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The Pension Problem (February 13, 1996)

The author, a regional social court judge, reflects upon the generational contract that was forged in the 1950s and criticizes its political implementation. Forty years later, he says, the privileged treatment of the elderly can no longer continue; a generational war is imminent but politicians do not want to deal with the problem openly.

Train young people instead of sending the elderly to sunbathe in Mallorca. After forty years the idea of intergenerational solidarity has been turned upside down: The pension system favors the rich and the elderly.

A welfare state that raises more expectations than it can fulfill provokes mass disappointment, bitterness, radical protest – and ultimately delegitimizes the entire political system, according to Munich social historian Hans-Günther Hockerts, speaking on the failure of the welfare state of the Weimar Republic.

And today? In April 1995 politicians were still promising secure pensions until the year 2040. By now, the government and the opposition are accusing each other of stealing and selling pensions. Pension policy is on the verge of declaring bankruptcy. Not all too long ago BfA¹ president [Herbert] Rische wrote in his agency's bulletin that the mere discussion of pensions is more dangerous for the system than the catastrophic demographic development itself. And what are they doing in Bonn while the economic and demographic foundations of the pension structure are falling apart? They are preoccupied with moving furniture and interior design! Early retirement, non-insurance-related benefits, disability criteria – some shunting yards here, some cosmetics there. But, please, no fundamental debate! And don't get any closer to the underlying causes, namely, that the fabulous idea of intergenerational solidarity was thoroughly blighted from the outset by politics and that now we have a system programmed for self-destruction. And it seems completely unlikely that this system will be able to withstand the growing burdens of globalization, the changing age structure, the national debt, and the social costs of environmental destruction.

¹ *Bundesversicherungsanstalt für Angestellte* (BfA), German Federal Insurance Agency for Salaried Employees – trans.

It all began almost forty years ago. On January 1, 1957, the “dynamic pension” was introduced. Literally overnight, pensions increased from pocket-money benefits amounting to about 25 percent of the average earned income, to a wage-replacement, standard-of-living-ensuring level of almost 70 percent. Contributions for such pensions had never been paid by the lucky pensioners back then; at most they had paid minimal amounts for the mini-pensions that had existed since Bismarck. The pensioners owed their sudden affluence to mathematician and economist Wilfrid Schreiber and his slender but epochal 46-page paper on guaranteeing financial security in industrial society (1955). According to Schreiber, the middle-class nuclear family was no longer in a position to offer security to its members; therefore the collective of a “familial society” had to assume this responsibility; moreover the aim was to replicate familial assistance channels on the level of the social welfare system. Just as every family member receives benefits twice over the course of his or her lifetime, that is, as a child and again as an elderly person, and just as every adult makes contributions in both directions, the social welfare system, Schreiber explained, needed to be set up symmetrically: through two solidarity contracts, one with the older and one with the younger generation. Schreiber argued that if providing for the elderly became a social responsibility, then something comparable had to be done to support the generation of children. Therefore, the new old-age pension system that was to be established had to be mirrored by a youth pension system. Distributing the national product between the three participating generations would then be a purely mathematical exercise and would allow pensioners and children alike to participate in the dynamic increases in production. This transparency, he continued, was by no means to be clouded by mixed financing such as the federal subsidy. According to Schreiber, that would simply lead the state, in the nimbus of benefactor, to make the people believe in its omnipotence. In his view, the whole thing was a creation of public solidarity and had nothing to do with insurance, which triggers totally false associations in the minds of the people.

Chancellor [Konrad] Adenauer immediately understood that half of Schreiber’s plan, the part pertaining to the old-age pension, offered [him] a chance to bind elderly voters to the Union.² He also grasped the necessity of pay-as-you-go financing. But he did not warm to the idea of a youth pension. People would always have children, he thought, and besides, children don’t vote. Against Schreiber’s embittered resistance, he therefore only implemented the old-age pension half of the plan, including the mixed financing and insurance terminology – a textbook example of a democracy of complaisance. Schreiber’s congenial comrade-in-arms Oswald von Nell-Breuning, the nestor of Catholic social thought, had warned right from the start of the legislative proceedings in April 1956 of the catastrophic consequences that would result from the evisceration of Schreiber’s intergenerational contract. He said that this system could never achieve lasting stability, it would remain in limbo. His warnings went unheard, however.

