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Social Security Systems in Transition. A Comparison of Germany and Poland

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Content

1.Introduction

In the most European countries various reforms of the social security systems took and take place. Thereby an obviously tendency is recognizable to systems including more and more elements of private provision and individual responsibility. That tendency to a stronger privatization and individualization is also characteristic for the reforms of social security systems in Germany and Poland, although both countries have differently developed systems. Germany can be considered as a case of a traditionally social market economy, whereas Poland is a case of a former socialist country in transition. That means, both cases differ in its model how to ensure social security but have the same scheme of reformation.

This paper examines the systems of social security systems in Germany as well as in Poland, their reforms and analyses the reasons of the tendencies of privatization and individualization. It follows the question how the social security systems are being reformed in Germany and Poland and seeks to answer why reforms mainly tend to privatization and individualization in both countries. In the first part I discuss the three most important – by extent of contributions and relevance in public discussion – pillars of the social security systems (pension, public health and unemployment insurances). Thereby I concentrate to explain how social security is organized in both countries and which reforms took place in the last years, especially focusing on tendencies to more privatization and individualization. In the second part I try to explain why such tendencies are recognizable in both countries by analysing EU policy strategies and using the argumentation of the regulation theory. However, this analyse can deliver only an overview on that explanation, because first of all the core of this paper shall clarify the organisation and changes of the social security systems in Germany and Poland.

So this paper ties in with the theme of the course “Political and legal system of Poland” as it deepens the issue of social policy in Poland in comparison to Germany and considers the influence of the European Union policy on the shape of the social security system and therewith on the political system of Poland.

2. Systems of Social Security

The European welfare systems are established to ensure a certain security against the vicissitudes of life like sickness, accidents, unemployment or old-age. Therefore various types of national social security systems developed in Europe responding to the specific situation in different countries. Below these systems of social security will be discussed for the cases of Germany and Poland.

2.1. Germany

The legal basics of the German system of social security are embedded in the constitution.[1] Article 20(1) defines the Federal Republic of Germany as “a democratic and social federal state”. Additional, in article 28(1) the German federal states (Länder) are committed to draw up their constitutions conforming “to the principles of a republican, democratic and social state”. How important this definition as a social state is shows the fact that article 79(3) of the German Basic Law defines amendments of article 20 as inadmissible (eternity clause). That implies that the status of Germany as a

1 http://www.bundesregierung.de/nn_22672/Webs/Breg/EN/Federal-Government/FunctionAndConstitutionalBasis/BasicLaw/ContentofBasicLaw/content-of-basic-law.html (access: 05.01.2007)

social state is not changeable under no circumstances.

However, the principle of the social state is formulated quite wide and undefined in the Basic Law, wherefore the political arrangement lies with the legislator respectively with the government. Following the the decisions of the Federal Constitutional Court politics has the obligation to implement the abstract claim for a social state into concrete policy. Politics decides about kind, extent and priorities of the tasks of the social state and is free to follow a more conservative, neoliberal or active model of welfare state as long as it ensures the core of a social state.[2]

Although the principle of the social state is anchored in the constitution of 1949 its history in Germany is already much older. During the industrialization in the 19th century the social context changed: urbanization took place, mobility rose and families were getting smaller. Life expectancy increased significantly, and dependent gainful employment became normal. Due to this changes families and local communities were not able any more to support people which were not able to work due to illness, accident or old-age.[3] As a result of this developments and to confront the forming working class, German Chancellor Otto von Bismarck declared in 1881 to introduce a system of social security. On this basis were introduced health insurance in 1883, accident insurance in 1884 as well as old-age and disability insurance in 1889. Later, during the economic crisis an unemployment insurance was founded.[4]

With introducing a nursing care insurance in 1995 was created another compulsory insurance in the system of social security. All together they frame the so called “five pillars” of the social security system in Germany and mark the core of it.

2.1.1. Pension Insurance

The basis of the present German pension system was laid by the pension reform in 1957. From then the aim of the old-age insurance was not directed any more just to protect existence in old-age but to ensure standard of living

2 Pilz (2004), pp.47 et sqq.
3 Neumann/Schaper (1998), pp.158 et sqq.
4 Pilz (2004) and Schmitt (1998)

when people change from working life to pension time. All compulsory insured workers and employees should get 60 percent of there gross wages after they worked 40 years. One of the most important new measures to prevent a gradually decrease of pensioners standard of living in comparison with employees was the dynamization of pensions. That means the level of pensions was coupled to the salaries of workers and employees by what pensioners could participate in increasing wages.[5]

At the same time financing of the pension system was converted from a capital financing to a pay as you go (PAYG) financing. As a reaction to the loss of pension insurances after Second World War and a resulting high poverty among older people in Germany pensions should be paid directly by the workers and employees which do not save this money for their provision for one's old age but gain rights for pension. This conception of financing old-age insurance was theoretically based on the theorem of Mackenroth who argued at this time that social outlay has to be taken from the aggregate income of the present period. There is no other source and there never will be no other source for the social outlay. The consumption of pensioners ever have to be taken from the aggregate income what ever will diminish the consumption of employees despite if redistribution is organized by capital financing or PAYG.[6]

