the aftermath of the Second World War, protective aspects of the “normal employment contract” were strengthened. One of the unintended side effects of the stabilization of employment (and complementary seniority elements) is a rise in the duration of unemployment of (on average younger) outsiders of firms, and a hysteresis effect of a prolonged accumulation of structural unemployment. Two main policies intending to counter these side effects in Germany were to enlarge the possibilities of “non-standard-employment contracts”, e.g. fixed term contracts, and to lower disincentives which keep the unemployed in their status. In Germany as in most OECD countries, the widespread use of two-tier contracts resulted in making the beginning of employment trajectories less predictable for young people. Therefore, a large international social research project labelled young people as the loser generation of globalization (Blossfeld et al., 2005). Recent changes to unemployment regulations resulting in fewer privileges for older unemployed will not alter this path dependency.

A lesson drawn from the institutionalized generational relations in labour law during the last decades is that tensions between generations are not intense in this policy field in Germany. Innovations during the last decades were rather modest : Some minor shifts in direction were achieved, but a major breakthrough is not possible either by strengthening two-tier systems or by putting more stress on the unemployed. A change in the regulation for the bulk of standard employment regulation would be a major alternative. An advantage of this strategy would be its simplicity and symbolic value. Two-tier systems and unemployment regulations tend to complicate labour law and lead to unintended effects. An advantage of a flexibilization of standard employment contracts would be their neutrality with regard to generational inequity in contrast to two-tier systems. A disadvantage of this approach (and up to now its major hindrance) is its symbolic value for trade unions which hate to see an institutionalized reduction of their negotiation power.

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In sum, protection and security were guiding ideas of the post-war welfare state. Generational inequity can be seen as a major unintended side effect of these. During the last decade there has been a major redirection of pension policies towards goals of generational equity which have resulted in a change in direction for the age of retirement in Germany. However, up to now a sustainable policy towards a new institutional setting has not (yet ?) been achieved. Although institutionalized generational relations within labour market law are less prominent, former policies in this field were not successful. A redirection towards a revamping of the general standard employment rules could be a major goal for generational equity (and the reduction of unemployment). Flexicurity seems to be the guiding idea of a renewed welfare state, but its content is still open to interest conflicts between generations.

Note

(1) Data for women show similar trends with less movement in retirement age and more movement in longevity : the average retirement age of women in West Germany dropped from 60.4 years for those born in 1904 to 59.2 years for those born in 1917. In East Germany, the average retirement age fell from 58.7 years in 1989 to 57.9 years in 1997. Life expectancy rose from 19.1 years (after the age of 60) in 1970-1972 in West Germany to 22.1 years (after the age of 60) in 1991-1993 in reunited Germany.

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