

Social Reports of the German Federal Republic, 1970-71

by PAUL FISHER*

In recent years, a comprehensive picture of social security expenditures in the Federal Republic of Germany has been presented in the form of a "social report" to Parliament—a format that appears useful for presenting current social welfare issues to the legislature and the public. This article gives the background of the reports and looks at those for 1970 and 1971 in particular. It describes in some detail the two main parts of the documents: (a) the Government Program, which combines a stocktaking of recent legislation with an account of steps taken toward new measures, and (b) the Social Budget, which gives social security expenditures in two forms—an agency budget and a functional budget. Comparisons of this type of report with related publications of some other countries are made, and some broad assessments of the reports are included.

THE TWO Social Reports filed with the Parliament of the Federal Republic of Germany by the Ministry of Labor and Social Affairs in 1970 and 1971 attracted great interest in that country and the rest of Europe. (1, 2) For that reason and because it appears that the German Republic has developed a useful format for presenting current issues on the welfare of society to the legislature and the public, an account of the two reports is given here. The article gives the background of the reports and describes the two main parts of these documents—the shorter report on the Government program and the larger "social budget." Some of the differences between the Social Report and related publications of other countries are also pointed out.

HISTORICAL BACKGROUND

Influenced in part by a short economic recession in 1967, the Government of the Federal Republic

of Germany acceded to a demand for proof or disproof of the contention that social security expenditures exceeded or would exceed in the foreseeable future an economically acceptable level. The demand for "social accounting" had the support of both major political parties, the unions, and the German Federation of Employers (then led by Professor Siegfried Balke). (Similar considerations prompted other nations confronted with a multitude of semiautonomous social security funds to adopt such a course of action. France, for example, provided in 1952 for a social budget and in 1956 decreed that this instrument should be incorporated in the annual economic report and the budget; a 1959 law insisted that the social budget present not only the expenditures of the state but also those of the public and semipublic institutions and of the private sector for the current year, the preceding year, and the following year.) (3)

On April 11, 1968, the Chancellor directed the Ministry of Labor and Social Affairs to prepare a long-range forecast of the expenditures that would be expected to arise from social security programs administered by that department. On July 12, 1968, the Ministry was directed to prepare intermediate-term forecasts of the likely development of such expenditures and to include those outside the jurisdiction of the Ministry and the Federal Government. The vehicle chosen for the purpose was a "social budget," a form of presentation proposed by a group of experts convened by the Government in 1964 to study this question. (4) The first forecast, *Social Budget 1968*, was published in January 1969. In 1970 and 1971, the social budget was incorporated in broader "Social Reports" that attracted the attention of other governments and of the European Economic Community. (5) (The term "social report" had been previously applied to the annual reports on the adjustment of pensions to price and wage level changes. With the appearance of the *Social*

* International Staff, Office of Research and Statistics. A list of numbered references (shown in the text in parentheses) follows the article.

Report 1970, these statutory reports changed the name to "pension adjustment report.") These Reports deal for the most part with social security measures.

West German tradition and usage have forged definitions of social policy and social security that are well-suited to the German institutional setting. They roughly coincide with the delineation of functions that distinguish the Ministry of Labor and Social Affairs from other Government agencies.¹ The Reports also relate the German concept of social security to the somewhat narrower definitions used by the International Labor Organization in its *Cost of Social Security* series and by the European Economic Community.

THE GOVERNMENT PROGRAM

In both of the Social Reports discussed here the first part combines a stocktaking of recent legislative measures with an account of steps taken to introduce new legislation. This initial section of the Report provides an overview of social security and the related problems that the administration considers ready for action. It lists the recently completed and the current efforts to solve them through legislation, committee deliberations, and research. It also presents the cabinet's position on "social policy," reached after interministerial consultation.

"Social policy" in German usage refers primarily to social security and industrial relations matters. (6a) This meaning of "social policy" was developed from the writings of the German social reformers, the predominantly non-Marxist "socialists of the chair" before and at the beginning of this century. The somewhat narrow concept is contrasted in the German literature with the larger concern for the total welfare of the national community, the so-called "societal policy." Although "social policy" in the German sense coincides by and large with the agenda of the Ministry of Labor and Social Affairs, "societal

¹ In German usage, "public assistance" is a part of the social security system but is not under the jurisdiction of the Ministry of Labor and Social Affairs. This subject will therefore be included in the "social code" of the Federal Republic of Germany, now being drafted. (Letter of Jan. 24, 1972, from Walter Auerbach, chairman of the drafting committee.)

policy" issues are distributed over many ministries that issue their own reports to the legislature.² Thus the Social Reports cover certain labor, industrial relations, and manpower issues as well as those of social security, though they are given less prominence than social security measures, which in all common-market countries hold "a privileged place within social policy."³

Social Security Proposals

The 1971 Social Report—fuller in general than the 1970 Report—lists the various administration initiatives in the "social policy" area and their current status. The list includes various pieces of legislation intended for submission in 1971: Health insurance for farmers, extension of protection to the handicapped and minors in the home, improvement of protection for prisoners and their families, adjustment of various types of benefits to wage and price increases, improvement of income-maintenance protection of construction workers in winter, and codification of the social security law. Other issues were reported as under study inside and outside the executive branch—including the feasibility of voluntary insurance for the self-employed not currently covered, for housewives, and for family workers—as well as their right to improve their protection through voluntary contributory payments for past periods—and the right of the insured to select retirement between ages 60 and 65. Some of these proposals for improving social security have since been implemented.

² Their reports deal with general economic and financial forecasts, health, youth, education, family, housing, urbanization, ecology, and other subjects falling within societal policy in the German sense and could be considered part of a more comprehensive concept of social policy.

³ Albert Delpérée (7a) lists five areas—education and culture, social action, public health, housing, and assistance necessitated by war and national calamities—as comprising social policy. For a different and wider scope of social policy, see *Toward a Social Report*, U.S. Department of Health, Education, and Welfare, 1969; George F. Rohrlich, "Social Policy and Income Distribution" in *Encyclopedia of Social Work* (National Association of Social Workers, 1971), pages 1385–1386; and Walter Auerbach (6b).