However, the German old-age insurance system is not only financed via PAYG, but consists of three pillars of provision for one's old-age. Apart from the PAYG financed state old-age insurance there is a company pension scheme and as third pillar there are different kinds of private wealth formation. State old-age insurance is a compulsory insurance for workers, employees and other professional groups which is parity paid by employees and employers and contains elements of social compensation for example for child education, invalids, widows and orphans. As second pillar of age-old insurance enterprises can insure their staff members by a voluntary old-age insurance. But if they insure their staff members in a company pension scheme it is subjected to some legal provisions. To the third pillar of old-age insurance belong all kinds of private wealth formation aiming to ensure a life-long return

5 Pilz (2004), pp.34 et sqq.
6 cp. Mackenroth (1952), p.41

out of assets.[7]

With the reunification of Germany in 1990 the western old-age insurance system was transferred to the the newly-formed German federal states, which displaced the East-German “omnium insurance”. In most cases this led to higher pensions for pensioners in Eastern Germany. Although the state old-age insurance is the most important in both parts of Germany, company pension schemes and private insurances play a significant role in Western Germany, whereas its role is inconsiderable in Eastern Germany. That leads to a significant difference in pension levels.

Within the last years the German state old-age insurance passed through a lot of partly far-reaching reforms, because of its financial crisis. The main problems of the state old-age insurance is a more and more growing old and shrinking population, a discontinuous working biography and a high unemployment. In future less and less employees have to provide for more and more pensioners.[8] Using this diagnosis Bert Rürup – a known economic scientist and influential adviser of the German government – argues that only a shortage of pensions could solve the problems of the ageing of the society.[9] A commission constituted by the government and led by Rürup concludes that the state old-age insurance can't ensure any more a constant standard of living. Therefore a private and company provision for one's old-age is unavoidable.[10]

With the pension reform in 2001 far-reaching steps towards this suggested solution were already done. In substance this reform pursued three main goals: First, the contribution rate (at the moment 19.5 percent) shall not transcend 20 percent until 2020 and 22 percent until 2030. This rate increased from 17.5 percent in the early 1990s to more than 20 percent in 1998. It is assumed that a higher contribution rate would delegitimate the state compulsory insurance and harm economy. Second, to archive a stable contribution rate the pensions were (obscured) reduced by changing the

7 Concerning the “3 pillar model” cp. BfA (2001)
8 Cp. e.g. Rürup/Sesselmeier (2001); For interesting critics on the reasons of the financing crisis cp. Bosbach (2004)
9 Rürup/Sesselmeier (2001)
10 BMGS (2003), p.70

pension formula and trimming the pension payments for invalids and widows. And third, a state promoted capital-covered old-age insurance for workers and employees was introduced. This new type of pension insurance provides possibilities of state subvention for company pension schemes and certain private old-age insurances either by direct monetary allowances or by tax benefits.[11] In the following years state promotion for private pension insurances was expanded to other groups of gainful persons. In 2006 German government increased the retirement age gradually from to 65 up to 67 in 2029. This serves as a further argument that a private retirement arrangement is required to ensure a constant standard of living in ages.

2.1.2. Health Insurance

The system of health care financing in Germany is quite complicated. It is characterized by a pluralistic funding system and it is mainly divided into a statutory health insurances (SHI) and into a private health insurance. Most people (about 88 percent) are insured in one of today about 300 statutory health insurances and about ten percent took out a private insurance.[12] This variety has its origin in the historic development of sickness funds. Originally sickness funds were operating local and for specific professions, for example for metalworkers, bookbinder etc. In 1885 there were 17.511 statutory health insurances in Germany.[13] Statutory sickness funds are characterized by the principle of self-administration. In the 1990s could be observed a trend that more people changed from statutory health insurances to private insurances. By this way private insurances won about 500.000 members from statutory health insurances in the period from 1992 till 2003.[14]

The statutory health insurance is a compulsory insurance. Employees, unemployed persons, pensioners, students and a number of other smaller groups of persons have to insure in one of the statutory health insurances. Particularly self-employed, clerks, lawyers, soldiers and some other groups of persons are not obligated to insure in the statutory health insurance.

11 Pilz (2004), pp.168-184
12 Busse/Riesberg (2004), p.57
13 cp. Bundeszentrale für politische Bildung (2007)
14 cp. Pilz (2004), p.187

However, under certain circumstances they may voluntary join it. In 2005 the income threshold for compulsory insurance accounted 46.800 Euro per year. This means, who earn more than this 46.800 Euro is not obliged to be a member in the statutory health insurance, because it is agreed that this people are able to cover oneself against health risk. Statutory health insurance complies with the principle of solidarity. Simplified that means that the amount of contributions follows the ability of the insured person and not the individual health risk as it does in private health insurances. Furthermore the principle of solidarity includes a non-contributory insurance of family members.[15] All members and their dependants are entitled to the same benefits, independent of the amount of contribution paid, their status or other things. Mainly prevention of disease, screening for disease, treatment of disease, emergency and rescue care and certain other benefits are included in the benefit package. Thereby the principle of non-cash benefits is respected what means that the patient has nothing to do with the payment. In addition to these benefits, continuation of payments in case of sickness is another very important benefit of SHI. Sickness founds continue to pay to their sick employed members 70 percent of the last gross salary form week 7 up to week 78 of illness, while employers continue to pay 100 percent of the salary during the first 6 weeks of sickness.[16]

Statutory health insurance is financed by contributions depending on the amount of salary whereby contribution assessment is limited to certain kinds of income and up to a certain amount of income. It is parity financed by employees and employers and is organized as PAYG.

