With its state debt ballooning, German government prepares social cuts

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7 May 2009

The parties participating in Germany's grand coalition government—the Social Democratic Party (SPD), the Christian Democratic Union (CDU) and the Christian Social Union (CSU)—are preparing for a series of elections in this "mega-election" year.

The public posture of all of these parties in the forthcoming European election in June and the federal election in September is characterized by deceit and efforts to divert the electorate. The SPD, CDU and CSU are all trying to downplay the true extent of the economic crisis.

The parties hope to appease voters prior to the elections with a handful of campaign promises. The SPD promises a so-called "wage tax bonus" of 300 euros for all those who have no source of income other than their wage and refrain from filing itemized income tax returns. The SPD also proposes a small increase in child allowances.

Following a warning a week ago by pension experts, who noted that the rapidly rising number of workers on short-time and the growth of unemployment were reducing contributions to the pension fund, making pension cutbacks inevitable, Social Minister Olaf Scholz (SPD) told the press that any talk of pension cuts was nonsense. Pensions are safe, he claimed, and even went on to announce a legislative initiative to prevent future pension reductions.

The 20 million pensioners in Germany are a vital source of votes for the governing parties, and the parties have struck a collective agreement that the electorate should be denied any knowledge of the true extent of the pension fund crisis.

At an art exhibition held last weekend to celebrate the 60th anniversary of the establishment of the Federal Republic, German Chancellor Angela Merkel (CDU) airily spoke about the principle of "hope." Merkel declared that it was the older generation after the Second World War who had shown courage, confidence and hope in rebuilding a Germany which had been reduced to ruin. This, she declared, showed that Germans could once again summon the energy to lift themselves out of the economic crisis. Merkel opened the exhibition with the words, "Art is hope."

The CDU has not yet published its election manifesto for the federal election, but leading representatives of the party have promised tax reductions that will benefit "a large majority of the population."

Rarely has an election year begun with such a disingenuous propaganda campaign on the part of the governing parties. While leading political figures are seeking to spread confidence, official crisis committees are working on emergency programs to reorganize the social welfare system against a background of sinking tax revenues and rising expenditures. Drastic social cuts are being prepared in all of the relevant ministries.

The next government, irrespective of which party wins the most votes, will implement drastic cuts in all spheres of social life. The present government is merely seeking to hold out until Election Day. Afterwards, all their promises will be consigned to the rubbish bin.

In its latest edition, the magazine *Der Spiegel* comments: "In light of the biggest international economic crisis since the thirties, the pronouncements of the grand coalition last week resemble a thoughtless mixture of blindness to reality and horse trading."

All of the major economic research institutes have estimated that the German economy will shrink by six per cent in the coming year. Only recently, government representatives, and in particular Finance Minister Peer Steinbrück (SPD), denounced such forecasts as fear-mongering.

For months, Steinbrück claimed that the German economy, with its comparatively large industrial base, was much better placed to weather the effects of the crisis than other economies. Now it is clear that just the opposite is the case.

The dependency of the German economy on exports, particularly in the spheres of engineering and the electrical and chemical industries, is proving to be its Achilles heel. As consumption slumps across the globe, the German economy is proving especially susceptible to the worldwide recession.

In many branches, the decline in orders is greater than the average figures accepted by the government. Just a few days ago, the German Machine and Construction Federation (VDMA) announced that it had registered a strong decline in orders in March, coming on the heels of a fifty percent decline in February.

The decline in production is reflected in a constant increase in short-time working. Last year, the average number of workers on short time was around 102,000. In the current year, a rise of approximately 2 million workers on short time is expected.

In March alone, an additional 700,000 workers were put on short-time working and at the beginning of April the total in Germany topped 1.4 million workers. On two occasions, the government has extended the period of short-time working—first from one year to 18 months, and then to 24 months. It is clear that this measure is only a temporary stopgap that will give way to a wave of mass redundancies.

In many factories, short-time working is already being replaced by job cuts. In April, unemployment rose by about 60,000, according to of the Federal Labor Agency (BA), and since the beginning of the year unemployment has risen by a quarter of a million. Economic research institutes reckon that the total number of unemployed will rise from the current level of 3.5 million to over 5 million in 2010.

Short-time working and rising unemployment have a direct effect on the federal budget in two ways. First, the state receives less income in the form of tax revenues, and second, expenditures for the unemployed and short-time workers increase. (The German state pays a percentage of the wage to those on short-time work).

At the same time, the crisis has led to a drop in per capita income, which is the base level for the calculation of pensions. In order to maintain the present level of pensions, the government would have to massively subsidize the state pension fund.

The economic breakdown and the rise in direct and hidden unemployment have led to gaping holes of billions of euros in all social insurance funds. For the end of this year, experts predict a €50 billion deficit in the unemployment and health insurance funds alone. Because private citizens are no longer able to afford their social insurance contributions, the state will be forced to intervene to cover the deficits.

At the start of this year, the Federal Labor Agency had a surplus of €17 billion. It is now estimated that the agency will require additional funds of €15 to €20 billion by the end of 2010. For 2009 alone, the agency can reckon with an operational deficit of approximately €14 billion, according to one official source. The country’s health insurance funds also predict ballooning deficits estimated at up to €13 billion by the end of 2010.

According to press reports, Treasury experts estimate that shortfalls in revenue for all regional administrative bodies (federal, state and local) will total over €300 billion in the coming three years.

The federal government alone is expected to rack up debts of €50 billion—more than any preceding government. A large portion of the government’s investment in its economic stimulus package and its bank rescue plans are not included in this total. Both have been hidden in subsidiary budgets. For next year, the government is already reckoning with new debt levels totaling up to €80 billion.

Reflecting on this state of affairs, the *Süddeutsche Zeitung* commented in an article entitled “The Third Phase of the Crisis” that there was a strange contradiction between the economic crisis and its perception by the public. Currently, the population has accepted the situation with remarkable calm. Everything has remained peaceful in Germany, but this peace will soon be over, the newspaper predicted.

It wrote: “The crisis will reach its third phase in the coming months. The social security systems will begin to stagger. That will hit people much harder than earlier in the financial and economic crisis.”

When the chairman of the German Trade Union Federation (DGB), Michael Sommer, warned at the end of April of the possibility of “social riots,” he was roundly attacked by the government. It was irresponsible to talk of social conflicts, the chancellor declared in her May Day message.

Despite the fact that the election campaigns have already opened, all of the parliamentary parties are conspiring to ensure that no mention is made of the social and political consequences of the crisis. That has not prevented the government from making preparations for increased social conflict.

The German Intelligence Service (BND) has set up its own special working group to investigate the social consequences of the international crisis. The director of the federal academy for security policy, Kersten Lahl, who has responsibility for the working group told the press recently, “The crisis is developing into the biggest danger to worldwide security.”