Comment by Wolfgang Streeck*

High Equality, Low Activity: The Contribution of the Social Welfare System to the Stability of the German Collective Bargaining Regime

The main trend on which employment systems are converging worldwide is, according to Katz and Darbishire, an increase in internal diversity accompanied by rising inequality. Like many of us, the authors feel more than a little uncomfortable with what they observe. The national industrial relations systems of the postwar period were cherished precisely for their capacity to guarantee all workers a common floor of rights and conditions shielded from the pressures and vagaries of the market. In this way, they not only protected social peace but also helped generate a distribution of life chances less dispersed and more egalitarian than unmediated market forces would have produced. The big question for the future, the book makes clear, is whether we can invent institutions and policies for the emerging new employment systems that will be capable of performing the equalizing functions that were once so successfully performed by classical industrial relations.

As Katz and Darbishire argue, growing diversity and inequality within national employment systems make for declining differences between them, and thus for a trend toward international convergence. Still, differences persist, not least with regard to the level of inequality national systems are disposed to admit. Katz and Darbishire report, correctly, that wage dispersion in Germany not only has been traditionally low (p. 219), but also remained unchanged in the 1980s when it increased just about everywhere else, and rose only slightly even in the 1990s (pp. 220–21). In their concluding remarks on the German case, Katz and Darbishire celebrate the stability of German industrial relations institutions, including the remarkable staying power of unions and collective bargaining in the face of pressures for "deregulation," on the assumption that such stability and staying power account for the relatively slow increase in inequality in Germany. This, in turn, is seen as in keeping with the promises of labor-inclusive postwar industrial relations, and therefore as normatively desirable.

My comment, I am afraid, will pour more than a little vinegar into the wine of Katz and Darbishire's surprisingly sanguine analysis of the German case. I will not contest their claim that the still comparatively low German wage spread has to do with German institutions of industrial relations and their high stability. Nor will I argue, as many do, that a narrow wage spread has necessarily become incompatible with high employment and is therefore no longer a desirable policy goal. In fact, Dutch inequality has risen only slightly in a period when unemployment has fallen and employment risen dramatically, and Denmark manages to be a highly egalitarian society and a full employment one at the same time. What I will say, however, drawing on the German example, is that there are ways of defending equality in employment that come at a high price both economically and socially, and indeed may perversely generate new and severe inequalities that are not immediately visible in the usual employment statistics. High observed equality, in other words, may not always be as good a thing as it seems; in fact, it may hide deep inequalities that make the political and economic arrangements sustaining it in the longer run unsustainable, not just politically and economically, but also morally. To see why this might be so, and why I think it is so in the Germany of today, one needs to do what Katz and Darbishire neglect to do: look not just at industrial relations, but also at social welfare systems and, most important, the interaction between the two.

*Wolfgang Streeck is Professor of Sociology and Director at the Max-Planck Institute for the Study of Societies.

In brief, what the German case illustrates is that one way in which a labor-inclusive industrial relations system may defend high equality—and in so doing, incidentally, contribute to high overall productivity—is by depressing the rate of economic activity, or, more precisely: of statistically observable formal, primary sector activity. More specifically, an industrial country that manages to have no growth or only little growth in service sector employment will have a lower wage spread, as well as higher aggregate productivity. The same happens if employment in the industrial sector is allowed to decline. Since this will eliminate the less productive jobs and workers, it will result in higher average productivity and, ceteris paribus, higher equality among those allowed to remain in the work force. All it takes to stifle service sector expansion and weed out less productive manufacturing is a safely institutionalized egalitarian wage-setting system, underpinned by a supportive social security system that provides for a high reservation wage, with strong unions and effective cross-sectoral coordination, operating in competitive international markets and governed by a state without a "Keynesian capacity" and facing tight budget constraints. Of course, to avoid political discontent, ways must be found to take care of the casualties: those expelled from employment and those prevented from entering it. As I will point out below, this is indeed at the core of the politics of what may be called a high-equality, low-activity employment regime.