With the reunification in 1990 the western health care system was overtaken from the newly-formed German federal states. Ideas for a “third way” of transformation of the health care system, for example, one uniform health insurance system in the eastern part of Germany or in the whole country, were dismissed on practical, political, legal and lobbyist grounds. Also the the community health care centres (polyclinics) were de facto abolished and replaced by single private practices.[17]

15 cp. Bundeszentrale für politische Bildung (2007)
16 Busse/Riesberg (2004), p.67
17 cp. ib. p.25

As the biggest problem of the German health system are seen permanently increasing finance requirements and connected with that rising contribution rates. It is argued that rising contribution rates harm as well economic development, because of increasing ancillary wage costs, as the image and legitimacy of the compulsory statutory health insurance.[18] To meet the rising contribution rates a number of reforms have been implemented since the reunification of Germany. It is not possible here to give a comprehensive overview on all reforms, that's why I'll concentrate on elements of privatization in these reforms.[19]

In 1992 the governing Christian Democratic-Liberal coalition and the opposing Social Democrats together adopted a health care act to ensure the financial basis of the public health system. The key elements were to introduce competition between sickness funds with freedom to choose for most of the insured population and to introduce a “risk compensation scheme” to redistribute contributions among sickness funds. As elements of privatization co-payments (i.e. for pharmaceuticals, hospital treatments, cures) were increased and some benefits (for some dentist treatments) were excluded from the catalogue of benefits.[20] The following health care reform in 1996/1997 was embedded in a more general act supporting economic growth and concentrated on stability of contribution rates by enlarging privatization. It was characterized by exclusion of dental surgery and dentures from the catalogue of benefits for people born after 1978 (abolished in 1998), reduction of benefits for rehabilitative care, increased co-payments for pharmaceuticals and rehabilitative care (partly lowered in 1999 and 2000) and reduction of health promotion benefits (partly reintroduced in 2000). A lot of further measures of participation of patients to finance the health care system lead to a break with traditional rules of the system such as uniform availability of benefits, parity financing, financing depending only on income and not on risk and provision of services as benefits-in-kind.[21]

After the change of government in 1998 the Social-Democratic led coalition

18 These claims are not indisputable, but it's not enough space here to discuss it in detail.
19 For a detailed overview see i.e. Busse/Riesberg (2004), pp.185-205
20 Pilz (2004), pp.186 et sqq.
21 Busse/Riesberg (2004), p.67

abolished a number of just introduced co-payments and exclusions of benefits. In 2003 another health care reform was conducted to reduce the contribution rate from average 14.4 percent down to less than 13 percent. The key points of this newly reform were higher co-payments from patients, a quarterly fee for doctor consultation and reductions in the catalogue of benefits. Contributions for some benefits of sickness funds (i.g. prosthesis, sick benefit and other) have to be financed by insured themselves without employers. That's why in future the contribution rate for employers will be lower than that of insured.[22]

At the moment there is planed a further drastic reform of the financing system of the statutory health insurance. Originally, the both big parties in Germany had totally contrary proposals how to restructure the financing system. The Social Democrats preferred a single citizen insurance in which all citizens should be obligatory insured. The Christian Democrats preferred a “flat-rate health premiums” model, what means that all insured shall pay a fix contribution regardless how much they earn. Social compensation for low-income earner is regulated via tax system. As both parties form a government coalition it has to be find a compromise. In the centre of this compromise stands a “health fund”about what both sides claim is the implementation of there concept. However, a closer analyse is still not possible, because the act still did not pass the parliament an further changes are quite likely.

2.1.3. Assistance for unemployed people

As one of the main reasons for the problems of the social security insurances the high unemployment rate and associated increasing contribution rates is seen. After the reunification of Germany unemployment rate rose from 7.3 percent (2.6 million) in 1991 up to 13.0 percent (4.9 million) in 2005.[23] Although there were implemented a lot of measures to meet rising unemployment, this trend could not be stopped. In close connexion with the rising unemployment is a change from the collective standards of working

22 Pilz (2004), pp. 198 et sqq.

23 cp. http://www.sozialpolitik-aktuell.de/datensammlung/4/ab/abbIV33.pdf (access: 14.01.2007)

conditions[24] to more and more part-time and precarious employment as well as unemployment. This change is mainly caused by new production structures and processes, an enlarging service sector as well as by social change. In consequence, social security will not be financed any more equal by employees and employers, but becomes more and more the matter of individuals.[25]

On these developments German government reacted with a comprehensive programme, so called Agenda 2010, to reform the German welfare state. Federal Chancellor Schröder formulated the key point of his proposal to renew the social state as follows: “We will shorten state benefits, encourage individual responsibility and claim more personal initiative.”[26] Core of these reforms should be the field of labour and economy, where reforms were started already with the so called “Hartz Acts”.

