

National Report Germany

Socio-economic trends and welfare policies

Deliverable 3.1 – November 2006

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Quality is an innovative, quantitative and qualitative research project that aims to examine how, in an era of major change, European citizens living in different national welfare state regimes evaluate the quality of their lives. The project will analyse international comparative data on the social well-being of citizens and collect new data on social quality in European workplaces in eight strategically selected partner countries: UK, Finland, Sweden, Germany, the Netherlands, Portugal, Hungary and a candidate country for EU enlargement, Bulgaria.

Quality is a Specific Targeted Research or Innovations Project funded within the European Commission's Sixth Framework Programme (contract no 028945), Priority 7, Citizens and Governance in a Knowledge-based Society (March 2006 to February 2009).

Acknowledgements

We would like to thank Prof. Dr. Birgit Pfau-Effinger, University of Hamburg, Department of Sociology, and Prof. Dr. Stephan Lessenich, Friedrich-Schiller University of Jena, Department of Sociology for their helpful comments and suggestions.



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The knowledge and data provided in this publication has been collected as part of the FP6 EU-financed-project QUALITY. It reflects only the authors' views. The EU is not liable for any use that may be made of the information contained therein. The user uses the information at his/her sole risk and liability.

Introduction

This deliverable is part of Workpackage 3. ‘Analysis of the Institutional Context for the project Quality of life in a changing Europe’. Its purpose is to provide the necessary contextualisation for the analysis of the quantitative and qualitative data which would be gathered in the Quality project. It builds upon the work already done in the project: Deliverable 1.1. ‘Literature Review. Theoretical Concepts and Methodological Approaches of Quality of Life and Work’ and Deliverable 7.1. ‘Gender Checklist’. The reports in this collection present information about macro level trends in order to interpret research findings on the meso level (that of the companies under investigation) and the micro level (the values and lifestyles of individual employees). Other reports will examine existing data sources on objective and subjective indicators for the quality of life (D 1.2.) and offer comparative cross-national analysis (D 1.3.). Here we focus on the institutional framework in terms of resources and challenges in front of the quality of life in each partner country involved in the Quality team. The concrete objectives of this exercise were:

- To map current socio-economic and demographic trends concerning changes in work, employment patterns, institutional structures and practices of human resources management, family life, community and leisure, with an expected impact on the quality of life;
- To examine trends in public policies regarding employment and family life related to work-life balance;
- To get insight into the way different policy regimes stimulate or restrain quality of life.

Each report presents the major concerns and opportunities for the quality of life in the national context and makes an attempt to evaluate the impact of the national policy regime (the combination of social rights and services delivered by the state, the market and the family) on the quality of work and the quality of life. The time frame of the analysis is the last ten years. Where relevant, reports refer to major policy and economic changes in a longer time frame, as is the case of the two post-communist countries Bulgaria and Hungary which explore employment, demographic and policy trends since the regime change in 1989. Gender, as well as class (social status) and age (life course), act as the main cross cutting factors in the analysis.

The national reports made use of the following main sources of information:

- statistical data provided by the national statistical offices, Eurostat or other agencies;
- official documents of the national governments, programmes and reports of various ministries and non-governmental organisations;
- research reports and academic publications of national and international sociological agencies, research centres and universities;
- reviews of public debates in the media concerning quality of life and the policy measures deemed necessary to address the challenges;
- consultations with stakeholders and experts from the academia, policy makers and practitioners in the partner countries.

All national reports have similar structure in order to ease the task of international comparison which will be addressed in the next stage in Deliverable D 3.2. ‘Combined comparative report on socio-economic trends and welfare policies in the partner countries’. The reports’ introduction addresses the strategic

topics of national academic and policy debates about quality of life and most pressing issues in each country. The first chapter analyses significant trends in the economic activity patterns and population developments from the mid 1990s to the present and the prospects for the near future. The issues covered are activity rates by gender, age and education, patterns of employment, self-employment and flexible work, unemployment, trends in retirement, disability, sickness, family transitions and fertility rates, diversity of family forms and trends in social inequalities. The second chapter explores the employment policies in the country and elaborates on the patterns of social protection the state is providing for its citizens. Discussed are labour market, unemployment and self-employment policies, programmes for flexibility of work, measures for life long learning and safety at work, wage policies and the practices of social dialogue and their impact on the quality of work. The third chapter focuses on the trends in family policies and the kinds of provisions there are for maternity, paternity and parental leaves. This section of the reports examines the models of care policies (primarily for children but also for other dependents) and family friendly measures offered by the state, employers, community and wider families. It also includes a brief presentation of the significance attached to trends and challenges in health, housing, and leisure policies and policies for the safety in the community and society as a whole, and how these affect the wellbeing of citizens. The conclusion contains the authors' evaluation of the influence of policy interventions (current and in the past ten years) on the quality of life and quality of work and the prospects for the future.

The national reports in this collection represent countries selected before the start of the project with the understanding that they correspond to the main policy regimes. Thus Finland and Sweden have social democratic welfare states, the Netherlands and Germany stand for the corporatist regime, the UK represents the liberal regime and Portugal – the sub-protective regime. Hungary and Bulgaria are post-communist countries moving away from the centralized one-party regimes and are currently combining elements from all the four models above. The ongoing changes in their policy systems make it unclear which welfare regime they are moving toward. However, as the reports attest to, transformations are underway in all other countries under the influence of demographic and economic changes, new technologies and globalisation. Which model of citizenship best provides for the quality of work and life is to be further explored in the course of the study.

Siyka Kovacheva,
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Executive Summary

Germany is considered a typical representative of the conservative welfare state regime. Its main characteristics are an employment based social security system and the central role of the family as the main provider of care services to children and the elderly. Over the last two decades, however, the German welfare state has come increasingly under pressure. Germany's employment based social security system has proven to be extremely vulnerable to socio-demographic and economic changes. In addition, the German reunification presented an additional strain on the social security system, as social benefits (pensions, unemployment benefits, family benefits) were extended to former East Germany.

Similar to many other European countries, Germany is confronted with a declining fertility rate and an unprecedented population ageing. These trends translate into lower contribution rates to the social security funds, and higher expenditures for the elderly (mainly pensions and health care services). Household size is steadily declining and alternative family forms are becoming widespread. In addition to these socio-demographic changes, Germany is facing high levels of unemployment since the 1990s. Both men and women are affected equally by unemployment. Unemployment rates are particularly high in the newly-formed Eastern German states. Temporary employment has increased rapidly, while self-employment has remained rather stable over the last decade. Part-time work is mainly a female domain and considered the most important strategy for women to reconcile work and family. High-growth rates in part-time work are to a large extent caused by an increasing number of so-called "mini-jobs" that are exempt from compulsory social insurance contributions, and are subject to a flat-rate income tax. The majority of people working in these mini-jobs are women. Their income is often perceived as a supplement to their husband's earning. The German income tax system highly favours the traditional distribution of paid and unpaid work between men and women.