Study groups, task forces, round tables⁴ are among the methods by which the Ministry achieves intra- and inter-ministerial coordination, acquires outside expert advice, and assures itself of public support. The parties primarily concerned—chiefly the trade unions and employer organizations—review staff drafts and programs before they receive ministerial approval.

Comparison With Social Policy Statements of Other Countries

The first part of both Reports can be viewed as a comprehensive presentation of executive performance and intentions in the areas of concern to the Ministry of Labor and Social Affairs. On a policy level, this section defines the social security and related sociopolitical objectives the administration intends to pursue in the current legislative period. Two characteristics distinguish this part of the Report from similar statements made in the rest of the world: the relatively broad range of "social policy" measures encompassed and the advance indication of specific executive action in the current year.

Because of its forward-looking nature, this part of the German Social Report differs from the usual annual reports of ministries, which are primarily a record of past achievements. The German Government Program differs also from the increasingly used multiyear departmental budgets, which, as projections of the development of expenditures on the basis of the existing program, rarely identify newly established programs or indicate legislative solutions being sought.

Part A of the Reports announces but does not replace the preparation of detailed individual legislative proposals. It is not a White Paper in the sense that this term is used in the United Kingdom and other countries. Despite its wide range it is restricted to "social policy" issues and, in effect, chiefly to social security measures. This section of the Social Report cannot therefore be compared

⁴ Informal discussions of representatives of government, management, and labor on social policy parallel similar efforts of "concerted action" initiated by the Ministry of Economic Affairs under the law on economic stability and growth of 1969. Such ad hoc consultations are intended for an exchange of views among the participants without binding any party to a specific course of action.

with a State of the Union message in the United States, Speeches from the Throne in the United Kingdom, or the Swiss report on the implementation of the major governmental policy issues. The Swiss report, issued for the first time in 1968, does discuss initiatives planned by the Government within the following 3 years in all fields (including social security); unlike the German Social Report, however, it covers the whole gamut of government activities.⁵

Nor is a counterpart found in the French social policy statement, the forecast of *Developments in Social Security*, prepared by the French Committee on Social Benefits for the Sixth Economic and Social Plan. That report, under the principles governing French "indicative" planning, portrays the views of the various interested parties represented in the Committee, refers to divergent viewpoints, and lists dissenting opinions. In addition, though it is produced under the auspices of a Government agency, it is not binding on the Government, the organizations participating in its preparation, or the political parties with which these groups are affiliated. The French report is more like an annotated digest of current views held in and outside the Government, offering merely a background for the drafting of appropriate measures.⁶

Above all, the Government program of the German Social Report is not a "social plan," however the term is defined. (7b, 9a) It differs in purpose, methodology, and scope from any systematic presentation of facts and analysis to permit the formulation of a priority-setting strategy for comprehensive action in order to achieve agreed-on social goals. In the postwar period such a plan had been suggested for West Germany, but it never materialized. (6c, 6e, 10, 11a) A number of publications in the fifties led in 1957 to a programmatic acceptance of this concept by the Social Democratic Party in a Social Plan for Germany. (11b)

Social planning was foreshadowed in the *Grundlagen eines Sozialplanes der SPD* (1952)

⁵ In an inventory of steps taken to implement the 1968 program, which appeared in April 1971, the Swiss Government discusses specific future action it intends to take. (8)

⁶ The French National Social Budget, a second Government document, resembles in many respects part B of the German Social Reports (2, 5a)

and in the Dortmund Action Program of 1954 (12) and incorporated in the Bad Godesberg party platform of 1959, which came into existence at a time when the SPD demand for a national economic plan, perhaps under the influence of the experience with "total" planning in the Nazi period, or the poor performance of East German planning, had been more or less abandoned.

The Federal Republic has never developed an economic plan, and thus it has not been confronted with the problems of how to integrate social and economic plans. Recently, there has been considerable discussion on the conceptual and methodological difficulties of integrating social and economic planning. (9, 13-17) Much of the discussion hinges on the definition of the goals of socioeconomic planning: i.e., monetized output, or general welfare of the society and of the ability to determine priorities among various quantities of such different collective goals as health, education, social security, etc.—all endeavors with parameters established largely outside the marketplace—and the national product. Integration is the more difficult since the latter is not an adequate measure of social welfare. (18)

In practice, integration between "social" and "economic" planning—except in the sense of combining the two in one document—has not been achieved anywhere, even when differences in the meaning of the term "planning" in various market economics are disregarded. The Japanese economic and social development plan for 1970-75 never went beyond the listing of social security goals. The Belgian third 5-year plan for 1970-75 suffers from a lack of general agreement on objectives and choices. The Italian sectoral social security plan has as yet not been coordinated with other social programs, and action has been delayed in the absence of an agreement on what degree of social consumption is compatible with a desirable economic growth rate. French experience offers at least one historical example of integration through subordination of social security to finance considerations: budgetary considerations forced upon the social planners in the fifth-plan period the need to reduce the then-expected rise in social expenditures, but the efforts were in vain. (9c, 19, 20) The Netherlands experience offers a current example of the central planning mechanism setting financial limits on expansion of the social security system. A paper delivered to

the Fifth Conference of Social Security Actuaries and Statisticians in 1971 indicates that the Social-Economic Council set a limit on the increase in real income that could be earmarked for social security contributions. (21)

Much, probably too much, is expected from the creation of "social indicators," a composite welfare measure that, some hope, may bypass the need to coordinate competing social programs and make simpler the inclusion of sectoral "social" programs in an enlarged national socio-economic plan.

THE SOCIAL BUDGET

In the second part of both the 1970 and the 1971 Social Reports and in the earlier 1968 Social Budget, the Ministry of Labor and Social Affairs presents a comprehensive picture of Government expenditure patterns. The two later reports also give an account of the nation's expenditures (government and nongovernment) for social security—past, present, and future. They are viewed in relation to the Government budgetary financial forecasts and to the national accounts and economic projections. Analyses of the data explore the consistency and compatibility of the expected development with national economic objectives.