Up to the recent reforms, Germany has known three kinds of assistance for unemployed people: unemployment benefits, unemployment assistance and social assistance. The unemployment benefit system builds on an insurance principle according to which both employees and employers parity pay into the unemployment insurance funds. In cases of unemployment, employees received 60% of their last-earned net salary for up to 32 months (depending on the age of jobseeker and length of insured time). After the period of unemployment benefit had expired, the jobseeker could get means-tested unemployment assistance, which was 53% of his or her last-earned net income. Whereas unemployment benefit was contribution-based and limited in its duration, unemployment assistance was tax-financed and paid for an unlimited period. Third assistance for unemployed people was the means-tested social assistance for which municipalities bore responsibility. It was paid unlimited and served as the ultimate social security benefit payment what a person could receive in Germany and secured just a minimal standard

24 This includes gainful, unlimited and full-time employment as well as subjection to social insurance contribution and is mainly targeted to men.
25 cp. Pilz (2004), pp.132 et sqq.
26 Schröder (2003), translation by the author

of living above the poverty line.[27]

The “Hartz Acts”, which reckoned as deepest cut in German after-war system of assistance for unemployed people, were divided into four different laws to reorganize the Public Employment Service (PES), to introduce activation measures for unemployed people and to reform the unemployment benefit system. Main principle for the reforms was a change from an active to an activating labour market policy, what was promoted under the slogan “support and demand”. A bundle of incentives and sanctions should contribute to a higher employment rate.

Traditionally, the PES “was seen as a large, sleepy and inefficient public bureaucracy restricted by law and regulations and a lack of performance measurements and competitive incentives.”[28] To change this image the use of market mechanisms and the contracting-out of services were increased. Most known examples for this practice were so called placement voucher and the temporary work agencies, called “Personal Service Agencies” (PSA). Placement voucher with a value of 2.000 Euro entitle jobseekers to refer to private placement agencies to find them a job. In case of successful placement of an unemployed these private agencies are paid the 2.000 Euro by the Public Employment Service. Personal Service Agencies are publicly funded temporary work agencies to which the local PES refer jobseekers. PSAs employ unemployed persons and lend them out to other enterprises for a certain time. Therefore they receive payments from the Public Employment Service. It was expected to overcome the barrier avoiding employment by this measures, but both have turn out to be of little significance.[29]

Despite a lot of measures to increase the pressure on unemployed to take up a job, there were two important measures to make the take up of new jobs more attractive: the so called “Ich AG” (“Me plc”) and “Mini-Jobs”. The Ich-AG was established to enable the transition from unemployment to self-employment with the help of subsidies from the PES as a new exit way from unemployment. Mini-Jobs are an instrument for employment of low-wage

27 Kemmerling/Bruttel (2005), pp. 5-6
28 ib. p.3
29 ib. p.5

earners.[30] Jobs up to 400 Euro per month are tax- and social-contribution-free for employees, whereas employers have to pay a flat 25% of the wage in charges for tax and social insurance contributions. For jobs up to 800 Euro employees have to pay reduced social contributions.[31]

The most important step of the “Hartz Acts” was the radical change of the assistance for unemployed. The income-related unemployment benefit was limited to twelve month (and renamed to “Unemployment Benefit I”). After that an unemployed can receive so called “Unemployment Benefit II”, whose benefit level is fixed at the level of the former social assistance (345 Euro) and is paid independent from the former income. All people who are classified as able to work will receive this new benefit, whereas social assistance will be limited to those who are not able to work for more than three hours a day. Furthermore the pressure on people receiving Unemployment Benefit II to accept all kinds of legal work was significantly increased. The great break with the previous system is, that workers who earned good salaries before becoming unemployed will now face a drastic decline in their benefits in comparison with the former unemployment assistance, which was linked to former income and paid for an unlimited period.[32]

2.2. Poland

Article 2 of the Constitution of the Republic of Poland of the 2nd April 1997 states the Republic of Poland as a “democratic state ruled by law and implementing the principles of social justice.”[33] In article 67 and 68 these principles are described more detailed: “A citizen shall have the right to social security whenever incapacitated for work by reason of sickness or invalidism as well as having attained retirement age. The scope and forms of social security shall be specified by statute. A citizen who is involuntarily without work and has no other means of support, shall have the right to social

30 The average monthly wage of a clerk in Germany was 3.452 € (Eastern Germany 2.626 €) and of a worker in the industry 2.542 € (Eastern Germany 1.960 €) in 2005. cp. Federal Statistical Office: www.destatis.de
31 Kemmerling/Bruttel (2005), p.7
32 ib. p.6
33 http://www.sejm.gov.pl/prawo/konst/angielski/kon1.htm (Access: 18.01.2007)

security, the scope of which shall be specified by statute."[34] Furthermore article 68 commits equal access of citizens to health care services financed from public funds. The conditions for, and scope of, the provision of services shall be established by statute.[35]

The period of the Polish People's Republic (PRL) was characterized by a centralized state system of social protection. State social benefits offered a high degree of social security, albeit on a quite low level, especially for pensioners. Full employment and the social function of work places and price subsidies as well contributed to that comprehensive social security system. However, Golinowska and Gardawski point out that the period of the PRL must be treated differentiated. As for a long period, social protection covered only contract employees in the state sector and was characterized by a high disparity of benefits.[36]

Poland's social policy throughout the transformation period is often referred to as subordinated to the goals of economic development. Besides solidarity and the social protection of the weakest its main task aimed to increase flexibility and stimulate economic growth.[37] However, the transformation period can be divided in four periods of social policy:

1) 1989-1993. A period of transformational crisis and of income decreases, which in social policy was a time of social protection for the social groups most affected by the changes. It was characterized by a radical stabilization programme and high pace of market reforms, by decline in GDP, in output and household incomes and a significant scale of social protection programmes.