A number of reform packages have been introduced over the last decade, covering areas such as unemployment, pension system, health care system, and the family. Both the unemployment benefits and the organization of Public Employment Offices have undergone major changes, following the steady increase in unemployment in the country. Only in the second part of 2006 - due to recent economic recovery - unemployment has slightly decreased. Cost-saving actions in administration will deliver a surplus by the end of the year, and will be used to reduce the mandatory contribution to the unemployment insurance fund, another necessary step to further decrease Germany's high labour costs. A new discussion that has emerged very recently is the public debate on the emergence of "underclass" in Germany. The gap between the very rich and the very poor is widening and the once prevalent middle class is shrinking.

The funding of the German statutory pension system is one of the top-issues in current political discussions. Relatively generous pension benefits have created an "early-retirement culture" and early retirement has become a commonly accepted instrument to reduce an expensive elderly labour force in a socially acceptable way. However, a prevailing low fertility rate and an increasing life expectancy are presenting a threat to the "pay-as-you-go" retirement system. As a response, the retirement age has been increased in several steps and monetary pension benefits have been cut down. Supplementary private

pensions are heavily promoted by the government, and major structural reforms to reduce unemployment among the elderly are needed in the future.

Family policies are also top ranked in the current political agenda. Although Germany has one of the highest expenditures for family and children within the European Union, mother's participation rates in paid work are low, and the division of labour is highly gendered. The traditional family model of a female caretaker at home (at least until the children have reached school age) and a male breadwinner is still prevalent. Generous parental leave policies, the current income tax system, and a lack of adequate childcare facilities especially for children under 3 promote the traditional role model among men and women. Recently a new law on parental leave has passed the government. The old parental leave allowance which was considered a social benefit will be substituted by a new income based benefit in 2007. The new benefit amounts to 67% of the last income (up to a certain level), paid for a maximum of 14 months if the partner takes the leave for the last two months. The recent reform has been triggered by the negative impact of low fertility rates and an aging population on social security systems and economic growth. Gender equality does not seem to be the main driver behind this recent reform that mainly supports the middle class. Parents with no income (unemployed, students) will receive less benefits under the new parental leave legislation.

Finally, another area of social policy that is at present heavily discussed in Germany, is the health insurance system. Statutory Health Insurance through sickness funds is compulsory for workers whose gross income does not exceed a certain level, for unemployed and retired people, and for certain other population groups (such as farmers, artists, and students).. Only employees whose income exceeds a pre-determined income limit may choose between the statutory insurance system and a private, risk-based insurance. Mainly male, high-earning, young and healthy employees opt for the private health insurance. Employees with lower earnings (often women in part-time employment, children and the elderly) remain in the statutory insurance system. A decline in contributions to the statutory health insurance and simultaneously increasing health expenditures have resulted in growing number of problems. In addition, a mandatory elderly care insurance to finance an increasing demand of care services for an aging population was introduced in 1995. Although different reforms have been introduced, they have not proven to be sufficient for a long-term, sustainable funding of the statutory health care system. Further rise in contribution rates in 2007 have already been announced by the government. A re-organization of the sickness funds is currently being discussed within the government, and is heavily opposed by the sickness funds themselves, unions, and even by parts of the leading political parties.

To summarize, major social policy areas are currently under revision in Germany. Recent changes, particularly those related to employment and family policies, are characterized by elements that are typically associated either with liberal or social-democratic welfare state regimes. It seems that in Germany, the welfare state is currently undergoing transformations that will likely have an impact on the scope of social benefits and on future direction in virtually all important areas of social policy.

1. The German Welfare State

According to Esping-Andersen's welfare state typology (1990), Germany is considered a conservative welfare state regime. The two main characteristics of conservative welfare state regimes are status segmentation and familialism. Social rights within the conservative regime are attached to class and status. One of the main characteristics is an employment linked social insurance system that is designed to protect those with stable, lifelong employment. Private insurance and organizational fringe benefits only play a marginal role. Such social security systems offer rather poor security for those individuals who are not in permanent employment, such as women, temporary workers, and employees with irregular careers. They also tend to respond poorly to changes in demography and employment structure, increasing flexibility of labour markets, and are especially vulnerable to employment stagnation and high inactivity rates (Esping-Andersen, Gallie, Hemerijck, and Myles 2002) which has been the case in Germany over the last decade.

The second attribute of the conservative regime, familialism, refers to the centrality of the family as caregiver. The family is ultimately responsible for its members' welfare (Esping-Andersen 1999). Social benefits in Germany are not gained by the individual but by the family unit, thus fostering the traditional family with a male breadwinner in permanent employment, and an economically dependent wife taking care of the family. The German tax system promotes the traditional family model with a homemaking or, more recently, part-time working wife. The incomes of married couples can be added together, divided by two, and then taxed as two individual incomes. The progressive income tax highly favors couples comprised of a high-earning man and a low-earning, mainly part-time working wife (Drobnič 2000). In 2005, 44.3% of employed women worked part-time, compared to only 7.7% of men (Eurostat). Working part-time is considered the most important form of re-employment after the "family break" (that mainly lasts until the youngest child has reached school age) for German women (Blossfeld and Rohwer 1997; Drobnič 2000).

Provision of childcare and day-care services especially for very young children is low, and the school system is organized under the assumption that children can be taken care of in the family. German national policies stimulate mothers' choices for non-employment over part-time work, and part-time work over full-time work (Drobnič and Blossfeld 2004). Long and generous parental leave policies strongly promote a temporary withdrawal of women from paid work around child rearing. The limited availability of institutional childcare for children under 3 reflects highly gendered normative attitudes towards women's working roles during the child rearing years (Drobnič 2000). Although attitudes towards working mothers have started to change over the last decades, leaving children under 3 in private or institutional day care is still not well perceived in Germany. However, there are still differences in attitudes towards working women, as well as public childcare services between the Western and the Eastern parts of Germany, where full-time employment among mothers and public childcare for under 3 year old children were the norm under the communist regime.

Since the early 1990s, the German welfare state has come increasingly under pressure because of economic globalization, socio-demographic changes, and de-standardization of employment. While other European Union member states have been equally affected by these developments, Germany faced an

additional challenge which aggravated the pressure on the welfare state, the German unification (Czada 1998). In addition to poor economic performance, ageing population, changing female life patterns, and the transformation of family structures, the German unification required large-scale public transfers to the East. Especially the social insurance funds, which finance about two thirds of Germany's social spending were heavily affected by the German unification. Social benefits had to be extended to East Germany, and Eastern Germans joined the pension and unemployment insurance funds (Bönker and Wollmann 2001). Today, the social insurance system is still an important source for sustaining the living conditions in the Eastern parts of Germany. In 2003, up to 30% of the household income in some regions in the East of Germany was comprised of social transfers. Expenses for unemployment benefits and activation of unemployed people, for example, vary significantly across regions, ranging from 426 Euros per inhabitant in the Western federal state of Baden-Wuerttemberg to 1.119 Euros in the federal state of Mecklenburg-Vorpommern in the East (Blos 2006).

In the following chapters, we will give a brief overview of the major changes in the labour market and demographic developments over the last decade. We will outline the major characteristics of employment, unemployment, health and family policy, provide basic socio-demographic statistic, and review the most important reforms in the past 10 years. In addition, we will briefly address future trends and current political discussions in employment, unemployment, family and health policies.