Germany, I maintain, is one of the foremost examples of such a regime, and the size and importance of the country may justify looking at it in more detail. Low wage dispersion, as Katz and Darbishire point out, reflects an impressive continuity of a system of sectoral wage bargaining with very high coverage and strong intersectoral linkage. But it also goes together with a low overall rate of labor force participation, at 71.2% in 1999, compared to 73.6% in the Netherlands (!), 76.3% in the United Kingdom, 77.2% in the United States, and 80.6% in Denmark. Moreover, participation effectively declined in the 1990s, a decade during which it increased in the Netherlands by no less than seven percentage points.[1]

Low participation—or, which is the same, high exclusiveness of the German employment system—is accompanied by high and stable unemployment, especially long-term unemployment, which in 1998 accounted for more than half of the registered unemployed (OECD Employment Outlook 1999), making for an overall rate of inactivity of 35.5% in 1999.[2] Remarkably, the rate of inactivity in Germany increased during most of the 1990s, while the OECD average improved by more than three percentage points between 1994 and 1999 (OECD Economic Outlook, Statistical Compendium 1/200).[3] But as we shall see, this is not the only pathology of the German high-equality, low-activity employment system, and maybe not even the most crippling one.

Before I continue I would like to make clear that German unemployment (or, more important, low activity) is not due to low competitiveness of the German economy—and certainly not low competitiveness of its internationally exposed manufacturing sector. In 1999, Germany achieved its highest trade surplus ever. While industrial employment in manufacturing is shrinking, as it is everywhere, it is doing so comparatively slowly, and overall it remains higher than

[1]The West German participation rate in 1990 was 69.1%. German unification raised the rate of participation by no more than 2 percentage points, although participation in the former DDR had been at a Scandinavian level (OECD Labor Force Statistics 1998; OECD Employment Outlook 2000).

[2]The rate of inactivity is the percentage of the working age population that is not gainfully employed, for whatever reason. It includes the unemployed.

[3]Between 1985 and 1999, the German inactivity rate declined by 2.5 percentage points. In the same period, it fell by 12 percentage points in the Netherlands, by 5 in the United Kingdom, and by 7 in the United States. In 1999, inactivity rates in Denmark, the United States, Japan, Norway, and Switzerland were at least 10 percentage points lower than in Germany.

in most other industrialized countries.[4] Large German firms, from Daimler-Chrysler to Siemens, are highly prosperous and will continue to be so, however international competition may develop. The crisis of German capitalism, if there is one, is not a crisis of the German industrial sector.

This is not to say that industry is not in some way part of the problem. Due precisely to the historical success of the German manufacturing sector, its organizations continue to set the terms of employment and social security for the German economy as a whole. IG Metall, the metalworkers' union, is only slowly relinquishing its role as wage leader and pattern setter. Its yearly wage claims are traditionally based on the increase in national average productivity, allegedly out of "solidarity" with unions and workers in other sectors, but certainly also to legitimate its claim for hegemony within the union movement, as well as to unify its own, heterogeneous membership behind a generally acceptable pay formula.[5] Of course, if the service sector were to grow significantly, the gap between the productivity increase in the nation at large and that in the metal sector would widen, and IG Metall would have to become a sectoral union among others, rather than a general union in disguise. As long, however, as service sector unions are pressured by their members and middle-level officials to follow the lead of IG Metall and settle near the metal agreement, thus keeping the intersectoral wage spread narrow, this is unlikely to happen, as national pattern bargaining has made the "cost disease" (Baumol 1967) of the service sector a chronic condition of the German economy.

Moreover, while German manufacturing still provides a comparatively large number of jobs, one reason for its high productivity and its resulting high competitiveness is slowly declining employment. Firms and sectors may increase their productivity not just by improving their technology or the training of their work force, but also by shedding labor. For German industrial employers, this became the method of choice especially in the restructuring period of the mid–1990s.[6]

Why labor-shedding on a grand scale was possible despite strong employment protection law and well-entrenched unions can be understood only if one takes into account the operation of the social security system. Generous unemployment benefits and ample opportunities for older workers to move directly from unemployment into early retirement allowed unions and works councils to tolerate extensive downsizing and enabled employers to externalize to the public the costs of social peace in a period of deep restructuring. Ironically, the productivity increases brought about through cooperative downsizing were in subsequent wage rounds invoked by the union as justification for high wage claims. With the public picking up the bill, egalitarian wage bargaining thus happily proceeded, for a declining work force employed by ever "leaner" and increasingly more productive and competitive enterprises.[7]

[4]At the end of the 1990s German employment in manufacturing (ISIC 3) accounted for 14.5% of the population of working age, compared to 11.3% in France, 11.8% in the United States, and 13.2% in the United Kingdom (OECD Labour Force Statistics).