2) 1994-1997. A period of dynamic economic growth. In social policy this entailed the preparation and implementation of reforms modifying social safety net institutions to adapt them to market economy conditions. The principle of determining income for social assistance entitlement was introduced and family and housing benefits restricted access to benefits to those in most immediate need.

34 ib. Art. 67
35 ib. Art. 68
36 Golinowska/Gardawski (2005)
37 Golinowska (2005a), p.30

3) 1998-2002. A period of implementing market-oriented and decentralizing reforms in social policy in an environment of a slowdown in economic growth and the limited resources of public finances. Four radical reforms were implemented: They were: decentralization of government administration and social services, reforms of social insurance, mainly pensions, health care reforms and reforms of educational system.

4) 2003-present. A period impacted by EU accession and the application of EU social strategies to the changes taking place in Polish social policy, as playing out against a background of economic recovery and the inflow of EU structural funds. With the so called “Hausner plan” the government aimed to reduce public social expenditures.[38]

The structural reforms of the third transformation period led to a division of the social insurance system (which until then was uniform) into separate components, namely: pension, disability and survivor, accident and sickness insurance. A detailed analyse of these reforms in the three main fields of old-age, health and unemployment insurance follows below.

2.2.1. Pension Insurance

The old-age insurance of Poland was implemented as a fully pay as you go system in the 1950s, although there was already a pension system in the inter-war period. During the PRL period this system has not fundamentally changed, but it was several times amended to add additional privileges for different occupational groups. In the 1980s, farmers were brought into the social insurance system as well.[39]

Within the first years of transformation the number of new pensioners increased considerably, because up to 800.000 people retired to pension early. Decline in employment led also to a strong decrease in the number of contributors. Furthermore, the level of benefit was tangibly raised what improved the situation of pensioners and disability benefit recipients significantly. From 1989 till 1993 the replacement rate of salaries raised from

38 ib. p.30 et sqq.
39 Hausner (2000)

about 60 percent up to 72 percent. As a result the costs of old-age and disability insurance increased from eight percent of GDP in 1989 up to nearly 15 percent in 1992. The contributions to the old-age insurance was about 24 percent of earnings. Beside these typical transformation problems of pension insurance a worsening demographic-dependency ratio of pensioners to the working population contributed to the wide spread perception that the PAYG financed pension system in Poland is in a crisis.[40]

Therefore, a radical structural reform of the pension system was discussed since the beginnings of the 1990s and finally implemented in 1999. Under the title “Security Through Diversity” reforms have been initiated to replace the old pay as you go pension scheme with a new three-pillar-system. The first pillar is universal, mandatory and pay as you go financed. The second pillar is also universal and mandatory, but capital funded, as well as the third pillar which is voluntary. All those insured under the age of 50 on January 1st 1999 fall under the coverage of the new pension rules; the others will remain in the old pension system.

Pensions from the first pillar base on the principle of a defined contribution which is paid parity by employees and employers (19.52 % of the salary in 2004). They will be calculated as a ratio of the total indexed value of contributions paid in during the working life divided by the average life expectancy at retirement age. For persons covered by social insurance in the old system and born after 1948 an “initial capital” is calculated. The pension age is 60 years for women and 65 years for men. Contributions and the high of pensions are closely linked what abolishes incentives for early retirement. A minimum pension (597 PLN in 2006)[41] is guaranteed by the new system to persons who have been insured for at least 25 (men) respectively 20 (women) years in the old-age insurance to augment the pension received from the first and second pillar. It is not financed from contributions to the pension systems but from general revenues. The social insurance administration (ZUS) keeps records of individual’s notional defined-contribution accounts and will be responsible for calculating and paying out pensions from the first pillar as well

40 cp. Golinowska (2005a), pp.32 et sqq. and Gora/Rutkowski (2000), p.8
41 ZUS (2006), p.29

as maintains the old pension system for people aged over 50 when the new system is introduced.[42]

The second pillar is operated by privately managed pension funds that have the legal form of joint-stock companies. A part of the contributions to the pension insurance (7.3 % in 2004) will be transferred by the ZUS to a selected private pension fund (OFE), whereby a insured person can freely choose and change his or her pension fund. Every fund is to be incumbent to a strict regulation and state supervision and is required to attain a minimum rate of return. To prevent insolvency of a fund a multi-step security procedure is built into the law, wherefore a OFE cannot go bankrupt. How to invest the contributions will be the decision of the managing company, but, however, there will be some political restrictions.[43]

The third pillar supplements the universal, mandatory part of the pension system with various forms of additional voluntary insurances. To these forms belong e.g. employer pension schemes, individual pension accounts and all other forms, such as life insurance, savings, investments on the capital market, etc.[44]

The fundamental concept underlying the “three-pillar-system” is that security comes from diversification of sources of pensions what is called “security through diversity”. The risk is spread as the new pension system is on the one hand tied to the labour market (as the size of pensions in the first pillar depends on the rate of growth of salaries) and on the other and it is tied to the capital market (as the size of pensions in the second pillar depends on the results of OFE investments). Zukowski underlines that “the new system emphasises the foresight and responsibility of the individual for their old age pension. This is clearly visible in the third pillar, presented as a significant element of old age security.”[45] In 2003 about 11.5 million insured paid into the mandatory pension funds of the second pillar and about 10.3 billion PLN of social contributions were transferred to the private pension funds. How large the degree of that private pension insurance is shows the fact that the Polish