2. Employment and Demographic Trends

2.1 Changes in the Labour Market

Women's participation in the paid labour market has steadily increased over the last decade, while men's employment rate has decreased from 73.7% in 1995 to 71.2% in 2005 (Table 1). Although we can observe a harmonization of the employment rates of men and women, there is still a significant difference between the sexes, which amounts to 11,6 percentage points in 2005. Total employment in Germany has not changed significantly over the past 10 years.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Women	55.3	55.3	55.3	55.8	57.4	58.1	58.7	58.9	58.9	59.2	59.6 (b)
Men	73.7	72.6	71.9	71.9	72.8	72.9	72.8	71.8	70.9	70.8	71.2 (b)
Total	64.6	64.1	63.7	63.9	65.2	65.6	65.8	65.4	65.0	65.0	65.4 (b)

(b) Break in Series

Table 1: *Employment Rate in Germany (EUROSTAT Data)*

Employment among older employees has increased for both sexes. Similar to overall employment, female employment has grown faster than male employment (Table 2). The gap between male and female employment in this age group amounts to 16 percentage points in 2005.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Women	27.1	28.2	28.7	28.3	28.8	29.0	29.4	30.6	31.6	33.0	37.5 (b)
Men	48.5	47.8	47.5	47.2	46.8	46.4	46.5	47.3	48.2	50.7	53.5 (b)
Total	37.7	37.9	38.1	37.7	37.8	37.6	37.9	38.9	39.9	41.8	45.4 (b)

(b) Break in Series

Table 2: *Employment Rate Germany - People Aged 55 to 64 in Employment (EUROSTAT Data)*

Men and women in Germany differ significantly in their employment patterns over the life course. While men continuously display high employment rate of over 70% in the prime working age group 25-55, women's employment level is much lower. Only within the age group 35-49, female employment rate exceeds the 70%-mark. The gender gap in employment is highest at ages 30 - 40, the most active phase in terms of family formation (Cornelißen 2005). Women with higher education and better occupational resources are more likely to participate in the labour market than women with lower income potential. They are less likely to interrupt their careers, and if they had interrupted, they are more likely to re-enter the labour market, particularly on a part-time schedule. However, it has also been found that in Germany the husbands' occupational status has a significant impact on women's employment. The higher the occupational position of the husband, the stronger the impact on the wife to leave the labour market and stay out of paid employment (Blossfeld, Drobnič, and Rohwer 2001). As already noted in the introduction, this traditional distribution of paid and unpaid work among men and women in Germany is promoted by the taxation and social insurance system, a lack of childcare facilities for under 3 year olds, and traditional attitudes towards working mothers.

Unemployment

A declining male employment rate has been accompanied by a strong growth of unemployment for men over the last decade. While unemployment was decreasing during the internet boom from 1998-2000, it has been increasing steadily for both sexes in the subsequent years (Table 3). With 8.9% in 2005, the unemployment rate of men was 3.1 percentage points higher than in 1995. Women's unemployment rate decreased over the past 10 years, and was 0.6 percentage points under the level of 1995 in 2005. Total unemployment rate rose by 1.5 percentage points from 8.0% in 1995 to 9.5% in 2005. The gap between male and female unemployment rates decreased mainly due to growth in unemployment among men.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Women	10.9	11.0	11.6	11.1	9.9	8.7	8.9	9.4	10.1	10.5	10.3
Men	5.8	6.6	7.3	7.1	6.4	6.0	6.3	7.1	8.2	8.7	8.9
Total	8.0	8.5	9.1	8.8	7.9	7.2	7.4	8.2	9.0	9.5	9.5

Table 3: Unemployment Rate Germany (EUROSTAT Data)

Unemployment rates among young people under 25 years increased again after the burst of the internet bubble in 2000 (Table 4). Especially young men under 25 have difficulties in finding a job. The lower unemployment rates for women in this age group can be partially explained by higher efforts that women put into the application process, lower levels of education among males, and the fact that some young women leave the labour market or do not start seeking paid employment because of own family formation (Cornelißen 2005).

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
14.9	15.6	16.2	15.0	12.7	10.6	12.8	14.2	14.7	15.1	15.0

Table 4: Unemployment Rate Germany- Population Aged Less than 25 Years (EUROSTAT Data)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Women	5.5	5.7	6.2	6.0	5.2	4.6	4.6	4.8	5.2	6.1	5.4(b)
Men	2.6	3.0	3.4	3.4	3.2	3.0	3.0	3.3	3.9	4.8	4.7(b)
Total	3.9	4.1	4.6	4.5	4.1	3.7	3.7	3.9	4.5	5.4	5.0(b)

(b) Break in Series

Table 5: Long-term Unemployment Rate Germany (EUROSTAT Data)

Persisting high levels of unemployment have become a severe problem in Germany, even in years of economic growth and stability. Since the 1960s, the unemployment rate has increased steadily with few disruptions only. After the unification, female unemployment increased rapidly because it was mainly female workers (female employment in the East was much higher than in the West before unification) who were affected by mass lay offs. With a certain time-lag also the male unemployment rate started to rise. Unemployment rates in the East are much higher than in the Western parts of the country for both men and women. According to the latest report of the Federal Employment Agency (*Bundesagentur für Arbeit*), the unemployment rate was 16.4% in the Eastern countries compared to 8.5% in the Western countries in September 2006. In 2005, 44% of all unemployed in Germany were women. German women are also more often affected by long-term unemployment (12 months or more) than men (Table 5). Highly qualified employees are less often unemployed than employees who have lower levels of education. Immigrants are twice as likely to be unemployed as native Germans and this applies to both sexes. People

without a job are at high risk of poverty in Germany. In 1998, 33% of all German unemployed were living beneath the poverty line level. The share of people living beneath the poverty line level was 41% in 2003 (Cornelißen 2005).

Part-time Work

Part-time work in Germany has increased significantly from 16.3% in 1995 to 24.2% in 2005 (Table 6) and is mainly a female domain. 44.3% of all female employees were part-time workers, compared to only 7.7% of male employees in 2005. Part-time work is still more common in the Western parts of Germany than in the East where women and men were supposed to work full-time under the communist regime (Pfauffinger and Geissler 2002). In 2003, more than 50% of part-time work in East Germany was involuntary in 2003, compared to 10% in the Western parts of the country. In 2001, the Law on Part-time and Temporary Work (Teilzeit- und Befristungsgesetz – TzBfG) came into effect. It entitles all employees – including those in managerial positions – to work part time, once they have been in an employment relationship for more than six months and worked in a company with more than 15 employees. Employers can only reject a request for part-time work if company-related reasons, such as workflow, safety or unusually high costs can be asserted. According to a survey conducted by the Institute for Employment Research (*LAB - Institut für Arbeitsmarkt- und Berufsforschung*) in 2003, 73% of all applications were submitted by women. 92% of all applications were accepted. The most frequent reaction of companies to a request for working time reduction was shifting tasks to other employees, and a discontinuation or rationalization of tasks (Wanger 2004).

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Women	33.8	33.6	35.1	36.4	37.2	37.9	39.3	39.5	40.8	41.6	44.3
Men	3.6	3.8	4.2	4.7	4.9	5.0	5.3	5.8	6.1	6.5	7.7
Total	16.3	16.5	17.5	18.3	19.0	19.4	20.3	20.8	21.7	22.3	24.2

* The distinction between full-time and part-time work is made on the basis of a spontaneous answer given by the respondent.

