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Market Instead of Regulation (December 16, 1988)

Gert Dahlmann, the director of the Frankfurt Institute for Economic Research, criticizes the Kohl administration's social policy reforms as insufficient insofar as they preserved the structure of the state-regulated welfare system and reinforced people's sense of entitlement. He argues for structural change oriented towards the free market economy.

Blüm Does Not Trust Solidarity
A feasible reorganization of the social security systems has yet to occur

“He who does not reform, ruins.” These are the words of Norbert Blüm, who did, in fact, plan to reform a lot and did “pull through.” The discussion of his changes to the statutory health insurance will be concluded on December 16 in the *Bundesrat*, [his changes] to the pension insurance will likely be passed in the spring. To have faced these two thankless emergency operations speaks well for the coalition and its responsible social minister. But is he really reforming these systems, and is he building them on a feasible foundation capable of withstanding the trials of the future? The answer is no, and the explanation lies in the reform approach itself.

If you put a lever in the wrong position, then all the effort in the world won't help. The same is true for the starting point of thought processes. The present reform attempts cannot seem to find the Archimedean point because they once again misjudge people and their behavior. For regulatory systems that are meant to last, and which include almost the entire population, this error is deadlier than any arithmetic mistake. The fateful automatism of compulsory state insurances that are no longer forced to operate economically, in which costs are collectivized but benefits paid out individually, is sufficiently known: The costs for the collective explode, the effectiveness of the whole thing drops, the damage hits everyone.

The current reform attempts change virtually no part of this unsuccessful basic structure. They strive to achieve even their most modest goals – stability of insurance contributions and two decades of solvency – not through economic incentives, which encourage individual actions that, out of self-interest, would not burden the community, but through further bureaucratic curtailment of the individual's sphere of action. In other words: They trust not in the power of the market, but in “solidarity.” Solidarity? A hundred years ago, when the issue was about giving “the needy classes in the population clearly delimited assistance in certain vicissitudes of life,” “the joint collection of means among the insured” created “solidarity” and “thus a moral impediment against the irresponsible exploitation of social insurance.” But since then, living conditions and values, patterns of orientation and the systems themselves have changed

beyond recognition. Only the principle of “solidarity” has been preserved, although the extent and type of burdens can no longer justify it and it has become synonymous with the exploitation of the insured community through its own members. In reality, therefore, Blüm does not put his trust in solidarity, but in coercion.

Everyone in the know understands that the market, rather than coercion, would be a far more effective means of control, since it allows the people themselves to decide which priorities they want to set in their lives, what they want to pay for which benefits, and how they want to spend their money. On that basis, it would be possible to build up health and old age pension plans that are in keeping with our times – using a feasible combination of the idea of solidarity for the most basic securities and a true insurance principle for everything beyond that. Solid, competition-based suggestions from a broad spectrum of society were made to legislators. Why didn't they pay attention to them?

Mostly because politics has long since forgotten what a coherent social strategy is. Something is considered social if public funds relieve citizens of as many of life's risks as possible and pay them as many benefits as possible. That is a naïve and misleading idea, but it is vigorously fueled by the most diverse groups, who, in odd alliances, want to “pull out” even more for their clientele – and they do this with a preference for demanding a federal subsidy, which, in the end, has to be raised by the beneficiaries themselves. And so for decades, social policy has oscillated (depending on the budget situation at the time) between expansions that are sometimes grotesque and consolidation attempts that are usually futile. The smallest improvement in the economy serves to trigger new desires of the “social politicians,” even if that brings with it totally incalculable burdens on the system, on the people paying their contributions, and on the taxpayers.

Only gradually are citizens starting to realize that paying for all these benefits is costing them more than their money: namely, their freedom of decision, choices, and structural options. This forces them into a situation of “double standards,” in which they complain of high deductions from their pay, but still try to expand their own assets. It is the same with unemployment and environmental damages. So a society plunders itself, and with it the generation to come. But instead of making people responsible for a reasonable way of dealing with the systems that serve their security and offering them some corresponding freedom, Norbert Blüm takes them by the hand. In doing so, he is totally missing his actual task: to reestablish a practicable balance in the relationship between responsibility for oneself and for the community, between market and state.

To be sure, we will be able to live for a while with the regulations that are now crystallizing, albeit anachronistically, and with totally unnecessary losses. Maybe only repairs are “politically” possible at the moment, and not true solutions to the problems. The future will certainly not be won in this way, as it is leaning far more toward a stronger will to independence and creativity – especially in the social sector. If young people develop a greater awareness of the problem, if they realize the extent of their burden and of the decisions being made for them, and if at the same time it becomes obvious that their need for security can be better served with greater responsibility, then they will push for changes. The social minister said in 1988 that “you always have to pay, no matter how you arrange it.” In the face of European freedom of movement and competing systems, his statement might prove to be the greatest deception of all.

Then, at the latest, it will no longer be possible to avoid a reform. The chancellor at least has already hinted that consideration of the issue will have to continue even after the law is passed. He knows: he who reforms without taking into account the people and the times, also ruins.

Source: Gert Dahlmanns, "Blüm setzt nicht auf Solidarität" ["Blüm Does Not Trust Solidarity"], *Frankfurter Allgemeine Zeitung*, December 16, 1988.

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