² Reference to his party, the Christian Democratic Union (CDU) – eds.

Today we know that the two founders of the intergenerational contract were correct. Politics soon learned how to handle the instrument of contribution financing, which was advantageous from a financial-psychological standpoint, as it was excellent in undermining resistance to taxes. It could be expertly used to please a rapidly growing throng of senior citizens with ever longer life expectancies. In election years, pensions were sometimes even raised twice. Today the distribution of the available national income to the benefit of the elderly generation and at the cost of the two younger generations could not be any more asymmetric.

This is impressively confirmed by the explosion in poverty among families. In 1965 only one in seventy-five children under seven was temporarily or permanently dependent on welfare payments; in 1990 it was one in twelve, and today it is one in seven. Today, a four-person family with an average income already lives at the welfare level. Evidently, politics is no longer able to see that saving at the expense of the younger generation means overexploiting the future and that it makes more sense to train young people than to send the elderly to sunbathe in Mallorca. The demographic imbalance could hardly be more extreme. The average age in Germany in 2025 will be roughly forty-seven, as compared to today's average of forty. And along with the growing number of senior citizens, policies are moving more and more towards an inescapable gerontocratic trap, as long-term care insurance demonstrates.

Over the course of forty years, the epochal idea of intergenerational solidarity has been turned around entirely. Today we are faced with a war of the generations: Gray Panthers³ versus the payers of pension insurance contributions. Thus, it is the extensive social welfare system, of all things, that is utterly destroying social cohesion through its asymmetrical distribution of burdens and benefits and the growing percentage of elderly people. It results in a redistribution [of support] from young to old, from women to men, from families to the childless. Even the system's principal proponents are remorsefully distancing themselves from it now: a few weeks ago, Dieter Schewe, who held a leading position in the Federal Ministry of Labor [*Bundesministerium für Arbeit* or BMA] in 1956 and who was responsible for the Grand Pension Reform [*Grosse Rentenreform*], determined that contrary to original intentions, the pension system by no means diminished the gap between rich and poor but in fact increased it considerably. At the time, he said, the mechanisms according to which the system would function had been misjudged.

Anyone who wants to change this can only do so by creating transparency and telling people how the system functions. One has to start with insurance terminology, which is the main reason why solidarity is often mistaken for returns on an investment. This nonsense must come to an end. The notion that quasi property right claims can be made on the basis of individual

³ Reference to the Gray Panther Party [*Die Grauen – Graue Panther*], which existed from 1989 to 2008. Its main goal was to represent the interests of the elderly – eds.

pension contributions is as widespread as it is wrong: through their pension contributions, senior citizens have only paid off their debt to their parents' generation, nothing more.

Redistribution from the bottom up leads to devastating asymmetries in the distribution of demand and purchasing power, thus weakening mass demand and ultimately worsening mass unemployment. Contrary to its critics' intentions, criticism [of this system of redistribution] should by no means be directed at the blatant abuses alone but rather at the pension system as a whole. In a society in which mass poverty is growing at an explosive rate, can we still afford systems with such antisocial distribution effects?

The politicians responsible for these issues have already acknowledged – though not to the general public – that the present debate will never do justice to the magnitude of the problem. In an article published in a professional journal Minister [Norbert] Blüm described the welfare state as a tanker lodged in pack ice with no prospect of rescue. Even towing the system into the next century would be nothing short of a political tour de force. His Social Democrat counterpart, Rudolf Dressler, sees things in a similarly dramatic light: two years ago Dressler accused Kurt Biedenkopf of lighting a fuse under the social security system with his pension-critical theses. Biedenkopf's dry and pithy response: with that, Dressler merely confirmed that we're sitting on a powder keg!

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Source: Jürgen Borchert, "Junge Menschen ausbilden, nicht alte zum Sonnen nach Mallorca schicken" ["Train Young People Instead of Sending the Elderly to Sunbathe in Mallorca], *Süddeutsche Zeitung*, February 13, 1996.

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