Table 6: Part-time Employment in Germany (Share in Total Employment)* (EUROSTAT Data)

The high growth rates of part-time work in Germany are partially caused by an increasing number of so-called mini-jobs. According to recent data of the Federal Employment Agency, 6.8 billion people worked a mini-job in 2006, compared to 5.5 billion in 2003. For 4.9 billion people in 2006, a mini-job was the only form of employment, while 1.7 billion people had a mini-job in addition to another job. Mini-jobs are jobs with a monthly income of less than 400 Euros. Mini-jobs are exempt from compulsory social insurance contributions, and are subject to a flat-rate income tax (25%) to be paid by the employer. Hence, these jobs are much cheaper for employers compared to “normal” jobs which are subject to compulsory social insurance contributions. While advocates of these mini-jobs highlight their contribution to labour market flexibility and lower labour costs, critics have voiced concerns about a lack of social protection, a loss in social insurance contributions, and a violation of equity norms (Bönker and Wollmann 2001). More than three-quarters of all employees working in mini-jobs are women. Their salary is often perceived as a supplementary to the male earnings in the household. The German tax system promotes the decision of women to work in a mini-job when the husband has a high salary (Cornelißen 2005).

Self-Employed

Self-employment has only increase slightly by 1,55 percentage points over the last decade (Table 7). According to the micro-census in 2004, 28.9% of all self-employed in Germany were women. The objective of the German government to increase women's share in self-employment to 40% in 2005, has not been achieved (Cornelißen 2005).

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
9.25	9.47	9.85	10.02	9.87	9.95	9.87	10.00	10.35	10.80

Table 7: *Self-Employed in Germany (Share in Total Employment) (Own calculations based on data from the Federal Statistical Office; Micro Census (2005)*

Temporary Employment

Similar to other European countries, temporary employment has increased rapidly in Germany over the last years (Table 8). Gender differences among temporary employees are negligible. In 2004, 7.8% of all female employees and 7.9% of all male employees worked on a temporary contract (Cornelißen 2005). Many recent employment contracts are temporary contracts. This development may lead to a rise in atypical/discontinuous employment patterns and increasing levels of social insecurity.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total	3291	3504	3652	3851	4168	4088	4004	3854	3867	3860	4380

Table 8: *Contracts of Limited Duration in Germany (in thousands) (EUROSTAT Data)*

Working hours

The average number of working hours of a full-time employed person (including extra hours, either paid or unpaid) has not changed significantly over the last 10 years. The average number of working hours of part-time employees has decreased by 2% between 1995 and 2005 (see Table 9), mainly because of a rise in employment in mini-job with average working hours clearly under 20 hours a week.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Full-time	41.2	41.6	41.7	41.7	41.8	41.8	41.6	41.4	41.0	41.3	41.6
Part-time*	19.2	18.5	18.2	18.0	17.7	17.8	17.8	17.6	17.6	17.4	17.2

* The distinction between full-time and part-time work is made on the basis of a spontaneous answer given by the respondent.

Table 9: *Weekly Working Hours in Germany (EUROSTAT Data)*

If we look at the collectively agreed working hours in Germany, the average was 37.5 hours for full-time employees and 13.6 hours for part-time employees in 2004. This applies mainly to the Western parts of Germany. In the East, collective agreements are less common and average working hours are higher, even within one sector (e.g. the public sector). Collectively agreed working hours have been reduced over the past 25 years, from 40.2 hours a week in 1980 to 38.8 hours in 1991, and 37.5 hours in 2004. The massive reduction in working hours was aimed at fighting unemployment by redistributing the available work among the unemployed. However, the 35-hour week did not prove to be an effective instrument to reduce the number of unemployed people. Rising unemployment rates over the past decade have demonstrated that rather clearly (Bräuninger 2004).

Safety at Work & Sickness Days

The number of accidents, which are subject to registration in Germany, has decreased significantly over the past 10 years due to improved safety standards mainly in the mining, metal, and electrical industry. While in 1994, 47 out of a thousand employees had an accident which required official registration, this number came down to 27 accidents per 1000 employees in 2005 (Breuer 2006). Also the average number of sickness days decreased significantly over the past 10 years for both sexes (Table 10).

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Women	21,8	21,9	18,5	15,7	15,1	14,0	13,9	13,5	13,0	12,5	12,0
Men	20,5	20,2	18,3	16,8	16,7	15,4	15,0	15,0	14,1	13,4	13,1

Table 10: Sickness Days in Germany (of all employees in the compulsory health insurance system) (BKK (2005), BKK-Zeitreihe "Arbeitsunfähigkeit der beschäftigten Pflichtmitglieder"

2.2 Demography & Families

Similar to the majority of European countries, the fertility rate in Germany has declined rapidly over the last five decades. Since 1975, the Western German fertility rate remains at a low level and fluctuates within a range of 1.2 and 1.4. The fertility rate in the former GDR was higher (e.g. 1.8 during the 1980s), but sank dramatically in the first years after the reunification. In 1991, the rate was 0.98, well below West Germany's lowest level. The current overall fertility rate of 1.37 is well below the replacement rate of app. 2.1 children per women (Table 11). The mean age of women at the birth of their first child has risen in a comparable manner to 29.1 years in 2005, compared to 28.07 in 1995. At present, most children - irrespective of whether they are of first, second or higher order - are born to women between the age of 30 and 37. In the past, children were born to women of more heterogeneous age groups. Consequently, the time window for having children has become narrower and the probability that women will have a second or third child has decreased (Cornelißen 2005).

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Children per Woman	1.24	1.25	1.32	1.37	1.36	1.36	1.38 (e)	1.35 (p)	1.31 (e)	1.34	1.37 (e)

(e) Estimated Value

(p) Provisional Value

Table 11: Fertility Rate in Germany (EUROSTAT Data)

German families have not only become smaller in size and are having less children (see also section Families and Households), also the number of childless couples has increased significantly over the past. Changes in life style and traditional gender role ideology, better education and career opportunities for women, and difficulties in reconciling paid work and family due to inflexible work arrangements and a lack of childcare facilities, are continuously reported as the most important reasons for the declining number of children in Germany (Cornelißen 2005).

Life expectancy, on the other hand, has steadily increased over the past decades (Table 12) which, in turn, has led to a rise of the population aged 64 and over by 3.2 percentage points in the last 10 years only (Table 13). Women outlived men by 5.7 years in 2005. According to recent estimation, the population aged 60 and over will account for approximately 27.6% of the total population in 2050 (Federal Statistical Office 2003).