[5]Given the high internal diversity of the metal sector, wage demands based on metal sector productivity rises might appear excessive to members in smaller and less productive firms. They would also make compromise with the employer association more difficult.

[6]For example, in 1994 nominal wages rose by 3.4% while unit labor costs increased by only 0.5%. As the *Sachverstaendigenrat* (the Council of Economic Advisers) has pointed out, part of the productivity increase that made this possible was caused by labor shedding. This situation continued at least until 1997. Between 1993 and 1998 industrial employment fell roughly 12%, from 14 million to 12.3 million (OECD Labour Force Statistics 1999).

[7]In the service sector, correspondingly, union leaders continued to be able to follow more or less the lead of IG Metall, as less productive employment that might have forced them to moderate wage demands or accept lower settlements was never allowed to emerge in the first place.

The institutional configuration that made this possible had slowly evolved during the 1980s. The demise of the Keynesian illusion—which had been more short-lived in Germany than in other countries—had sent the government searching for alternatives to fiscal or monetary expansion, to deal with the negative employment effects of a wage-setting system designed to generate high wages and low wage dispersion at the same time. Faced with a strong union movement, and therefore prevented from adopting Thatcherist recipes, the Kohl government soon discovered the old age pension system as an instrument to balance the labor market, this time by reducing supply rather than by increasing demand.[8] IG Metall, perhaps remembering its fight in the 1970s for "humanization of work"—a program that included not just employment protection for older workers but also an organization of work geared to their special needs and abilities—originally pressed for a general cut in working hours (which, as it was to come with full maintenance of pay, in the end amounted to just another productivity drive bound to create even more surplus labor). However, to avoid defeat in the long strike of 1984 for the 35-hour-week, the union had to accept far-reaching "flexibility" provisions, with respect to working time and work organization. As a result, it effectively lost control over the wage-effort-bargain at the workplace.

In subsequent years, employers found themselves able to live with high wage settlements by raising productivity almost at will—which as a side-effect made them less prepared to drive a hard wage bargain and risk a strike. And unions, in the metal industry and elsewhere, learned that to continue to be successful in solidaristic-egalitarian high-wage bargaining, they only had to accept a subsequent thinning-out of the work force—which they could do without encountering much resistance by their members as long as they, together with employers interested in social peace, made sure that the government kept open the easy road to early retirement. The "productivity coalition" that used to be the hallmark of the German "social system of production" in the 1970s (Streeck 1992) thus assumed a wholly new meaning.

The story of how the German welfare state was enlisted to support high-wage, high-equality collective bargaining by deactivating growing segments of the work force is long and complex and cannot be recounted here (see Manow and Seils 2000). The event that both solidified and radicalized the emerging pattern of the 1980s, and for a long time safely entrenched it, was German unification. In the name of equality, but also to protect themselves from low-wage competition, West German unions and employer associations agreed immediately after unity to transfer the entire West German system of industrial relations to the East, including, after a short transition period, West German wages. The inevitable result was very high unemployment, which has continued ever since. But because the West German welfare state—pensions, unemployment insurance, labor market policy and all—had also been extended wholesale to East Germany, those whose jobs had been sacrificed on the altar of equality could be paid high unemployment benefits, placed on early pensions, or absorbed into training and assistance programs under the government's "active labor market policy" (see footnote 8). When during the 1990s Eastern wages climbed up to Western levels, as agreed between unions and employer associations, the social insurance system became the vehicle of a gigantic West-East wealth transfer. Since its main source of revenue is social security contri-

[8] In fact, not only the pension system. An institution that became almost as important, in time, was a system called "active labor market policy," funded from unemployment insurance contributions and originally conceived to provide training and other assistance to help the unemployed quickly move back into employment. In the 1980s and, even more so, the 1990s, this turned into a much-used device to maintain people outside gainful employment without having to pay them unemployment benefits or social assistance. Participants in active labor market policy programs do not statistically count as unemployed.

butions, the bulk of the costs of unification was borne basically by West German workers and employers, sparing the government the need to raise income or corporate taxes. For the "social partners," rising payroll taxes and non-wage labor costs apparently seemed a price worth paying for either wage equality or the elimination of low-wage competition or both—that is, for the survival beyond unification of West German social partnership and high-wage, high-equality collective bargaining.