Budgets are established annually for the 97 social security funds administering old-age, survivors, and disability insurance, the 1931 health insurance carriers, the 121 social insurance organizations concerned with industrial accidents, the central organization (with a large number of regional and local offices) operating the unemployment compensation scheme, and countless municipalities administering public assistance. Those agencies concerned with long-term risks have for years prepared actuarial forecasts of their expected benefit load and income. Summaries of these statements are published for each type of social security carrier by their respective associations, by the state ministries, and by a number of Federal Government agencies.

The need for the Federal Government to give a comprehensive overview of the social security system and to estimate future expenditures rests on a variety of factors: (a) the responsibility for safe-

guarding compliance with the law administered by a multitude of social security carriers, (b) the need to account for and forecast the total amount of Government contributions, which differ for the various branches of social security programs, and (c) the task of studying the effect on the economy of the expenditure of large national resources for social security purposes. The magnitude and growth of these programs can be assessed by noting that public expenditures for social security are expected to be more than one-fifth of the gross national product by 1975—a rise of more than 30 percent in this ratio since 1955.⁷

The social budgets offer a consolidated picture of social security finances for the current year, give forecasts for the next 5 years, and, for evaluating long-term trends, present comparative data for the past 20 years.⁸ The text summarizes and interprets with the aid of tables and charts the detailed statistical data of the appendix. Forecasts are based upon predictions of economic and financial resources, of wage and cost trends, and of demographic changes established by the Finance Ministry and the Ministry of Economic Affairs.⁹ Unlike what is sometimes claimed in the United States for “systems analysis,” “budgeting by objective,” or the “planning, programming, budgeting system” the German Social Budgets do not contain explicit statements of goals and an analysis of linkages to other Government programs or a discussion of and cost-efficiency estimates of alternative approaches.

The 5-year forecast of social security expenditures is based on three major assumptions: an unchanged law, a given rate of growth of the national economy, and a fixed magnitude of general revenue contribution. Existing law and practice is assumed to prevail in the next 5 years. The assumptions relating to changes in the level of wages and other income as the basis for contributions, as well as to demographic developments and changes in employment that may affect the estimate of future benefits, are determined by the 5-year forecast of the development of the national

economy in the Government's annual economic message. Estimates of the size of the Government contribution for the relevant years is determined by the 5-year forecast of public expenditure in the Government's annual budget message.

ORGANIZATION

The Social Budget is presented in two parts—an agency or “institutional” budget and a “functional” budget.

The agency budget gives primarily the expenditures and requirements of the various Government and semiautonomous agencies, broken down by their existing statutory social security programs. Old-age and disability pensions, for example, are analyzed separately for manual workers, white-collar workers, mine workers, and the civil service.

The functional budget is organized according to the objectives the social policy aims to achieve—the alleviation, for example, of the economic effects of sickness, invalidity, death, unemployment, old age, and large families. This budget differs from the agency budget by its organization, which implies a regrouping of figures if a particular target is served by more than one agency, and by including many nongovernment expenditures, such as social security-related measures taken by industry as well as such indirect state contributions as tax relief.¹⁰

Agency Budget

The agency budget has undergone considerable change in scope since its initiation in 1968. It then presented only those social security expenditures in the classic sense that flow through the public treasuries. Civil service pensions with child benefit supplements, as well as some expenditures for public health (if administered by social security institutions), were added to conform with the list of topics included in the ILO's *Cost of Social Security*, though they were considered by some German authorities as part of remuneration not social security payments.

¹⁰ The idea of including a manpower budget for all social services was abandoned for lack of data.

⁷ See page 78 in the 1971 Report (*Sozial Bericht, 1971*); for an indication of the growth rate, see page 31.

⁸ The French National Social Budget presents only a short-term forecast. (2, 5)

⁹ Similar principles govern most multiyear social security budgets. See Matthijs de Korte (21) on Belgium, Italy, and the Netherlands.

The agency budget in the 1970 Report added further items to the public expenditures based on law and administered by agencies under public law: Restitution payments and other benefits for the victims of political events, natural disasters, and war;¹¹ rent subsidies; assistance to miners; and assistance to youth.

With the data restructured, it presented the following groupings: (1) social insurance (pensions, old-age assistance to farmers, health and maternity insurance, accident insurance, unemployment insurance (including job promotion and vocational training); (2) other social services (children's allowances, assistance to youth, rent subsidy, and public health measures); (3) civil-service benefits (pensions, child benefit supplements, additional voluntary pensions such as those based on collective bargaining agreements; and (4) restitution benefits (provisions for victims of war, resettlement, reparations, assistance for dependents of the armed forces, etc.). Readers of the Report who disagreed with the inclusion of some category were provided with sufficient subtotals to permit the rearrangement of the data, according to their own views.

The 1971 Social Budget abandoned the principle of limiting the agency budget to expenditures made by public institutions and based on the compulsory social security programs and thereby weakened one of the distinctions between this form of presentation and the functional budget. As a matter of fact, the intent was expressed to have the two types of presentations cover identical phenomena in the future.¹² Their difference would lie then solely in the regrouping of data and their purpose. The 1971 agency budget differs from that of preceding years only by the inclusion of the (a) continued wage and salary payments by employers for the first 6 weeks of sickness, after a change in the labor law (equalizing the treatment of manual and white-collar workers to the advantage of the former), (b) the addi-

tional voluntary insurance for certain professions, and (c) subsidies for training and education in connection with unemployment insurance.

The 1971 agency budget also reorganized the data, this time to conform with the model developed by the statistical office of the European Economic Community. This path was taken to facilitate the establishment of a European Social Budget—a course of action accepted by the EEC Council of Labor and Social Affairs Ministers on November 26, 1970, following a German initiative. (22) The agency budget thus distinguishes three main groups: (1) social security (general systems, continued employer wage payments in sickness cases, special systems, statutory civil-service schemes, additional voluntary programs); (2) statutory restitution benefits for victims of political events and natural disasters; and (3) social assistance and services.¹³

The Functional Budget

The functional budget was presented for the first time in the Social Budget for 1969-70. It aimed to give a comprehensive picture of the nation's combined measures to compensate persons immediately affected (and their dependents) for the loss or reduction of income and to assist them with their financial burden in case of sickness, death, old age, unemployment, etc. This type of budget was designed to reveal to what extent all public and private efforts had succeeded and could be expected to succeed in the next 5 years in protecting society against the economic effects of the various contingencies that the social security program attempts to prevent or alleviate. It was further intended to shed some light on the relative contributions of the public and the private sectors to meeting these objectives. Because this budget provides some answers to the question of how piecemeal improvements in individual programs affect the total performance of the system, it enables the legislator and the public at large to judge whether small reforms suffice or whether a fundamental change of the program is called for.