42 cp. Gora/Rutkowski (2000), pp.17-20
43 Zukowski (2005), pp.109 et sqq.
44 ib.
45 ib. p.110

obligatory pension fund market is the second largest in the world (after only Mexico's) in terms of the number of members.[46]

2.2.2. Public Health

During the period of the Polish People Republic health care was declared a public responsibility and the administration of the health care system was strongly centralized. However the extensive Polish health care system ever included some private medical cooperatives and dental services, although, of course, much of them were abolished during the period of PRL. In the period of PRL the constitution stated that access to health care must be free and universal. However, Golinowska points out, that the right of free and universal access indeed never existed, because of widespread additional, informal charges collected from patients.[47] At this time health care was largely financed from state budget and even after 1989 the health care system remained predominantly funded by the state and was not immediately changed.[48] Until the first radical reform of the health care system, which took effect in 1st January 1999, only some modification in the health care system were conducted . In the 1991 Health Care Constitution Act the organisation of the health system was partly decentralized and the ownership of health care institutions was divided to private, voluntary sector, cooperatives, local government, voivodships and central government bodies.[49] While the initial period of the transformation witnessed an ad hoc commercialization, in the following years the transformation of the social services sector entered into the stage of privatization. In this period Golinowska distinguishes between privatization of the public sector and its commercialization, i.e., applying a market-oriented business approach while maintaining state ownership what is also called the “creation of an internal market”.[50]

The main problem of the Polish health care system is its insufficient development. Although public expenditures on health care as a percentage of GDP have been on a low level at the end of the 1980s (around 3-4 percent)

46 ib. pp.112-113
47 Golinowska (2005a), p.43
48 Kuszewski/Gericke (2005), pp.9 et sqq.
49 European Observatory on Health Care Systems (1999), p.49
50 cp. Golinowska (2005a), p.40

the state budget declined even more in the 1990s. This placed considerable strain on the health care system. Furthermore the Polish health care system had to be adopted to the market economy. On this account a fundamental reform of the health care system became urgently necessary, which was articulated already in the 1980s.

The key point of the first big reform of the Polish health care system after the collapse of the PRL was the transformation of the national health care system into a public system and the creation of an “internal market”. The newly introduced insurance scheme followed the principles of universal participation, that means the entire population was covered by insurance. It was an mandatory insurance what means that everyone was required to pay income taxed-based insurance. Unlike in the former system, the scheme was autonomous and self-governed, but, however, the state guaranteed the security of the insurance scheme.[51] A major structural change was the establishment of 16 regional health insurance funds what should have lead to more efficiency and to competition among the insurance funds.

After two years in operation, the health funds were subjected to widespread criticism. The introduction of an “internal marked” was not successful and a low level of financing led to a movement of a significant group of health-care providers to the private sector. Golinowska emphasises that “the reform disregarded the rights of both citizens, as well as patients. The reason for this was the belief (...) that competition would enforce a better quality of services.”[52]

After the parliament elections in 2001 when the Democratic Left Alliance came in power they began to implement changes in the health care system, which they declared before in their campaign programme. In 2003 the health funds were abolished and replaced with a single central National Health Fund. However, the new central organized health care system has been subjected to no less criticism then the earlier health funds.[53]

Among the providers of health care are both public, as well as non-public

51 European Observatory on Health Care Systems (1999), p.49 et sqq.
52 Golinowska (2005a), p.46
53 Golinowska (2005c), p.129

health care units. While hospitals are still mainly state controlled, the private sector is mainly present in the basic health care and specialist outpatient service. Around 60 percent of outpatient units have private ownership status, and 56 percent of outpatient services provided take place in private units.[54] Summing up the the state of privatization in the polish health care system, Golinowska underlines, that "a significant feature of the new situation is the considerable extent of the privatization of the sector of health care providers, despite underdeveloped institutional solutions for co-financing by patients. Households are already participating in the financing of the health care sector to a significant extent (more than 1/3). Their funds are mainly used to purchase medicines, make "informal payments" to medical staff, and, to a lesser extent, to pay for private health care services, mainly dental."[55]

2.2.3. Assistance for unemployed people

Unemployment has become one of the most serious social problems during the period of transformation. While in 1989 the polish economy was characterized by full employment this situation radical changed after the collapse of the PRL. High unemployment with an acute shortage of jobs became normal. In 1992 the unemployment rate was 13.4 percent but after 1993 it fall down to nearly 10 percent in 1997 and 1998. However, since 1998 a strong upward tendency in the unemployment rate has been observed, which rose up to 20.0 percent in 2003.[56]

During the period of "real socialism" direct unemployment benefit or social assistance were not necessary, because of full employment, price subsidies, the social activities of employers and an extensive social insurance system. Discussing instruments of help in case of unemployment it has to be distinguished between unemployment insurance, which requires payment of contributions and is limited to a certain time and social assistance, which is tax-financed and will be paid to needier. Both measures of social security were introduced in 1991 and afterwards several times reformed.

