German government fleeces pensioners and the unemployed

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Just two days after the German parliament agreed on radical cuts in unemployment provision, the German coalition government of the SPD (German Social Democratic Party) and Greens decided new measures on Sunday aimed primarily at the socially disadvantaged. Pensioners in Germany will receive no increase to their pensions in the coming year and will have to pay higher health insurance—measures amounting to a real cut in income for 2004. For the first time in postwar German history, the average pension will be cut by an average of 100 euros per year.

The decision came at the end of a five-hour closed session of the German cabinet and the heads of the parliamentary fractions. The result came as a surprise even to experts in the field. After the Ministry of Social Affairs predicted a deficit in the pensions budget of 8 million euros, it had been generally anticipated that the response would be a slight increase in the contribution rate in order to avoid placing extra burdens on pensioners already suffering hardship. Now, however, these same pensioners are being called upon to resolve a deficit for which they have not the least responsibility.

According to the government, any increase in the rate of contribution would be unacceptable to employers and would jeopardise the aims of the government’s “Agenda 2010” programme, which aims to reduce wage costs. The fact that the majority of pensioners regard a decrease in their pensions as unacceptable does not interest this government in the least.

Elderly citizens have already been hard hit by health reforms recently introduced by the coalition government. Fees for visits to doctors and other costs could rapidly approach three-figure sums for elderly people. With average pensions in Germany amounting to 1,015 euros for men and just 508 euros for women, such increases are simply not tolerable.

In addition to cancelling the proposed increase for 2004, the date for the payment of pensions to the newly retired is to be put back to the end of the month. In effect, this means that for the first month after retiring pensioners will receive no income. Also, the reserve funds held by pension insurance companies will be reduced from 50 to 20 percent. This means that any problem arising from a reduction in contributions could threaten insurers with insolvency. It is anticipated that this measure alone will be used as the justification for further drastic cuts.

Experts reckon that such cuts are inevitable. The measures just decided only cover the immediate deficit that has been revealed in pension funds. The minister for social affairs, Ulla Schmidt, must also save an additional billion this year. The cabinet also agreed that from 2005 a so-called “sustainability factor” should come into effect, which ties the increase in pensions to the number of those in work. In the long term, it is estimated that the average working life will rise from 65 to 67, with drastic cuts planned for anyone seeking to retire earlier.

The parliament had already agreed on the essential elements of “Agenda 2010” last Friday. With the exception of one Green Party deputy, Werner Schulz, the entire parliamentary fractions of the SPD and Greens voted in favour of the package. Six SPD “rebels,” who had originally spoken out against the reforms to labour law and unemployment provisions, changed their position following a number of concessions made by the SPD party leadership.

Schulz, who was active in the people’s rights movement in former East Germany, justified his rejection of the measures with the argument that the new law would do little to alter the high levels of unemployment in Germany. In a devastating comment on his own government and party, he stated: “They are socially inequitable, lead to unfair levels of hardship and will also tend to be unproductive economically.”

The key element of the employment reforms agreed on Friday (“Hartz III” and “Hartz IV”—named after the commissions that developed the proposals) is the combining of social welfare and unemployment payments. This will lead to significant cuts in income for the 2.1 million households and 4.3 million persons affected by the measures. Up until now, unemployed in Germany, following the exhaustion of their unemployment pay after one year, received unemployment assistance amounting to 53 percent of their last net working wage. According to the new measures, they will receive a maximum across-the-board payment of 505 euros (western Germany) and 491 euros (eastern Germany), which after two years will fall to the general level of social welfare payments. Rebates currently available for accommodation and heating costs will also be cut.

An additional measure will tighten up the regulations stipulating the sort of work that can be carried out by the unemployed, forcing them to accept any sort of job even if the payment is less than the level of state assistance and irrespective of qualifications. Theoretically, an unemployed academic can be forced to work at McDonalds. One condition—and this was a concession on the part of the government to the "rebels"—is that the job wage correspond to the appropriate tariff or level of wages appropriate. This means very little, however, because the government has already introduced low-paid, so-called "mini-jobs," which will be included in the new regulations.

The aim of these employment reforms is all too clear. Not only will they save large sums in social welfare payments, they will also set in motion a chain reaction of cheap wage labour. They will remove the last barriers preventing the German labour market from sharing the fate of economies such as those of the US, Great Britain and eastern Europe, where such rules have long been in force.

Parallel to the labour reforms, parliament also agreed on an amnesty for tax dodgers, and to bring forward and implement in the year 2004 the third stage of the tax reform originally agreed in 2000. The central aim of the tax reform is to reduce the top levels of tax in Germany from the current level of 48.5 percent to 42 percent, while the bottom rate will be reduced from 19.9 to 15 percent. The main beneficiaries of these reforms are those with high incomes and large amounts of property.

Bringing forward the tax reform will hit the state budget to the tune of 15 billion euros. The government is seeking to recoup this sum by cuts on allowances to homebuyers and mileage costs to those travelling to their workplace. In addition, the government will be forced to take out new loans and increase its budget debt. When one considers together the measures agreed last Friday and Sunday, then a part of the money being taken out of the pockets of the unemployed and pensioners is being transferred directly to the accounts of the rich and wealthy.

Most of the laws passed on Friday must be ratified by the second chamber of the German parliament (parliamentary council), where the conservative opposition holds the majority. There is little chance, however, of the opposition failing to support the measures—if anything they could well be intensified in the process of mediation.

Another "reform" to the health system initiated by the German government already passed successfully through the parliamentary council on Friday. This will also hit lower-income groups hardest. The measures mark the end of a system based on equal, equitable contributions by employers and workers, and open the way to two-class health care treatment.

On the one hand, the health reform introduces payments for patients for virtually every form of treatment by a doctor. In the future, a fee of up to 10 euros will be applicable for the following medical services: doctors visits per quarter year, daily attendance in a hospital, all prescribed medicines (for non-prescribed medicines the patient is expected to pay the full cost), prescribed medical treatments (e.g., massage). For prescriptions in addition to the 10 euro fixed payment, patients will also be required to pay 10 percent of total costs. Other payments formerly paid—such as funeral payments, glasses and subventions for travel—will no longer be available.

Taken together, these cuts can amount to a significant sum for patients, but because of the substantial bureaucracy involved will do little to alleviate the ailing health budget. The "reform" has primarily the task of serving as a deterrent.

On the other hand, the health reforms will serve to remove large numbers of consumers from the state health insurance scheme. In the future, workers will be required to shoulder the full costs of sick pay and tooth replacement with private health insurance. This strikes a decisive blow at the equitable system of health payments (equally financed by workers and employers) introduced by Chancellor Bismarck in the last quarter of the 19th century.

The aim of the measures is to reduce and stabilise the employer's contribution at around 6 percent, with the increased costs of the health system and other social provisions to be shouldered by working people. It is now just a further step to the proposals of the Herzog Commission, supported by the conservative opposition, which would bring about the complete abolition of both state insurance schemes and the principle of equity in the sphere of the welfare state.