The agency budget up to now has accounted primarily for public expenditures, but the func-

¹¹ The inclusion of restitution benefits in the Social Budget met with some resistance by those who considered them as indemnifications for past losses, rather than social security protection against future contingencies. Some observers used the same line of reasoning against including workmen's compensation benefits in this series. (6d)

¹² This decision may have been affected by the difficulty of allocating social security expenditures to a specific functional category. (6d)

¹³ A fourth category that the European Economic Community uses—"voluntary employer benefits"—was disregarded by the authors of the 1971 Social Report.

tional budget includes payments flowing from the private sector for the same contingencies. The functional budget therefore contains benefits and services paralleling social security benefits that are provided by employers,¹⁴ whether or not they stem from a law, individual employment contracts, or collective-bargaining agreements or from voluntary employer actions. All benefits from these sources are included as long as they are in any way—direct or indirect—affected by Government rules and regulations. Also included are the costs of such tax privileges as exemptions for dependents, the aged, the handicapped, income-splitting, etc. (Future budgets may also include the cost of reduced transport fares and other privileges.)

The functional budget for 1969–70 somewhat arbitrarily solves certain conceptual difficulties that arise unavoidably in any scheme. Excluded from employer benefits are food subsidies, for example, and certain recreation facilities that presumably represent wage supplements. Housing allowances, free housing, expenditures for nurseries, and certain factory medical services are reported. The fact that these expenditures are partly financed by society as a whole is not considered pertinent; the tax effect of the employers' deducting from profit the cost of social security benefits offered to their workers is disregarded. Tax advantages for social security contributions and private insurance premiums are not considered.

The list of items to be included or excluded is clearly experimental. The 1971 functional budget added a new category—vocational training and retraining. Further additions are dependent upon the development of relevant social indicators. (15, 16) Nongovernment expenditures and the reduction in tax income had to be estimated, and the reader is warned against assigning to the estimates the same reliability as to those for public expenditures.

The form of the presentation was based on a precedent established by the European Economic Community in its "social accounts" series (23), which had been the result of intensive consultation with all member Governments between 1964 and 1966. Confronted by the need to compare

social expenditures in the original six member states, where a variety of programs is administered by a multitude of agencies with overlapping jurisdiction, the EEC decided on a functional breakdown in the following categories: (1) sickness; (2) old age, death, survivors; (3) invalidity; (4) handicapped; (5) industrial accidents and occupational disease; (6) unemployment; (7) family aid; (8) victims of war, political events, and natural catastrophes; and (9) miscellaneous.

The first four categories identify persons in the same situation of interrupted or reduced earning capacity. Functions 5, 7, and 8 are intended to indicate the causes for the need, though this distinction appears somewhat tenuous. Double counting (including expenditures for disabled veterans both in the fifth and the eighth categories, for example) was avoided by agreeing to allocate expenditures for borderline cases to a single category.

The EEC statistics cover expenditures by all types of social security systems (general and special, programs covering public employees or the military, whether coverage is compulsory or voluntary), voluntary employer benefits, and public assistance. Conceptually all expenditures from whatever source were to be included, but lack of data prevented the inclusion of private assistance, direct employer benefits, and certain community welfare payments. Limiting the portrayal to current expenditures prevented the inclusion of social investments. Expenditures for public (social) housing, adult (career) education, and subsidy through tax exemptions, deductions, and remissions were left for later inclusion.

The German functional budget of 1969–70 replaced the EEC linear presentation, which has predetermined positions for expenditures that could fall under more than one heading, by a multidimensional matrix.¹⁵

Problems of presentation that resulted from this distinction made further reclassifications necessary, and the final form was a simpler, more

¹⁴ The value of services in kind had to be included, in addition to transfer payments.

¹⁵ The development of the functional budget was also assisted by the deliberations of a working group of the Society for Social Progress in which high-ranking Government experts participated (24, 25) The group suggested a different format based on three groups of population—the active population, those protected by the family, and those depending on income transfers.

usable breakdown with all expenditures summarized under the headings: Age, disability, death, sickness, family, occupation, and education. For each of these categories the matrix has space to enter "interpersonal and intertemporal redistributing benefits" for the immediately affected persons and their dependents and for "preventive, rehabilitative, and reintegrating measures" in the health and employment field.

Comparison With Related Efforts in Other Countries

The functional budget was greeted in Germany and elsewhere as an important innovation. (2, 26, 27) The significance of the new format rests on two major characteristics: (1) the combination of a presentation of total national resources devoted to social security purposes with a 5-year forecast and data for past performance, and (2) because of the all-embracing scope, the opportunity to establish a meaningful relationship between the sum of all social security expenditures and the national accounts.

The United States uses a variety of vehicles to achieve the same ends, but none has as yet been developed that compares in scope and compactness of presentation with the functional budget. A brief analysis of the widely used United Nations pattern of national accounting reveals its limitations in accommodating social security purposes. The conclusion seems to be warranted that the German functional budget concept deserves serious consideration for possible adoption by other countries.

U.S. presentations of public expenditures.—The annual Special Analyses of the United States Government Budget group expenditures by social purpose but show Federal expenditures only. Relative short-term forecasts appear also in multi-year budget presentations. The Special Analyses define the "Federal social programs" in terms of education, manpower, health, income security, reduction in crime, and housing. Under each of these headings, the relevant portion of the agency's budget is identified, and agencies administering programs in more than one of the topics thus appear under various headings. Because of the variety of programs administered by the Social Security Administration, for example, parts of its budget appear under "Federal outlay for income

security programs" and under "Federal outlays for medical and health-related activities."¹⁶ To these direct-expenditure categories, Federal aid to relevant State and local programs, public works, and research and development¹⁷ can be added to portray total Federal efforts.