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Women	79.6	79.7	79.9	80.3	80.6 (e)	80.7	81.0	81.3	81.2 (p)	81.4 (e)	81.4 (e)
Men	73.1	73.3	73.6	74.0	74.5 (e)	74.7	75.0	75.5	75.4 (p)	75.7 (e)	75.7 (e)

(e) Estimated Value

(p) Provisional Value

Table 12: Life Expectancy at Birth in Germany (EUROSTAT Data)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
15.4	15.6	15.7	15.8	15.9	16.2	16.6	17.1	17.5	18.0	18.6

Table 13: Proportion of Population Aged 64 and Over in Germany (EUROSTAT Data)

Low fertility rates in combination with increasing life expectancy present a threat to Germany's employment based compulsory social insurance system. A decline in the active working population automatically translates into lower contributions into the social funds. A growing inactive, older population, on the other hand, causes higher expenditures for pensions and health care. It seems that only very recently the German government became fully aware of the vulnerability of the welfare system and the problems associated with the demographic changes. A number of policies and programs are currently in preparation/discussion to stabilize the German welfare state (see Chapter Policies).

Families & Household composition

While the number of marriages has steadily declined over the past decade, the number of divorces has increased (Table 14). In addition, the number of non-married couples living together in one household has increased. While in 1996 about 8% (2% with and 6% without children) of all couples living together were not married, in 2006 already 12% (4% with children and 8% without children) of all couples living together were not married (Duschek, Weinmann, Böhm, Laue, and Brückner 2006). According to recent Eurostat data, the share of live births outside marriage in Germany has increased by 11.9 percentage points from 16.1% in 1995 to 28% in 2005. In addition, the share of same-sex partnerships is steadily increasing.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Marriages	5.41	5.27	5.22	5.15	5.09	5.25	5.09	4.73	4.75	4.60	4.80 (p)
Divorces	2.0	2.1	2.1	2.3	2.3	2.3	2.4	2.4 (p)	2.5	2.6	:

(p) Provisional Value

(:) Not Available

Table 14: Marriages and Divorces in Germany (per 1000 persons) (EUROSTAT Data)

In general, the average size of German households has been declining since the 1970s. In the last decade, the average number of persons per household has decreased from 2.22 in 1995 to 2.11 persons in 2005 (Duschek et al. 2006). The number of single-person households has risen significantly over the last decade. In 2004, 37.2% of all households were one-person households. Among those households with more than one person, 32.1% had children, 6.4% were single parents (mainly single mothers) (Federal Statistical Office 2005). There is a growing polarization between couples without children and couples with more than one child. The number of one-child-families is declining.

Income and Income Inequalities

According to national statistics on household budgets, the average monthly net household income in 2000 was 2583 Euros. The income of couples with children under 18 was 3499 Euros. Lone parents only had an average of 1777 Euros at their disposal in 2000. The income of East German households is lower than that of West German households. About 12% of the German population living in couple households with minor children lived in relative poverty in 2000, compared to 4% of couple households without children, and 7% of the population living alone (Engstler and Menning 2004). Income poverty is defined as “having an equalized income of less than 50% of the median income of the total population” (Federal Statistical Office 2002 : p. 586). The risk of income poverty is higher in the East than in the West of Germany for almost all household types. According to the micro census 2003, 9% of all children lived in families with an income below 50% of the median German household income (BMSFJ 2006). Only recently, a public discussion on poverty and “underclass” in Germany emerged. In the past, the issue of social classes was neglected or deliberately ignored by political forces in the country.

Indicators of the poverty risk only focus on the bottom part of the income distribution and do not take the full distribution of income into account. The most widely used summary measure of the degree of inequality that considers the full income distribution is the Gini coefficient. It represents an overall measure of the cumulative income share against the share of households in the population. If there was perfect equality (i.e. each person or each household receives the same income), the Gini coefficient would be 0. It would be 100 if the entire national income were in the hands of only one person or household.

In the past decade, the Gini coefficient in Germany varied between 25 and 29 (Table 15), with the lowest value in the second part of the 1990s, and an increasing trend after the year 2001. In cross-national comparison, Germany is close to or slightly below the EU25 average in terms of income inequality. In 2003, for example, the calculated coefficient for the EU25 was 29. National Gini coefficients varied between 22 (Slovenia) and 35 (UK, Greece) (Guio 2005).

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
29	27	25	25	25	25	25	29	28	28

* Calculation based on equalized household income.

Table 15: Gini-Coefficient* in Germany (EUROSTAT Data)

Migration

In the last five decades, Germany was mainly a country of immigration. In response to the labour market shortage after the 2nd World War, Germany recruited workers in Southern and Eastern Europe, and especially in Turkey. These so-called “*Gastarbeiter*” (guest workers), mainly men, were supposed to stay a few years in Germany and then return to their home countries. However, many stayed in Germany for years, acquired residence permits, and brought in their family members under the family reunification programs. In the meantime, a growing share of the “foreign” population are “second & third generation” foreigners, that is, children and grandchildren of immigrants, who are already born in Germany. In 2003, the number of legal foreign residents amounted to 8.9% of the total population. Citizens of the former guest worker countries have the largest share in the total number, with people from Turkey representing the biggest group of immigrants (Oezcan 2004). Integration and/or assimilation of these groups is a hot topic in the current political discussions.

A more recent phenomenon is the increasing number of highly skilled Germans leaving the country. While during and after the 2nd World War, large numbers of Germans left the country for political and economical reasons, emigration decreased during the 1970s and 80s (appx. 60,000 Germans per year). Since the beginning of the 1990s, the number of Germans leaving the country has steadily increased (e.g., 104,653 in 1993) and reached a record-high in 2004 with 150,667 persons leaving the country (Federal Statistical Office 2006). The majority of German emigrants are between 18 and 40 years old and male. While early German emigrants mainly left for the United States, a large part of this new group of highly skilled people is leaving for other member states of the European Union (e.g., Austria, Poland, UK) and Switzerland (Mau, Verwiebe, and Kathmann 2006) .

3. Labour Market Policies

3.1 Unemployment

Status Quo & the Past

Increasing unemployment rates since the 1990s, have put great pressure on the federal government to take action in improving employment and unemployment policies. German policies in the past were characterized by a high level of institutional fragmentation (regulation by federal law, financing and administration by local government), strong rights of the unemployed (few obligations, right to reject job offers that diverged from the previously held position), and little effort to activate unemployed people (job-search assistance, trainings) (Bönker and Wollmann 2001). However, increasing expenditure for unemployment payments called for a comprehensive labour market reform in the early 2000's. Following the suggestions of the so-called Hartz Commission in 2002, a major reform was implemented in four reform packages. Hartz packages I to III included a reorganization of the Public Employment Service, the introduction of Temporary Work Agencies, the establishment of the new Federal Employment Agency (*Bundesagentur für Arbeit*), new legislation on mini and midi-jobs, the promotion of training and education opportunities for unemployed, and the introduction of a measure called "*Ich-AG*". The "*Ich-AG*" concept supports unemployed people to set up their own small business. The last reform package, Hartz IV, became effective in 2005. Under this reform, unemployment assistance (*Arbeitslosenhilfe*) and social welfare assistance (*Sozialhilfe*) were substituted by a new means-tested income replacement scheme for long-term unemployed, the so called ALG II (*Arbeitslosengeld II*) that is somewhat below the former social assistance. Job acceptability requirements for ALG II recipients were tightened. Recipients can be assigned to employment in the secondary labour market with a remuneration of 1-2 Euros per hour. These so called "1-Euro jobs" were meant to facilitate transition from long-term unemployment into the primary job market (OECD 2005). However, the number of 1-Euro jobs has increased enormously over the last year, and there is some danger that organizations, especially in the budgetary strained public sector, substitute regular jobs through low-cost 1-Euro jobs. Legislation and control in this domain need to be tightened in the near future.

