German government, opposition and employers propose drastic pension cuts

Benjamin Harder
21 October 2003

As in other European countries, pension provision in Germany is under attack. Barely a week goes by without new proposals being presented for savings at the expense of the elderly. The German SPD (German Social Democratic Party)-Green Party government has now announced drastic new cuts in pensions.

The government's first priority is to keep the promises it made to big business to stabilise pension contributions at 19.5 percent, and by so doing to lower wage costs. According to government statements, the measures planned will only lead to a "short-term stabilisation"—meaning that more severe cuts are to follow.

A media campaign has been initiated in recent months to support the government's plan, deliberately playing off young people against the elderly—"senior citizens are living at the expense of the young," and so on. Pensioners are depicted as rich and healthy—living like lords at the expense of the state. A statistical examination, however, shows a completely different picture.

The percentage of pensioners receiving relatively large pensions is minimal. In 2002, only 0.6 percent of western German pensioners received a pension in excess of 2,000 euros. In eastern Germany (the former GDR), it was only 0.2 percent. There are no women receiving a pension in excess of 2,000 euros. Only 0.1 percent of western German women receive a pension between 1,800 and 2,000 euros, and in the east there are no women receiving this kind of pension.

Most pensioners live below the poverty line. The average pension in western Germany is only 1,015 euros for men and 508 euros for women. The managing director of the Central Organisation for social welfare, pensioners and surviving dependants, Hans Joachim Friedrich, said that further pension cuts are unacceptable because "60 percent of pensioners only receive minimal pensions."

Statistical figures underline this: in 2002, most German pensioners only received monthly pensions between 900 and 1,200 euros. As the percentage of women working in the east was significantly higher than in the west, the average pension of eastern German women is also higher, with 48 percent of them receiving between 600 and 900 euros. On the other hand, in the west, 40 percent receive pensions less than 300 euros. It is impossible to speak of rich pensioners on the basis of these figures.

The crisis of the budget in general, and pension funds in particular, has interrelated social and political causes. The analysis of such causes by established politicians and academics regards the increasing aging of society to be responsible for the problems of pension funds. In fact, such an analysis merely serves to cover up the government's responsibility for the crisis and passes the costs on to the working class.

In reality, low pensions and empty pension funds are the result of redistribution policies carried out at the expense of the poor by both conservative and social democratic governments over the last 30 years. Revenues to the pension funds have been drastically reduced by a combination of stagnating wages, long-term mass unemployment and the growth of cheap labour jobs. Even more detrimental to state revenues and welfare funds than the present economic crisis are the awards of extensive tax rebates by the SPD-Green government to companies and wealthy individuals.

The short-term measures now planned by the German government will undermine the welfare state even more and increase the impoverishment of both young and elderly people. In detail, the following is planned:

In the middle of October, the government wants to postpone for half a year the annual increase of pensions planned for January 1, 2004. So-called reserve pension funds are to be lowered again. The reserves that were already lowered at the beginning of this year are to be reduced from 50 percent to 30 percent of one monthly expenditure—cuts amounting to 3 billion euros. The reserves are to balance deficits (e.g., in months with lower revenues), so that punctual payment of pensions can be guaranteed.

In addition, the German minister for social affairs, Ulla Schmidt (SPD), announced that new pensioners would only receive their pensions at the end of the month and not at the beginning, as previously. This amounts to an effective deduction of one month's pension.

But this is not the end of the cuts. The minister of finance, Hans Eichel (SPD), wants to save another 2 billion euros in pensions to lower the budget deficit. In this context, a 50 percent increase of payments to national health insurance contributions is being discussed. In the recent reform of the health system, pensioners were also called upon to make increased contributions.

In the meantime, the employers' federation is forcing the pace and demanding that the SPD-Green government carry out more cuts. It cannot be ruled out that the current proposals made by the government will be further tightened before they are passed in the German parliament. The chairman of the employers' federation, Dieter Hundt, explained that the "excellent proposals" made by the government are "unavoidable" but do not go far enough.

Because the trade unions have limited themselves merely to verbal protests, business associations feel encouraged to gut all the remaining social gains of the working class. Hundt declared, "We are only halfway there," and at the same time presented proposals for new cuts.

Hundt also demanded extensive cuts to widows' pensions. The cuts in widows' pensions will mostly affect women, who have no claims for pensions at all or only draw small pensions. The result would be a further increase in poverty for senior citizens. Hundt also demanded a higher deduction for pensioners who take early retirement. Along with government plans to lengthen the average working life, this means enormous pension cuts for anyone going into early retirement. The time period for education and training at school that is taken into consideration for pension payments has already been cut by previous governments. But now Hundt also has his own plans in this regard.

An additional commission appointed by the CDU (Christian Democratic Union) under the chairmanship of former president Roman Herzog has also recently presented its own proposals. The Herzog proposals made last week envisage increasing the average working life from 65 to 67 years and cutting pensions. The new plan proposed by Herzog is to introduce "pensions without reductions" at 63.

Of course, there is a snag: to receive a pension at 63 will only be possible if one has contributed to the pension funds for a total of 45 years, basically making such a pension an illusion. One would have to work from the age of 18 to 63 without pause and pay full contributions to the pension funds for it to take effect. The Herzog commission then suggests that the existing level of pensions remain the same.

But this is not the case. Even if, according to the plans of the Herzog commission, a pensioner would not suffer deductions when going into retirement two years earlier, the pension level is going to be drastically decreased by other cuts—by "demographic factors," amongst others. By 2030 alone, this would reduce "deduction-free pensions" to 37.3 percent of the average before-tax income. If one adds up all the proposed cuts, the deduction is much higher.

The German SPD-Green government, as well as the opposition conservatives and Liberal Party, are in the same boat as the employers' association regarding pensions and other social questions. The chair of the CDU, Angela Merkel, declared war on the social gains of the working class when she presented the results of the Herzog commission, stating: "It is not possible to return to the good old days."