Even today, unions continue to press for wage equalization in the East, notwithstanding 17% unemployment, a further 10% in "active labor market policy" programs, and average productivity only about 60% as high as that in West Germany (Sachverstaendigenrat 1999:87). As a result, East Germany has become structurally dependent on what may originally have been conceived as a set of provisional stopgaps for a temporary emergency. Unemployment benefits, social assistance, and paid training programs for jobs that never materialize have for an entire decade now been the primary source of income for entire families and local communities. Many counties and city governments in the East could not perform some of their most elementary functions without the temporary employment programs run by the Labor Office for the long-term unemployed, which are mostly funded out of payroll taxes. In large parts of East Germany, the Labor Office has become by far the largest "employer." Any attempt to cut expenditures on what is still called "active" labor market policy—although it serves mainly to maintain people inactive outside the labor market—is vigorously opposed by the governments of the five Eastern Länder whose local economies would collapse without West German compensation for the failure of their high-wage, high-equality labor markets to generate a decent level of employment.[9] Economically, politically, and electorally, the "East German question"—the need to take care of East Germans excluded both from and by the West German employment system—has become practically intractable and almost a taboo subject in elite political discourse.

Generally, German politics and society have been quite inventive in disposing of what, under the German employment regime, is a huge mass of surplus labor. The bad news is, however, that most of the techniques that were developed in the 1980s and 1990s are now meeting their limits. For a long time, an important storage facility for surplus labor in Germany has been the household. But although the economic participation rate of women, at 55.8%, is still comparatively low, being about 15 percentage points below that in the United States or Scandinavia (OECD Employment Outlook 1999), generational change is inexorably increasing the female labor supply, and keeping women out of the labor market is becoming politically more risky.[10] Similarly, throughout the 1990s the universities, attendance in which is free, were a favorite holding pen for young people who might otherwise have looked for employment. As a result, the number of students doubled in twenty years, and so did the student-professor ratio as the state had no money to spare. By the end of the century, German students were on average 28.8 years old upon receiving their first degree. There are many obvious reasons why this cannot continue, and indeed pressure is building to shorten the time spent in education, not least by introducing student fees.

More visible, but certainly not less expensive, was the contribution to labor supply management of the social security sys-

[9]The importance of "labor market policy" for East Germany has become a general excuse for its inefficiencies, and in particular its failure to attain what is supposedly its principal objective: moving people back into employment as soon as possible. Unification has made it possible officially to attribute to labor market policy the additional function of "preserving social peace," in the East but by extension also in the West. This makes any meaningful evaluation of its performance impossible.

[10]But note that while the female participation rate, due to unification, increased between 1990 and 1991 by 3.7 percentage points, to 56.9%, it has continuously declined since then!

tem. Early retirement reduced the German activity rate of those aged 55–64 to 39% in 1998, compared to 71% and 58% in Switzerland and the United States, respectively (OECD Employment Outlook 1998, 2000).[11] "Active labor market policy" programs, which in 1999 absorbed about 770,000 people who would otherwise have added to the number of unemployed, cost about 45 billion DM, equivalent to 1.2% of GDP.[12] And unemployment benefits may run for up to 32 months now, followed if necessary by unemployment assistance, which can be paid indefinitely, or by direct transition into one of several forms of early retirement.[13] Most of this is funded by unemployment insurance contributions, which increased from 3% of gross wages in 1980 to 4.3% in 1990 and 6.5% in 2000, in a period during which the general tax burden declined. Since social security contributions directly translate into labor costs, defensive labor supply management German-style has the ability to make its underlying assumption of a shrinking "lump of labor" come true: retiring redundant labor at a high level of public subsistence funded by payroll taxes drives up the price of the labor of those still in the market, thereby making it necessary to retire even more of them. While it is true that rising labor costs in Germany in the 1990s were due more to increases in social security charges than to wage increases, it is also true that higher social security charges were needed to provide compensation for the social exclusion caused by, and necessary to sustain, an outdated wage-setting system that, in alliance with a contribution-based social security system, does not allow for employment growth in cost-sensitive segments of the service sector.