The Social Security Administration series on "social welfare expenditures" under public programs from its beginning accounted not only for Federal but for all public expenditures. Over the years it has added data on related private sector expenditures. It remains a historical report, however, and offers no forecast. Even with this limitation, it has been generally accepted. The social welfare series includes programs under public law that provide cash benefits or services of direct benefit to individuals and families. Hence, it encompasses direct expenditures of public (Federal, State, local) programs for income maintenance, health, education, public housing, and veterans' programs (community services not of direct benefit to individuals and families are excluded) on a statutory basis and for the existing administrative structure. Administrative expenses, cost of research and development, and capital outlay are included. Organized private social welfare expenditures for health, education, and welfare form part of the series since 1955, medical care and education of military personnel and their dependents since 1958.¹⁸ Public employee retirement programs are included, and international comparisons are thus made possible.

Beginning with 1967-68, the series is adjusted to the presentation design of the unified U.S. budget and provides data on private and public health expenditures. SOCIAL SECURITY BULLETIN articles compare private and public social welfare expenditures for health, education, income maintenance, and welfare.¹⁹ Data for income maintenance and for welfare and other services were separated in 1969 and 1970.

¹⁶ See *Special Analyses 1971*, table L-1, page 173, and table K-15-16, pages 170-171. A comparison of total cash benefits and their ratios to GNP from 1925 to 1967 uses State, local, and private as well as Federal sources (tables L-2 and 3, page 174).

¹⁷ *Ibid.*, pages 231-233, 235, 239-240, 251-253, and 266.

¹⁸ The guiding principles of including or excluding certain outlays can be found in *Social Welfare Expenditures, 1929-66*, Social Security Administration Research Report No. 25, pages 11-16

¹⁹ "Social Welfare Expenditures," *Social Security Bulletin*, December 1968, December 1969, and December 1970.

A series on national health expenditures that reports on public and private health expenditures is also published by the Social Security Administration annually. Both before and after the passage of health insurance for the aged (Medicare) and medical assistance (Medicaid), private health expenditures loomed so large that they could not be disregarded in the national health expenditures series.²⁰

United Nations national accounts.—The fact that the functional Social Budget provides for an opportunity to build social security data into the national accounts system invites a look at the degree to which this end is already achieved in such presentations. It appears that national accounts themselves are not intended to provide a satisfactory answer to the question of how much of the nation's output or income is used for social security purposes, whatever this term denotes in a given country at a specific time.

This point is well illustrated by the national accounts statistics of the United Nations. These series use a narrower concept of social security²¹ than that underlying the German Social Budgets to define the transfer payments appearing in the country and international flow tables.⁽²⁹⁾ Social security expenditures appear under "General government." Pension funds set up for employees of either private enterprises or government are listed under "Households and private nonprofit institutions" in the breakdown of national income by type of organization. In the "Distribution of national income," employers' contributions to social security, together with civilian wages and military pay, form part of the "Compensation of employees." Family allowances not financed directly by the employer are excluded. Total contributions to social security add to the direct taxes on household and private nonprofit institutions; benefits appear under current transfer to households and in the account of general government revenue

and expenditures. Benefits are also treated as transfers from general government in the account of receipts and expenditures of household and private nonprofit institutions. Social security (reserve) funds are listed as part of the general government savings in the table devoted to financing the gross domestic capital formation.

The rationale for the United Nations and the United States national account system uses a three-way frame (enterprises, households, and governments) to analyze the generation of the national product and the disposition of the national income into consumption and savings and capital investment. Such an approach does not lend itself easily to a sufficiently detailed disaggregation of expenditure data and their reordering according to societal goals or specifically for a detailed breakdown of social security payments. The same holds true for various proposals for modernizing the United Nations accounts system and other similar systems.²² (30a) In consequence, some attempts are under way to supplement the national social accounts (based upon product and income) by national welfare (social) indicators to find a yardstick for the quality of life. Such efforts—widespread as they are—are fraught with conceptual and practical difficulties, unlikely to present an integrated and uniform picture. Social indicators for each segment of society's concern for the welfare of its members provide some insight into the development of the respective sector for which they are established but are likely to remain outside a unified system. (31, 32)

Findings

The major purpose of the German Social Budgets was (a) to portray the "Social policy" activities centered in the Ministry of Labor and Social Affairs, (b) to provide the Parliament with answers to some specific questions raised in and outside its halls, and (c) to submit a reliable data base enabling legislators to estimate the economic and financial consequences of a contemplated change in the law. In response to the parliamen-

²⁰ Dorothy P. Rice and Barbara S. Cooper, *Social Security Bulletin*, January 1969, pages 3-20; January 1970, pages 3-20; and January 1971, pages 3-18. See also Dorothy P. Rice and Barbara S. Cooper, "Medical Care Outlays for Aged and Nonaged Persons, 1966-68," *Social Security Bulletin*, September 1968, pages 3-11.

²¹ "Included are unemployment benefits and relief payments, old age pensions, widows' and guardians' allowances, family allowances, accident and injury benefits and grants to private nonprofit institutions which undertake social welfare work." (28)

²² A greater degree of deconsolidation would make it feasible to assign monetary value to the sum of the programs administered by private agencies (30b)

tary charge the Social Reports submit the agency and functional budgets to separate analyses. Some answers could be gleaned from both budgets and yielded similar results as a rule. For others, only one form of the Social Budget, usually the functional budget, was the source.

The principal questions asked were:

Are social security expenditures compatible with or do they endanger the attainment of major national economic goals?

Have or will social security contributions reduced the opportunity of obtaining an increased real wage level to an intolerable degree?

To what extent are social security expenditures—or will they be—a burden upon the general-revenue-financed resources of the Federal Government?

What, if any, shifts have occurred or can be foreseen in the composition of the social security program, both in relation to program content and in terms of measures taken?

What is the relative role of public (direct and indirect) efforts to achieve social security protection?