In contrast to ALG II, which is financed by taxes and is needs-based, ALG I (*Arbeitslosengeld I*) is contribution-based and linked to income. Contributions (6.5% of the income) to the unemployment insurance fund are mandatory for all employees in Germany, and are shared equally between employees and employers. ALG I amounts to approximately 60% of the last income. In February 2006, the duration of payment of ALG was reduced. Unemployed people now receive ALG I for an average of 12 months before they move on to ALG II.

Actual Events, Current Debates and Future Trends

Due to economic recovery, slightly decreasing unemployment in 2006, and cost-savings in administration, the expected surplus of the Federal Employment Agency in 2006 will exceed the forecast. The surplus in income should be used to decrease mandatory contribution to the unemployment insurance from 6.5% to 4.5% in 2007. Although job search support for unemployed has improved in quantity and quality, there is

still considerable space for further improvement in services. Client-to-counselor ratio is expected to improve and placement rates are expected to increase in the near future.

3.2 Retirement

Status Quo & the Past

The German pension system was designed (from its start) to extend the standard of living that was achieved during work life to the time after retirement. It is characterized by a large public pension pillar and a broad mandatory coverage of employees (Bönker and Wollmann 2001). The contribution-based public pension system is financed equally by employees and employers. The current contribution rate is 19.5% of the first 5.100 Euro of monthly gross income. Until very recently, occupational pensions, private pension insurances, and private saving have not played an important role in Germany. However, the demographic change, the high unemployment rate over the last decade, and a prevalence of early retirement have become a serious threat to the contribution-based retirement system. Although life expectancy is increasing, the average age of retirement in Germany has only increased marginally over the last decade (Table 16). The surprising finding that women retire at an older age than men can be explained by a highly gendered pattern of employment in Germany. The group of women who participates in the labour market until retirement is highly selective. Most women have acquired some pension rights in younger ages and they receive their pension benefits at the statutory age of retirement, while men more often retire earlier (e.g. early retirement policies, accidents, etc.). In addition, women may drop out of employment at earlier stages in the life course, for example when the husband retires and his retirement benefit is high enough to support both. Also, these women receive their own retirement benefits when they have reached the statutory retirement age.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Women	60.4	60.2	60.1	60.2	60.5	60.5	60.5	60.7	60.9	61.0
Men	59.8	59.2	59.3	59.4	59.7	59.8	59.9	60.2	60.5	60.5

Table 16: Average Age at Retirement (*Verband Deutscher Rentenversicherungsträger*)

In 2004, only 39.2% of all Germans aged 55 to 64 were still gainfully employed compared to 51% on average in the OECD countries. Generous pension policies have created an “early-retirement culture” (Bräuninger 2005). For example, the law on part-time work for older employees introduced in 1996 enabled workers to reduce their weekly working time by 50% from their 55th birthday on. It also allowed employees to split their remaining working years in a phase of full-time employment and free time (“block model”). The majority of employees opted for the block model which led to a decline in participation rates among the elderly. In addition, the right of partial retirement has been included in many collective wage agreements. As a consequence, many organizations made use of this instrument to reduce the supply of “expensive” elderly labour force in a “socially acceptable” way (Bräuninger 2005).

Actual Events, Current debates and Future Trends

There is an ongoing debate about a sustainable funding of the German retirement system in the context of an ever growing older population, and a decreasing number of employees who actively contribute to the system in the future. A number of pension reforms have been implemented in the past decade. One of the

most important reforms that caused a major change of the system was the so-called “Riester Reform” in 2001. The three main elements of the reform were 1) the stabilization of contribution rates (below 20% of income until 2020 and below 22% until 2030), 2) the long-term stability of pension levels of 67-68% of the average net earnings in 2030, and 3) the promotion and subsidy of supplementary private and occupational pensions to offset a decline in public pensions. However, the “Riester Reform” measures were not sufficient to stabilize the German pension system (Börsch-Supan and Wilke 2003). There is an on-going discussion to detach the yearly re-evaluation of the monetary pension benefits from the earnings progression. Monetary pension benefits have been declining for years, and some calculations even anticipate a loss in public pension benefits for those born in the 70s and later. Without additional private pension savings, young Germans will not be able to retain their standard of living once they are retired.

Earlier this year, the government has decided to further increase the statutory retirement age from 65 to 67 years by 2012 for men and women equally. In the meantime, the law has passed parliament. Proponents of the new law argue that the low fertility rate, an increasing life expectancy, improvements in health and the ability to work longer, plus an expected lack of qualified worker in the near future require this step. Opponents point out that there are still unsolved structural problems regarding the unemployment of older workers, and a lack of willingness in German organizations to employ older workers and to create adequate jobs (Pomberger and Wübbecke 2006). Overcoming the well established “early-retirement culture” presents one of the biggest challenges that policy makers have to face in the near future.

3.3 Wage Policies

Unlike other European countries such as France (7.61Euros/hour) or the UK (7.30Euros/hour), Germany has no statutory minimum wage. Wages are subject to collective agreements that are negotiated between the unions and the employer associations. It is an objective of the Federation of German Trade Unions (*DGB - Deutscher Gewerkschaftsbund*) that nobody in Germany should earn less than 7.50 Euros/hour. In West Germany, app.70% of all employees are covered by collective agreements compared to only 55% in the East. However, in some industries such as the construction industry, minimum wages are included in collective wage agreements to promote fair working conditions and remuneration in a highly competitive market (www.dgb.de).

3.4 Unions

Unions have always been key players in negotiation on agreements between employers and employees in Germany. However, since the beginning of the 1990s, the degree of unionization has steadily declined. While every third employee in 1991 was affiliated to the DGB union (*“Deutscher Gewerkschaftsbund”*), the proportion dropped to only every fifth person in 2004. There is also a clear trend towards abandonment of collectively agreed wage settlements among German companies and some federal states (Schneider and Ebner 2005). Hamburg, for example, is no longer negotiating wages and working conditions of its civil servants with the German Union of Services “Ver.di”.

Actual Events, Current debates and Future Trends

2006 saw a series of labour strikes of employees of public services organized by the Union of Service Employees “Ver.di”. Employees of the public waste disposal services and childcare facilities fought plans of the local governments to increase weekly working hours without pay adjustments. Medical staff at public hospitals claimed higher earnings for increasing demands at work and working hours. However, not all strikes were perceived well by the public, and the unions did a rather poor job in selecting the industries that went on strike. In the federal state of Baden-Wuerttemberg, for example, the public opinion about the strike of employees in the public waste disposal services and childcare facilities took an unexpected turn. Instead of supporting the unions and the employees on strike, a discussion on whether it is necessary and useful to have a public waste disposal service emerged. In the case of the strikes in hospitals, the public was very much in favour of the claims of the medical staff. A new collective agreement including higher collective wages for physicians was settled recently. Overall, the results of the collective bargaining in 2006 (mainly a rise in working hours without pay adjustment) can be seen as a further weakening of the unions in Germany.