While reducing non-wage labor costs is listed among the objectives of the 1998 "Alliance for Jobs," it is not really high on anybody's agenda, the catastrophic employment effects of high payroll taxes notwithstanding. For the unions, protecting the present pension level, and perhaps even expanding the opportunities for their members to retire early, clearly takes precedence, also because the vast majority of their members are now either pensioners or over 50 years old.[14] Although employers obviously do not like high labor costs, the large firms have learned to live with them, and more urgently than cost cutting they need the cooperation of their works councils and work forces in industrial restructuring. Finally, for a government bent on

[11] Pension statistics are notoriously difficult to interpret. But the extent to which the pension system was used to take labor out of the market is reflected in the fact that between 1990 and 1998, the percentage of new pensioners who retired at the supposedly normal age of 65 fell from 34.7% to 22.8%. During the same period, the percentage of those who were allowed to retire at age 60, after a prolonged spell of unemployment, rose from 7.8% to 17.4%, with a peak of 22.7% in 1995 (data from *Verband der Rentenversicherungstraeger*).

[12] Paid by the federal unemployment insurance system. An additional DM 10 billion are estimated to come from various Länder programs and the European Social Fund. The foremost expert on German labor market policy, Guenther Schmid, considers its funding structure "a jungle" (personal communication). At the federal level alone, labor market policy pays for special job creation programs that covered 0.10% of the working age population in 1980, 0.22% in 1989, 0.84% in 1992, and 0.69% in 1998. Adding the training measures also organized under "active labor market policy," the percentage of the work force funded by the system rose from 0.7% in 1980 to 1.4% in 1989; peaking at 3.5% in 1992, it stood at 1.8% in 1998 (own calculation based on data from the Federal Ministry of Labor). The Red-Green government is pledged to *increase* spending on labor market policy, but now finds itself facing severe fiscal constraints.

[13] "Passive" labor market measures, including expenditures for early retirement, cost another DM 90 billion per year. The aptness of the name is shown by a recent OECD study, which found that in Germany only about 2% of those receiving unemployment insurance benefits have their benefits suspended for refusing to take a job or participate in a training program. In the United Kingdom the respective figure is 11%, in Norway, 12%, in the United States, 26%, and in Switzerland, 38% (OECD Employment Outlook 2000).

[14] Of the 8.623 million members of unions affiliated with the DGB in 1997, no more than 494,000, or 5.7%, were 25 years old or younger; in 1985 that figure was still at about 15%. Also, 18.9% of union members in 1999 were pensioners, compared to 13.9% in 1992.

balancing its budget, lower social security contributions would make it even more difficult than it already is to cut the subsidies it is paying to the social security system out of general tax revenues.[15] In addition and above all, the deal of the early 1990s still sticks: the government makes the welfare state available to absorb the costs of the equality-protecting transfer of West German industrial relations to East Germany, while the "social partners" do not object to the bill being paid by the parafiscal social security funds, enabling the government to avoid raising general taxes and evade political responsibility for the costs of unification.