Economic and financial compatibility.—The answers to the first two questions were predetermined. Compatibility with national economic goals—a specific growth rate, for example, full employment, or price stability—is assured from the beginning through the acceptance of the limitations set by the Federal Government's economic policy as expressed in its economic reports (and forecasts). The same holds true for the impact on Federal financial resources. Here again the social budget accepts in advance the limitations on the growth of Government contributions to social security spelled out in the budget and forecasts thereof.

To assure the legislators of the double compatibility the Social Reports used an index series based upon the interrelationships between social security expenditures and the gross national product.

Concern with the fact that social security expenditures grew faster than the nation's output²³ originally lent the name "social security burden rate" to the customary presentation of social security expenditures as a percentage of GNP. When it became clear that this percentage expressed not

only the burden on the economy but also, in a rough way, the level of social protection, the term "social benefit rate" came into use.

Expenditures for the various programs included in the German Social Budget and in the other two subgroups will indeed rise faster than the GNP and therefore consume a larger portion of the national output in 1975 than in any other preceding year, as the following tabulation shows.

Year	Social security expenditures as percent of GNP		
	Total Social Budget	Under ILO definition of cost of social security ¹	Under German definition of social insurance
1950.....	17 1	18 4	12 8
1955.....	16 4	15 2	12 7
1960.....	17 5	15 8	14 4
1965.....	18 6	16 6	15 6
1969.....	19 7	17 7	17 1
1970.....	19 9	17 1	17 3
1971.....	20 2	17 2	17 5
1975.....	21 5	18 5	18 8

¹ 86 percent of total Social Budget.
Source Adapted from *Social Report 1971*, p. 72.

Between 1960 and 1975 the ratio rises by four percentage points, or nearly 25 percent. This prospect has up to now not affected legislative determination to improve the scope and magnitude of social protection. The slight slowdown in economic expansion during 1971, for example, did not impair progress in the enacting of most of the program changes envisaged in the *Social Report 1971* (part A). For enacting improved benefits, Parliament seemed primarily motivated by short-run favorable economic events and political considerations—such as the rapid growth in pension reserves or the need to cope with rising costs in the sickness insurance field.

Contributions and real wages.—The social budgets for 1968 and 1969–70 (but not that of 1971) were concerned as to whether the deductions from gross wages for the workers' social security contribution and withholding tax would lower take-home pay to such an extent as to arouse wage and salary earners' opposition. Politically significant opposition was expected to arise if these deductions were to cancel real wage gains in a period characterized by a considerable growth of the national income in real terms. The politically tolerable limit would be reached when the incremental rate of payroll deductions

²³ Between 1960 and 1975, the average growth rate for the West German GNP is 8 percent, and that of social security expenditures is 9 percent.

TABLE 1.—Social security receipts: Percentage distribution, by source, selected years, 1950–75

Source of financing	1950	1965	1969	1970	1971	1975	Average annual rate of growth				
							1960–75	1966–70	1969–70	1970–71	1970–75
All sources.....	100 0	100 0	100 0	100 0	100 0	100 0	-----	-----	-----	-----	-----
Contributions											
Insured.....	21 0	23 8	26 4	26 1	25 3	25 5	11 3	11 6	16 2	6 7	7 9
Employers.....	41 9	42 9	44 3	47 2	48 0	47 3	11 0	11 6	25 0	12 2	8 5
Government.....	30 6	28 7	25 5	23 3	23 6	24 1	9 4	5 0	7 0	12 0	9 2
Returns on capital.....	5	2 6	2 4	2 2	2 1	2 4	17 8	5 3	6 7	7 0	11 0
Other.....	6 0	2 0	1 4	1 2	1 0	7	-----	-----	-----	-----	-----

Source: Adapted from *Social Report 1971*, pp 72-73

equaled the incremental rate of wage and salary advances.

Though most of the growth in the deduction rate was attributable to the withholding (wage) tax and the rate of social security contributions remained more or less stable, it was feared that an unfavorable public reaction could affect social security financing policy and in particular hinder the necessary upward adjustment of contribution rates for old age and health insurance. These fears could be laid to rest. Despite the wage deductions, past and expected future wage level changes yield an average annual real net wage increase of 4–5 percent.

In assessing the degree to which the Government social security contributions affect its resources, the 1971 Social Report compares the Government's share in the financing of the program with the contributions of the workers and their employers (table 1). The prospect of a decreasing rate of Government contribution, shown by this comparison, has seemed up to now to have eased the minds of those who fear the drain of the cost of social security on the Federal purse.

Shifts within the social security program.—The Social Budgets are concerned with three types of changes within the national social security program: (1) a shift in the relative significance of the various risks, (2) a change in the proportion of cash benefits to benefits in kind, and (3) a possible shift in emphasis between income maintenance and preventive measures.

The first type of shift is illustrated in table 2, which shows the distribution of social security expenditures in 5-year intervals from 1960 to 1975. The concentration of social security expenditures on the risks of sickness, old age, invalidity, survivorship, and those related to the family remains constant, but considerable changes in the

relative significance of the various programs can be seen. Sickness and old-age pension insurance are clearly increasing in importance, partly because of demographic changes (aging of the population), partly because of the universally observed rise in sickness insurance costs. Declines in the restitution sector (cash benefits and services for veterans and for victims of political persecution, resettlement of refugees within the Republic, support for dependents of members of the armed forces, etc.) are explained by the drop in the number of surviving beneficiaries and in settlements of claims connected with events originating 20 or 30 years ago.

The decrease in the family sector, which comprises maternity benefits and dependents' benefits under sickness, old-age, and unemployment insurance reflects first the rapid rate of increase in the old-age and health sectors, as well as the reduced birth rate and the fact that 60 percent of the family benefits—specifically those resulting from tax relief measures—are distributed among other sectors. The social assistance category declines in importance, as expected in a period of economic expansion, over-full employment, and the maturing of a generous old-age pension system.

The Social Report for 1971 reveals a constant rise in the ratio of expenditures for services to total expenditures for social security. In 1950, cash benefits amounted to 78 percent of the total, and service benefits were 14 percent. By 1975 the proportion going for cash benefits is expected to decline to 74 percent as the ratio for service benefits arises to 20 percent.