4. Family Policies

Status Quo & the Past

Two contradictory tendencies are typical for postwar developments in German family policy. On the one hand, gender equality is a central value in the German constitution and was implemented in 1949. On the other hand, family policies assume women to bear main responsibilities for the family and caregiving activities. The German social security system, the pension scheme, and unemployment benefits are based on continuous full-time employment, the typical occupational pattern for men. It is assumed that the male breadwinner provides income and security for the family, while the female homemaker takes care of household, children and elderly (Grunow, Hofmeister, and Buchholz 2006). This traditional family model has its roots in the mid-19th century, and was promoted by the churches, media, and the state up to the 1970s and 80s. Married women's employment was only tolerated in case of economic necessity, and was considered an unfortunate event. Employed couples with children were stigmatized as bad care takers for their children. A "good" mother stays at home at least until the child has reached school-age (Maier 1993). Although these attitudes have changed over the past decades, the contemporary German welfare state continues to promote the traditional division of paid and unpaid work between the sexes. Time budget studies conducted by the Federal Statistical Office in 1991/1992 and 2001/2002 revealed that men in 2001/2002 did not contribute more to unpaid work than 10 years ago, but women were found to have reduced the amount of time spent on unpaid activities by 10% in this 10-year period. Nevertheless, gender differences in household activities and the distribution of paid and unpaid work between the sexes remain striking. In cross-national comparison, Germany consistently scores among the countries with highly gendered division of labour (Drobnič and Treas, 2006).

Social expenditure on family and children as a share of total social benefits in Germany has steadily increased over the past 10 years, and has reached 10.5% in 2005 (Table 17). Germany is one of the countries with the highest expenditures on family and children, but simultaneously has some of the lowest fertility and female employment rates among OECD countries.

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
8.1	7.7	7.5	9.4	10.1	10.0	10.4	10.6	10.4	10.7	10.5 (p)

(p) Provisional Value

Table 17: Social Expenditure on Family/Children in Germany (Share of Total Benefits) (EUROSTAT Data)

German family benefits include a 14-week paid maternity leave (6 weeks prior to birth, 8 weeks afterwards), and parental leave of up to three years after childbirth with a guarantee to return to an equivalent position (at least per law). A moderate compensation of usually 300 Euros per month is provided for families with an annual net income of less than 30.000 Euros during the first six months of parental leave. Afterwards, the income limit is scaled down and the benefits are adjusted accordingly. Couples with an annual net income of 16.000 Euros (or 13.500 Euros for single parents) receive no benefits at all. A monthly child allowance (154 Euros) is paid for every child, independently of the level of income. Although both men and women are entitled to parental leave, it is mainly women who take up the leave. Research has revealed that 75% of mothers who took parental leave in West Germany were absent

from paid employment for three or more years, while 99% of German fathers have never taken any family leave at all (Ostner 1998). According to a representative survey conducted by the Federal Ministry of Family Affairs, Senior Citizen, Women and Youth in 2003, in 60.1% of the households with children the mother was not participating in paid-work during parental leave. In 32.2% of the cases, the mother was working part-time. Only 4.7% of the households were comprised of two full-time working partners during leave, and in 0.2 % of the households the father has taken up a leave and is not working during leave (BMSFJ 2004). The modest financial compensation during parental leave offers little inducement for men to actually take up leave. A recent comparative study on women's career patterns in the US and Germany confirmed that German women continue to exit the paid labour market at motherhood (instead at marriage in earlier years) despite women's increasing education and opportunities in the labour market (Grunow, Hofmeister, and Buchholz 2006). Upon return to the labour market, women often experience a downward job mobility despite the right to return to an equivalent position (Ostner 1998). According to the study of the Federal Ministry of Family Affairs, Senior Citizen, Women and Youth in 2003, 55% of men and women in employment stated that exiting paid employment presents a threat to their professional career. 75% of the participants said that they would like to continue to work part-time or occasionally for the organization while being on parental leave. However, only 30% of the participants actually continued to work for their former company during parental leave. Among organizational programs, family-friendly working hours were considered as the most important means to reconcile work and family life (BMSFJ 2004).

One of the major obstacles for women in Germany who seek to combine paid work and care-giving activities for small children, is the lack of adequate childcare facilities especially for children under 3. According to a recent study of the Germany Institute of Youth Research (*DJI - Deutsches Jugend Institut*), crèche facilities are only available for 3% of all children under 3 in West Germany compared to 37% in the Eastern parts of Germany. The huge difference in availability of childcare under 3 between West and East Germany is mainly because of less negative attitudes towards working women due to a long tradition of full-time employment of women in the East. For children between 3 and 6 years the situation is much better. 90% of children in this age group are looked after in childcare centers (DJI 2005). However, short and inflexible opening hours still present an obstacle to even part-time employment of mothers. Women often have to arrange a bundle of care activities including informal care (grandparents, friends, etc.) to make sure that their children are taken care of while they are at work. Informal care is mainly offered by women and is often kin-based and free of charge (Fendrich and Schilling 2004).

Due to the lack of crèches for under 3-year olds, private and publicly funded day care facilities have emerged over the last years, but no reliable statistics are available on the number of children under 3 cared for by nurseries and "day mothers" (*Tagesmutter*). Day care is if often quite expensive, and only families with a relatively high income can afford such care arrangements (Cornelißen 2005). After-school care is available for 7% of children aged 6 and 7 in West Germany and for 68% in East Germany. During the first two years in school, children are often dismissed at noon, thus making it difficult for mothers to work even a 20-hour part-time job.

Actual Events, Current Debates and Future Trends

Since the inauguration of a new government (coalition between Social Democrats and Christian Democrats) and a new family minister (Mrs. Von der Leyen) in 2005, an extensive debate on

governmental and organizational family policies has emerged in Germany. The discussion is mainly triggered by concerns about the low fertility rate and its negative impact on economic growth, and the income-linked social security system. Concerns about gender equality do not appear to play a major role in this debate. A new law on parental leave allowance has just passed the “*Bundestag*”, and will become effective in January 2007. The current parental leave allowance of 300 Euro per month for up to 24 months for families with an income under 30.000 Euros a year will be substituted by an income-linked parental leave benefit of 67% of the last net income of the person who takes up the leave. The maximum allowance will be 1.800 Euros, the minimum allowance 300 Euros per month. The new parental leave benefit will be paid for a maximum of 14 months: 12 months to one partner, and an extension of two additional months if the other partner takes two months of leave. This extension shall promote fathers’ participation in childcare activities. Scandinavian parental leave models served as a model for the new German parental leave benefit. The new benefit is now longer considered a social transfer, but rather a replacement of lost income. A positive demographic effect and a rise in women’s return into paid employment after one year (instead of 3 years previously) is anticipated. However, these positive effects can only be expected if care facilities for children under 3 are extended, and family-friendly working arrangements in organizations such as flexible working schedule, job sharing, telework, etc. are promoted simultaneously. To date, governmental initiatives to promote childcare and family-responsible organizations have not reached a level that would be necessary to close the gap. In addition, the new income-linked parental leave benefit will penalize long-term unemployed mothers and fathers who receive ALG II and students without any income. While the old parental benefit of was paid for 24 months in addition to ALG II, under the new law ALG II recipients and students will receive the minimum benefit of 300 Euros for 12 months only.