The negative employment effects of high non-wage labor costs are especially strong at the lower end of the labor market. Note that low employment in this category translates simultaneously into equality in employment and exclusion of workers (mostly unskilled) *from* employment. To earn take-home pay of DM 1,600, which given the level of social assistance is about the minimum one must earn for work to be attractive, German job seekers must find an employer willing to put up DM 2,400 for them, income tax not considered. This amounts to an effective "employment tax" of 50% (800 out of 1,600) or 33% (800 out of 2,400), which, to make things worse, is regressive, as it bites much more into lower incomes. The result is that job seekers whose productivity is below DM 2,400 are eliminated from the labor market, even though they might be able to generate, say, an income of DM 2,000—which, if they could keep it, would sustain them comfortably above the social assistance level.[16]

Not surprisingly, low labor activity in Germany is mostly low unskilled labor activity. Unions, if they address this issue at all, defend the present system by arguing that unlike in the United States, in Germany low-wage employment is morally unacceptable, and rather than force people to work for low wages, society must provide them with training and other assistance to get them a "good" job. Accordingly, German discussions about the need to expand service sector employment center on multimedia and software writing, and on labor market and training policy to move the unskilled into the new high-skill and high-wage employment. Short of this, the present labor market regime protects workers from low-wage employment by eliminating them from gainful employment altogether and placing them on a social wage even lower than a low wage—in return for which they are not expected to do anything other than quietly suffer the inevitable deterioration of their employability.

None of this, to be sure, has actually prevented the growth of a significant low wage sector in Germany; it has only made it less visible. There is now in Germany a growing underground economy, which is estimated to account for no less than 15% of GDP. By no means all black market labor is low-paid, but a good deal is. And while some of the underground workers have social protection, others—among them, one presumes, a majority of the lower-paid—do not. Furthermore, there is in Germany the unique institution of "negligible" or "minor" employment (geringfügige Beschäftigung), which is employment below the threshold at which social security contributions are due. At present this is at DM 630 a month, for no more than 15 hours' work per week. Recent estimates suggest that by

---

[15]Indeed, the so-called eco-tax that was introduced by the Red-Green government to finance a *reduction* in social security contributions, in the hope that this would increase employment, must now be used to limit the anticipated *increase* in contributions—which clearly adds to the difficulties of the government in defending the tax to a public frustrated with rising energy prices.

[16]Figures are low estimates. In 1997, 34% of the total labor costs for a single worker earning an average wage had to be contributed, by the worker or by the employer, to the various social security funds, a level that is exceeded only in France, Italy, Belgium, Austria, and the Netherlands. The corresponding figure for Denmark is 10%, for the United States and Japan, 14%, for the United Kingdom, 17%, and for Switzerland, 20% (OECD, Tax/Benefit Position of Employees 1997).

late 1999, the number of people holding jobs of this sort, often more than one, had grown to about 5.9 million, with an overall volume of work performed under the 630 Mark regime equivalent to one million full-time and two million part-time jobs (Apel et al. 1999). 630 Mark workers are, among other things, not covered by unemployment insurance, and they do not accumulate pension entitlements. While millions of unemployed are waiting to enter the labor market, a large share of the work in the favorably taxed system of geringfügige Beschäftigung—which is largely located in the service sector—is being performed by people who can afford its conditions: pensioners on early retirement, or safely employed workers in the primary sector seeking additional tax-free income, competing with immigrants or young people who cannot afford not to take 630 Mark jobs as they are not (yet) entitled to benefits.[17] With the growth of the black market economy and the 630 Mark sector, sometimes overlapping on their edges, and behind the veil of official employment statistics that document a successful defense of social equality, the 1990s in Germany have witnessed the step-by-step evolution of a picture-book dual labor market in which a flexible secondary sector compensates for the rigidities of a well-protected primary sector, with a growing mass of casual workers and immigrants for whom primary employment and retirement is an exotic world they will almost certainly never be able to enter.

In the meantime, what used to be industrial conflict over wages and employment has largely migrated out of the unshakably stable institutions of industrial relations to the social policy arena. Here it has become deeply politicized and has assumed new forms and acquired new contents. Depending on the public pension system to underwrite the continuation of collective-bargaining-as-usual, a very high priority for unions today is to defend the principle that public pensions should be high enough to preserve a person's standard of living; were they not, retirement ahead of time would be much less acceptable for union members. The present battle over pension reform is therefore fought with no less fervor by IG Metall than was the 2000 wage round. Technicalities aside, existing pension levels can be maintained only if either contributions or the effective age of retirement or both are raised—for demographic reasons, but also because the Finance Minister, under pressure to consolidate the budget and cut corporate and income taxes at the same time, is determined to reduce government subsidies to the social security system.[18] Given the present composition of their membership, unions are not necessarily opposed to higher contributions—which will, after all, be paid mostly by non-members; indeed they urgently need them, not simply to keep pensions high but also for further labor market relief ("Pension at 60"—Rente mit 60—was the slogan of IG Metall in the last wage round) and still more "active labor market" training and assistance programs.