Analyses of the data for specific programs show analogous trends that may vary in extent but not often in direction. For pensions the relationship of cash benefits to benefits in kind remains relatively stable. In the health insurance sector, the

TABLE 2.—Social security expenditures by function, selected years, 1960-75

Function	Percentage distribution of social security expenditures			
	1960	1965	1970	1975
Total.....	100 0	100 0	100 0	100 0
Sickness.....	20 8	22 3	25 4	26 8
Disability.....	14 1	12 7	11 0	10 2
Old age.....	19 2	20 5	22 3	24 3
Death (survivors).....	16 4	15 9	15 7	16 1
Employment.....	1 4	1 2	1 7	1 4
Training.....	.3	3	8	1 4
Family.....	18 2	10 9	16 1	13 4
Shelter (rent).....	6	7	9	1 2
Restitution.....	5 3	3 7	2 4	1 8
Other.....	3 7	3 7	3 7	3 5

Source: Social Report 1971, functional budget, p. 200.

for accident prevention, first aid, health services, and recreation for the employed and their dependents.

The tax-relief measures, or indirect public benefits, are more important than the employment-generated private efforts, as the following figures indicate.

Type of benefit	1960	1965	1970	1975
Total.....	100 0	100 0	100 0	100 0
Direct public benefits ("institutional" Social Budget).....	81 2	82 8	84 9	87 4
Additional employment-related benefits.....	4 6	4 2	3 8	3 4
Indirect public benefits (tax relief).....	14 2	13 0	11 3	9 2

Source: Social Report 1971, p. 202.

growth rate for services is estimated to be one and one-half times that for cash benefits.

Somewhat related to the rise in significance of benefits in kind (services) is the gain in relative importance of preventive rehabilitation and reintegrating measures in the health and employment field. These expenditures are expected to rise from 14 percent in 1960 to about 20 percent in 1975, with a corresponding drop in expenditures for income maintenance and restitution from 82 percent to 77 percent.

Relative role of public and private protection.—It has been noted that the 1971 functional budget added two groups of benefits that supplement the "institutional" budget items: (1) indirect public benefits (tax relief) and (2) certain social security benefits arising out of the employment relation but not authorized under the social security legislation.

Some of the tax relief measures that lighten the tax burden for the aged and the disabled, for example, can be viewed as serving the same purpose as direct benefits. For the same reason the functional budget treats as indirect public benefits such measures as exemptions for the aged, the young, and disabled and for victims of war and political persecution; deductions from income tax for training and education; reduction of the income-tax rate for joint returns; similar privileges applied to the tax on wealth; and the exemption of disabled persons from the tax on automobiles.

The major social security benefits generated by employment but resting on law (other than the social security statute), or on contract or voluntary action, are additional voluntary old-age pensions, housing subsidies, family allowances, additional sick pay and maternity benefits, provisions

In addition, the proportion of direct public social security expenditures is seen to be growing as the two other categories decline. In 1960 tax relief represented 14 percent of the combined, direct, and indirect cost of social security borne by the public; it had dropped by 1970 to 9 percent.

OUTLOOK

A reading of the first three Social Budgets reveals a tendency towards increased coverage, an effort to improve the basis of the data, and a gradual rounding out of the presentation. Many elements considered important at the time of the 1968 budget could not then be presented but appear in the later editions. Some gaps persist. Further improvement of the reports' consolidated statistics and their analysis depends on the future development of the basic data furnished and especially on the widening of the scope of the inquiries by the social security carriers.

The Reports—and the functional budgets in particular—have fulfilled one of their main purposes: They provide the legislature with factual information on the historical growth of social security, its status, and its prospective development. They have not, as some expected, dampened legislative zeal for improving and expanding the social security system. (33) Its spontaneous and dynamic growth so far has not been adversely affected by the more ample presentation of the cost considerations upon which the Social Budgets center their attention. Nor has the ex post

facto acceptance of the financial limitations on expenditures set by the national budget reduced the Social Budget to a mere presentation of predetermined expenditures. Data and forecasts of the functional budget are used by the Government agencies concerned as the generally accepted base on which new legislation is built and budget allocations for the current year are negotiated. So far, the Social Budget has not offered any obstacle to Government initiative in the drafting of innovative social security legislation.

The data basis and methodological notes already provided will permit the reader to estimate the cost of proposed changes, but future social budgets may want to present alternative projections, starting from changed assumptions. Conceivably, they may also compare the cost effects of different methods of implementation resulting from cost-benefit or cost-efficiency analyses.

Even in the present form, the Social Reports are too voluminous and technical for the interested lay public. The 1968 Social Budget provided a short summary, which offered, in a readable form and in a few pages, an overview of the longer document. Such a summary could be provided in the future.

To sum up, the functional budget offers a wider vista, in the direction of a more comprehensive national social report—a companion piece to the national economic report. The Social Report in its present form must be maintained to facilitate international comparisons in the European Economic Community and the ILO. The methodology introduced by the functional budgets could, of course, also be used in presenting all actions undertaken by the nation in the interest of its citizens' welfare.

The portrayal and projection of total (public and private) national efforts for social or welfare purposes poses many problems, among them the conceptual difficulty of defining welfare or social policy, as well as the difficulty of measuring or estimating nongovernment expenditures. Theoretical concepts, interesting as they are, have to give way to operational definitions, which in turn differ over time in any one nation, as well as between countries. Once the nation has, however, accepted a wider definition of "social policy" no insurmountable problems remain in the production of a comprehensive account. Starting points for such a wider report exist already in the func-

tional budget with its present entries for health, housing, education, and other purposes and the possibility of expanding to cover the entire field. Efforts to maintain a balance between economic growth and man's environment, to reduce the gap between town and country and the rich and the poor—all would find a place in the wider picture.²⁴

Such an extension of reporting would also benefit the social security program itself. A presentation of this type would provide a basis for a better understanding of the interrelationship of various social security programs—with each other and with related social activities and the economic development of the country. Ultimately, this wider presentation could serve the task of devising a more rational order of priorities among competing demands for programs directed to the betterment of society.

From a close look at the Social Budgets in their present form, it appears that West Germany has evolved a format for the presentation of social security programs—past, present, and future—that is applicable, with few modifications, to developed and developing, market and centrally planned economies alike. It is as useful for domestic legislative and public information purposes as for international comparisons.