5. Health Policies

Status Quo & the Past

The German health care system is comprised of public health insurance which covered nearly 88% of the population in 2003, and private health insurance which covered 10%. 2% of the population were covered by other, sector-specific governmental schemes (e.g. military, police, etc.). 0.2% of all residents had no prepaid coverage for health care in 2003 (Busse and Riesberg 2004). Contributions towards the public health insurance are collected by 292 sickness funds (January 2004). Sickness fund membership is mandatory for employees whose gross income does not exceed a certain level. Employees whose income does exceed the limit can either become voluntary members of the public system or opt for a private health insurance. The income limit has been increased from 3375 Euros in 2003 to 3825 Euros in 2004 to reduce the number of high earning voluntary members leaving the statutory health insurance. The contributions to the public health insurance are dependent on income, and include non-earning spouses and children without any surcharges. Independent of status, the amount of contribution paid, or the duration of membership, insured employees and their dependents are entitled to the same medical treatment. Those health benefits which need to be offered to all members and dependents by all statutory sickness funds are constituted by law and cited in the Social Code Book V (Busse and Riesberg 2004).

Private health insurance is dependent on risk and is payable for every member. Private health insurance is mandatory for active and retired civil servants (e.g. teachers, professors, employees in ministries, etc.), and self-employed people who are excluded from the statutory system. Private health insurance companies are forced by law to set aside savings for old age from the insurance premiums when the person insured is still young.

Contributions to the statutory health insurance have increased rapidly from an average 13.5% of gross earnings in 2001 to 14.3% in 2004, and 14.5% in 2006 (Federal Statistical Office 2004). Until 2005, contributions were shared equally between employees and employer. In July 2005, the parity was shifted towards higher contributions of the employees in order to reduce high labour costs that present a threat to the economic development/recovery of the country. Employees now pay 0.45% more than employers, which results in a share in contributions of approximately 54% for employees and 46% for employers. In the past, the sickness funds did not receive any budget subsidies. Since 2004, funds receive a fixed amount of money from the federal budget for various benefits relevant to family policies such as maternity benefits, sick-pay for parents caring for a sick child, etc. (Busse and Riesberg 2004).

The major reforms of the German health care system over the last decades were characterized by an effort to keep contribution rates stable, and to cope with increasing deficits of the sickness fund. Since the contributions are linked to income and are jointly paid by employees and employers, this was especially important in times of economic stagnation and growing international competition. The two most important changes over the last 10 years were the introduction of a long-term elderly care insurance in 1995 (1.7% of income), and an increase in out-of-pocket payments. The mandatory elderly care insurance was introduced to meet the care-giving needs of an ageing population, and to relieve private and municipal responsibilities. Monetary insurance benefits are intended to either cover home care delivered by family

members (which can be understood as a recognition of care services provided by the family) or for professional ambulatory care services. Family member who provide care are covered by the statutory accident insurance and the statutory retirement insurance. Out-of-pocket payments refer to co-payments for services which are partially covered by prepaid schemes, and/or to direct payments for services which are not reimbursed by one's prepaid scheme. Prominent examples of such out-of-pocket payments in Germany are co-payments for pharmaceuticals, services and products in outpatient care, or for the first contact with a doctor or dentist per quarter (Busse and Riesberg 2004).

Actual Events, Current Debates and Future Trends

The German government is currently under high pressure to develop a financially sustainable model for the health care system. Estimations point out that in the first quarter of 2006, the sickness funds will have a deficit of 1,2 billion Euros, which is an equivalent to about 3% of their expenditure. The deficit can mainly be attributed to decreasing revenues due to demographic changes and high unemployment, and increasing expenditures for elderly care activities and pharmaceuticals (Zimmermann 2006). In July 2006, the main points of the new health care reform 2006 were presented to the public. Those include a rise in contribution rates for statutory health insurance by 0.5% in 2007, the introduction of a general centralized health fund, and an increase in competition between private insurance companies and sickness funds. There are rising concerns that an increasing number of high earning employees (mainly male, young and healthy individuals who could contribute considerably consolidation of the public health care system) opt for private health insurers who offer attractive, risk-based fees instead of the income-based statutory health insurance system with its universal benefits. Employees with low incomes below the specified limit (often women in part-time jobs), sick and disabled people, and the elderly, increasingly remain in the statutory health care system. As a consequence, a further decline in contributions to the statutory insurance by simultaneously increasing in expenditures for sickness and care can be expected.

The introduction of a new health fund represents a trade-off between the citizen insurance scheme (*Bürgerversicherung*) favored by the Social Democrats and flat-rate premiums (*Gesundheitsprämie*) supported by the Christian Democrats. The centralized health fund, which should become effective in 2008, should draw on employer and employee contributions to statutory health insurance as well as on tax revenues. Employee and employer contributions will no longer be paid directly to the sickness funds, but will flow through the centralized health fund. Tax revenues should be used to fund the health insurance of children. Sickness funds will receive a flat rate for each insured person from the new centralized fund. Sickness funds that operate efficiently may refund parts of the contribution payments back to their members or can offer additional benefits. Excess costs may be covered by additionally charging their members but should not exceed 1% of the member's household income.

The new centralized health faces a strong opposition by the sickness funds, unions, and recently even by members of the Christian Democratic Party. The opponents claim that the introduction of the centralized health fund will lead to an increase in bureaucracy, to a weakening of the position of the sickness funds, to a dismantling of the well-functioning private health insurance, and an increase in governmental influence on the health care system. It is still unclear to date who will take over the administration of the fund, and where the additional tax revenues to finance the health insurance of children will come from. The draft of the reform cites a tax revenue-based contribution to the fund of 1,5 billions in 2008, and 3,0 billions in 2009. Unions and sickness funds further claim that raising contributions rates of employees by 0.5% in

2007 will not be sufficient, and fear additional increases in the future. Economists claim that a rise in health care contributions will further increase already very high labour costs, and reduce available income of households, thus presenting a threat to the recent but still rather weak economic recovery of the country.

Conclusions

Although Germany is still considered a typical example of the conservative welfare state regime as postulated by Esping-Andersen (1999) in the literature, more recent publications point out that the German welfare system is undergoing some major transformations and increasingly departs from the classic conservative model. Bleses and Seeleib-Kaiser (2004) talk about a “dual transformation” of the German welfare state. This transformation is mainly characterized by a change in employment and family policies with an decreasing emphasis on income-related policies, and an increasing importance of family-oriented social policies. The recent changes and developments in employment and family policies demonstrate that Germany social policy has increasingly incorporated elements from both liberal and social-democratic welfare state regimes. Liberal elements are mainly incorporated by the new employment and labour market policies. For example, means-tested allowances that are often considered as a dominant principle of the liberal regime, have been introduced in recent years. On the other hand, the introduction of the new parental leave allowance that is now conceived as a substitute of income instead of a social benefit, presents an example of the incorporation of social-democratic elements. Accordingly, Bleses and Seeleib-Kaiser (2004) conclude that Germany which has long been considered as prototype of a welfare state that comes closest to the conservative welfare state regime as described by Esping-Andersen, can no longer be accurately characterized as a conservative welfare state.

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