Even if additional revenue could somehow be generated, however, it can be spent only once, and in view of the ongoing erosion of the fiscal base of the social security system—due to low employment, relocation of economic activity to the underground, the expansion of the 630 Mark system, and generally an increase in non-standard employment[19]—consolidation of the pension fund and still earlier retirement pretty much exclude each other. This is why IG Metall could not win the battle for Rente mit 60. But it did not lose it, either.

[17]About 1.2 million of those holding 630 Mark jobs in 1999 also had jobs in the primary employment sector (Apel et al. 1999).

[18]According to the Federal Ministry of Labor (various *Materialbaende* for the *Sozialbericht*), in 1999 these amounted to 24.1% of total expenditures of the pension fund, up from 19.3% in 1991 and 20.3% in 1995. Government subsidies to the unemployment insurance fund contributed 32.4% to its expenditures in 1998, up from 22.9% in 1989, and down from 34.2% in 1993.

[19]Between 1989 and 1996 the number of self-employed without employees increased by 63%; during the same period, the share of total employment represented by standard employment *(Normalarbeitsverhältnisse)* declined from 75% to 66%.

The impending social security reform will gradually lower pensions—mostly new ones—while simultaneously raising contributions. But in response to both union pressure and electoral concerns, pensions will be reduced less than originally planned. Contributions, in turn, in order not to antagonize the employers and, perhaps, the actively employed, and also to contain the resulting increase in non-wage labor costs with its negative employment effects, will rise less than the unions would have been prepared to tolerate. But in agreeing to raise them at all, and in ruling out raising the effective age of retirement instead, the government has abandoned one of its most important original objectives, which was to lower non-wage labor costs in order to increase employment. Still, while contributions will grow in deference to union demands, they will not grow enough to safeguard the government from being punished by the voters for the decline of pension levels—which is why the reform will also introduce a funded obligatory system of supplementary pension insurance. While this will increase the share of their income workers are to put aside for their social security, it will not increase non-wage labor costs, as contributions are to be paid by employees only. When IG Metall demanded that just as in the public system, one half of the contributions be paid by employers, the government as a compromise agreed to subsidize the retirement savings of low-income earners out of general taxes.

What about equality, then? Ask the Turkish immigrant family earning their living on a combination of 630 Mark jobs, with no prospect of a wage increase ever and with almost no social insurance protection; or a young person facing far higher social security contributions than his or her parents, for what will be a substantially lower pension; or a 48-year-old long-term unemployed person with no hope of getting back into employment; or a woman confined to the "silent reserve," with no affirmative action plan or equal employment opportunity office anywhere near; or one of the growing number of those in "atypical employment"; or an East German being rotated from "active" labor market training into a one-year employment program, and from there to unemployment benefits and the next training program. For them, equality among a shrinking core work force, with their permanent 36-hour-jobs, six weeks of paid vacation, and a full pension, at age 58 on average, is likely to count a lot less than for Katz and Darbishire, and is surely not worth its price.

Comment by John Pencavel*

Following Different Paths to Different Destinations: Comparative Labor Markets

Changes in Labor Markets across Countries

The labor markets of the relatively wealthy countries of the world have been transformed over the past twenty years or so. One fruitful way to open a discussion of Harry Katz and Owen Darbishire's book, I think, is to attempt a simple listing of the forces shaping that transformation. To facilitate exposition and in shocking disregard of geography, in the following discussion I refer to Canada, the United States, West Europe, Japan, and Australasia as the "North" and distinguish these countries from the "South," which consists of "newly emerging economies" such as China, India, Indonesia, Brazil, Mexico, and the countries of East Europe.[1] Having settled on this

*John Pencavel is Levin Professor of Economics and Economics Department Chair, Stanford University.

[1]What countries are left? Primarily much of Africa, the Asian countries formed out of the former