American interest in comparing the performance of its own social security system with that of the more advanced of the European countries—the ultimate members of an enlarged European Economic Community—suggests a closer study of the way in which most of these countries will present their systems of social security in the near future.

REFERENCES

- (1) Commission of the European Communities, *Preliminary Guidelines for a Social Policy Program in the Community*, March 17, 1971. (a) p 61; (b) sec. (17)600.
- (2) Richard Draperie, "Le budget social en Allemagne," *Droit Social*, Nov. 1971, pp 66, 74, 77.
- (3) Jacques Doublet, "La sécurité sociale et son évolution, oct 1951–juin 1960," *Revue Française des Affaires Sociales*, April–June 1971, pp 36–37.

²⁴ The development of such an enlarged concept of "social policy" on the European Common Market level is already in process. (1b)

- (4) Sozialenquete-Kommission, *Soziale Sicherung-Sozialenquete in der Bundesrepublik Deutschland, Bericht*, Stuttgart, W. Kohlhammer, 1967.
- (5) Jacques Jean Ribas and Jean Hasse, "Les actions de la Communauté dans le domaine de la Sécurité sociale et le budget social européen," *Droit Social*, Nov. 1971, pp. 92-97.
- (6) Walter Auerbach, *Beitraege zur Sozialpolitik*, Hermann Luchterhand Verlag, 1971: (a) pp. 13, 35-36, 74, 94, 112-113, 116; (b) p. 15; (c) p. 23; and (d), 133-135, 273 ff. And (e) *Sozialpolitik in der Sackgasse*, 1951.
- (7) Albert Delpérée, "Social Security in the European Economic Community," in *Bulletin No. 8 of the International Institute for Labor Studies*, 1971, (a) pp. 33-34; (b) p. 60.
- (8) *RCC* (Revue a l'intention de caisses de compensation . . .), July 1971, pp. 322-323.
- (9) Vladimir Rys, "Social Security and Social Planning in Contemporary Society," in *The Planning of Social Security* (International Social Security Association, Studies and Research, No. 2), 1971. (a) pp. 16-19; (b) pp. 26-30; (c) pp. 47-53
- (10) Ludwig Preller, *Reform der Sozialen Sicherung*, 1952.
- (11) Gaston Rimlinger, *Welfare Policy and Industrialization*, John Wiley and Sons, Inc., 1971. (a) pp. 155-157 (quoting from Gerhard Mackenroth, 1952: *Die Reform der Sozialpolitik durch einen deutschen Sozialplan*); (b) pp. 146-147, 158, 167-175.
- (12) Auerbach, Jahn, and Preller in *Sozialplan fuer Deutschland*, 1957.
- (13) Benjamin Higgins, "Programming Social Security as Part of Economic Development; The Problems of Opportunity Costs," in *The Role of Social Security in Economic Development* (Social Security Administration, Research Report No. 27), pp. 67-82.
- (14) Paul Fisher, "Social Security and Development: Some Issues," *Social Security Bulletin*, June 1967, p. 13.
- (15) Donald V. McGranahan, "Social Planning and Social Security," in *Bulletin No. 7 of the International Institute for Labor Studies*, 1970, pp. 40-54.
- (16) Alfred Christmann, "Sozialplanung," *Bundesarbeitsblatt*, May 1971, p. 310.
- (17) Hans Juergen Kremp, "Sozialpolitik und Planung," *Bundesarbeitsblatt*, May 1971, pp. 598-600.
- (18) Arthur Okun, *Brookings Bulletin*, Sept. 1971, pp. 4-7.
- (19) Albert Delpérée, "Social Security Programming in Belgium," in *The Planning of Social Security* (International Social Security Association, Studies and Research, No. 2), 1971, pp. 108-119.
- (20) Raffaella Baraldi, "Observations on Planning in Italy and Its Relationship with the Country's Social Problems," in *The Planning of Social Security* (International Social Security Association, Studies and Research, No. 2), 1971, pp. 120-134.
- (21) Matthijs de Korte, *A Criterion To Be Applied When Increasing the Social Expenditures*, International Social Security Association, 1971.
- (22) Jacques Jean Ribas, "Introduction," *Droit Social*, Nov. 1971, p. 9.
- (23) Statistical Office of the European Communities, *Les Comptes Sociaux des Pays Membres de la CEE 1967*, No. 5, and *Les Comptes Sociaux . . . 1962-65*, No. 1, 1969.
- (24) "Sozialbudget-Sozialplanung," *Sozialer Fortschritt*, Apr. 1971, pp. 73-87.
- (25) Manfred Schmidt, "Social Sicherung unter der Lupe," *Die Angestelltenversicherung*, May 1971, pp. 171-174.
- (26) Luigi Medungo, "Il Bilancio Sociale della Repubblica Federale di Germania," *Previdenza Sociale*, Jan.-Feb. 1971, pp. 3-17.
- (27) Johannes Brakel, "Das Sozialbudget 1971 der Bundesregierung," *Bundesarbeitsblatt*, May 1971, p. 306.
- (28) United Nations, *A System of National Accounts and Supporting Tables*, Series F, No. 2, Rev. 2, New York, 1961, par. 89, p. 12.
- (29) United Nations, *Yearbook of National Accounts Statistics 1969*, New York, 1970, vols. 1 and 2.
- (30) Nancy and Richard Ruggles, *The Design of Economic Accounts*, National Bureau of Economic Research, (a) chapter 2, pp. 8-37; (b) table 8, p. 93, appendixes A and B.
- (31) Ida C. Merriam, "Welfare and Its Measurement," in *Indicators of Social Change*, Russell Sage Foundation, 1968, pp. 722-784.
- (32) Ralf Zeppernick, "Soziale Indikatoren—ein neuer Maszstab fuer die Wohlfahrt," *Sozialer Fortschritt*, Feb. 1972, pp. 42-45.
- (33) F. Albert Mueller, "Die Alterssicherung im Sozialbudget der Bundesregierung," *Die Angestelltenversicherung*, June 1971, p. 214.