54 ib. p.130
55 ib. p.137
56 Golinowska (2005b), p.79

In the first stage of transformation a relatively generous financial support for unemployed persons was given. About 80 percent of unemployed persons were entitled to unemployment benefits in an amount tied to their former salaries and for nearly indefinite time. Soon the view emerged that unemployment benefits are too extensive, what is considered to be a high incentive for unemployed to remain on welfare. That's why in the middle of the 1990s the amount for unemployment benefits was reduced and the principle of a fixed amount was introduced, which depends on the time unemployed have been worked. Furthermore, the provisions concerning the obligation of unemployed persons to accept job offers were tightened.[57]

In 2004 a new law on labour market policy was passed to regulate the state measures not only in the field of mitigating unemployment effects, but also in the fields of employment promotion and promotion of economic activity. Forms of preventing unemployment and mitigating its effects are financed by the Labour Fund (Fundusz Pracy). Its main source are compulsory contributions of 2.45 percent of the basis of assessment of the contribution to pension insurance.[58]

The right to get unemployment benefit is awarded to an unemployed person who has lost his job and was employed during a period of at least 365 days in the period of 18 month before the day of registration in the labour office and got a salary on which a compulsory contribution was paid to the Labour Fund.[59] The basic unemployment benefit amounted 521,90 PLN a month in 2006. Persons which were employed less than five years get 20 percent less of the basic unemployment benefit, persons which were employed more than 20 years get 20 percent more than the basic unemployment benefit. At the end of 2005 only about 374.000 persons entitled to unemployment benefits, but about 2.773.000 persons[60] were registered as unemployed.[61]

To promote employment and economic activity the law provides several

57 cp. Golinowska (2005a)
58 ZUS (2006), p.61
59 For a more detail list of circumstances to receive unemployment benefit see ZUS (2006), p.62
60 http://europa.eu.int/eures/main.jsp?acro=lmi&catId=2789&countryId=PL&regionId=PL0&lang=de (access: 28.01.2007)
61 ZUS (2006), pp.60 et sqq.

instruments, including among others: job placement, vocational assistance and guidance in active job search, trainings, subsidised (intervention) jobs, public works, refund to entities running business of costs of equipment or supplementary equipment of work posts for placed unemployed persons lump-sum aids for unemployed persons starting up a business, apprenticeships for graduates, special programmes, fellowships and supplementary training allowances.[62]

Social assistance (as well as family and housing benefits) aims to prevent and limit poverty and social exclusion and is ought to be restricted to people and families in the greatest need and has the goal that transfers should not have adverse effects in terms of job-seeking, mobility, or in the risk-taking involved with setting up a private business. Nevertheless, in 1996 the Act on Social Security was amended with the result that the number of benefit recipients dropped rapidly (by 50%). In 2004 the law on social assistance was changed again. It is argued that this changes were mainly aimed to activate benefit recipients and mobilize them to become independent in overcoming their difficult lifetime situation. Social assistance will be provide only in case of “difficult lifetime situations” like e.g. poverty, orphanhood, homelessness, unemployment and others. Benefits may be obtained on the condition that the net income of the person applying for assistance does not exceed a certain level (461 PLN per month in 2004).[63]

Both Golinowska as well as Zukowski assess the recent reforms in the field of labour market policy as a major step from the model of a welfare state to a workfare state.[64] That means, social policy has not first at all to ensure a certain minimum of social security, but to create incentives to accept low paid jobs.

3. Privatization, individualization and EU policy

Comparing both cases of transformation of the systems of social security some common trends can be recognized. Although clear indices of path dependency

62 ib.
63 Zukowski (2005), pp.119 et sqq.
64 Golinowska (2005b), p.101; Zukowski (2005), p.122

in the development of the social security systems are visible – one with its origins in the late 19th century and shaped under the conditions of a social market society and the other with the legacy of the period of the real socialism – both, the German and the Polish system run through similar reforms since the end of the 1990s.

The pension systems in both countries are developed to a three-pillar-model how it is suggested by the World Bank: a first pillar of public pension insurance shall ensure a minimum old-age security, a second pillar consisting of company pension schemes in Germany and compulsory private pension funds in Poland and as third pillar voluntary private pension funds which are even state subsidised in Germany. In this context Golinowska refers to the fact that the concept of the polish reforms combines German influences with the World Bank proposal.[65] A further common development in Poland and Germany is the policy of prolongation of life work time.

In the field of health care insurance the development is less uniform. That can be explained with its high importance and the high number of (veto) players which are involved in the system of health care. However, public health care systems in both countries were significantly reformed and a increasing part of co-financing was established mainly for medicaments and certain benefits not covered by catalogue of benefits. Sooner or later this will lead to a twofold system of a public financed minimum supply with health services and a additional supply financed by private health care insurances.

A comparison of the measures of assurance for unemployed persons in Poland and Germany shows similar approaches how to meet rising unemployment, social exclusion and poverty. Although amount and extent of benefits for groups of persons effected by these phenomenons still quite differ, the logic behind the measures how to handle these problems seams to be the same. In both countries the view dominates that too high benefits from social security insurances lead to passiveness and a high demand for social benefits of recipients. It is argued that recipients of social benefits can't leave this situation by own power and need incentives. That's why labour market policy

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65 Golinowska (2005a), p.42 FN 19

in both countries is focused on measures to promote economic activity, to reduce security and benefit level and to implement low wage strategies. In Poland as in Germany increases the pressure on benefit takers and is asked more individual responsibility. This policy of workfare is asserting in both countries, however still in different degrees.

How can be explained these tendencies to privatization and individualization in the reform process of both counties? To answer this question a detailed policy analysis would be necessary. However, this can't be achieved in this paper, because of a very limited space and time. Instead, some general thoughts shall be made which factors contribute to a similar reform policy in Poland and Germany. These thoughts than should be verified in the particular policy fields.

A main factor driving the reforms of both systems of social security (as well as other social security systems in the European Union) is the EU economy policy, which general aims are documented in the Lisbon Strategy. The Lisbon Strategy aims to make the European Union “the most competitive and dynamic knowledge-based economy in the world” up to 2010, through the formulation of various policy initiatives to be taken by all EU member states.[66] This document concerned also the Polish politics, because of Poland's status as candidate country.

Key point of the new Lisbon Strategy was to advance the transition of the EU economy “to a competitive, dynamic and knowledge-based economy”. Therefore should be undertaken “both economic and social reforms as part of a positive strategy which combines competitiveness and social cohesion.”[67] That means, the systems of social security should be adopted to the requirements of economic competitiveness. As one example which consequences this demand has the claim of the Lisbon Strategy serves to facilitate “the successful participation of all investors in an integrated market eliminating barriers to investment in pension funds.”[68] One of the biggest barriers to investment in pension funds are public financed pay as you go

66 European Council (2000)
67 ib.
68 ib.

pension schemes which consequently were weakened by pension reforms in favour of capital fund second and third pillars of old-age provisions in Germany as well as in Poland.

However, the Lisbon Strategy is not a manual how to transform social security systems. To implement the main goals of the Strategy, especially in the field of social reforms, a “new open method of coordination” was introduced. This method shall help Member States to develop their own policy and involves:

- fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;[69]
- establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;
- translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
- periodic monitoring, evaluation and peer review organised as mutual learning processes.[70]

Using this new open method of coordination a process of transformation of European Social Models shall be initiated to create a market and competition conform social model. Therefore, especially market corrective elements of the welfare state have to be reduced.[71] On the basic of periodic monitoring and evaluation the European Commission gives recommendations to the Member States how to improve their reforms.[72]

The coordinated policy of the European Union can explain why reforms of the social security systems take place in a similar way, but nor why they tend to more private provision and individual responsibility. Therefore the regulation theory makes responsible two changed conditions in the last years: first, a change from a industrial capitalism to a finance capitalism and, second, a hegemony of supply-side economics and neoliberalism since the beginnings of

69 As for the pension system the “Three pillar model” of the World Bank can be considered as a guideline for the Union.
70 European Council (2000)
71 Urban (2004)
72 Here a much deeper analyse should be undertaken to show how this recommendations effected the transformation of the social security systems.

the 1980s.

In the last two decades of the 20th century investments into the industrial sector became much lower, because its profitability strongly declined. Investments moved from the industrial sector to finance markets, where better profits could be expected. With the increasing importance of financial markets new investment opportunities were required. These investment opportunities are e.g. public goods like pay as you go or tax financed social security systems. They have to be organized according to the market economy and appropriated privately to turn these social security systems into profitable investment opportunities.[73]

Transformation of social security systems is abet by a policy of liberalization and deregulation of the finance markets since the 1970s. A shift of paradigm in economic policy took place since the end of the 1970s. Supply-side economics became the dominant economic theory in Europe and bases on the assumption that enterprises decide for investments (and for creation of jobs) when they expect adequate return. That's why state policy should be directed to increase the climate for investment and to create a sufficient economy growth. Instruments of that supply-side economics policy are e.g. deregulation, decline of indirect labour costs, lower taxes, strengthening of competition, decline of social benefits and privatizations.

4. Conclusions

Summarising the reforms of the social security systems in Germany and Poland the situation can be described as follows:

The pension insurance in Germany is characterized by declining importance of the pay as you go financed old-age insurance and an increasing relevance of the private capital financed second and third pillar of old-age provision. The reforms of the health care insurance are affected by the effort to stabilize the contribution rate and an increasing part of co-financing. In the field of assistance for unemployed persons and labour market policy clear tendencies can be observed to reduce security and benefit level and to increase the

73 Sablowski (2004), cp. also Brand (2006)

pressure on unemployed persons to take a job.

As in Germany the Polish pension system is reformed according to the “three pillar model” of the World Bank, whereas the private capital financed old-age provision is even stronger, because the second pillar is compulsory. The health care system is characterized by two big reforms within a short time. However, they say it still works inefficient. Private households are participating in the financing of the health care sector to a significant part. The level of unemployed benefit and social assistance is quite low and covers only view persons. Polish labour market policy follows the concept of workfare, that means it aims to creates high incentives to take a job and demands individual responsibility of unemployed persons.

The reason why in both countries reforms of the social security systems tend to privatization and individualization is connected with a coordinated economic policy in the European Union. With the Lisbon Strategy and corresponding recommendations of the European Commission the European Union drives reforms of the social security systems in the same direction. A dominance of supply-side economics under the European elite and the pressure of finance markets looking for new investment opportunities make sure that these reforms tend to more privatization and individualization.

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