Germany: Rapid increase in poverty for pensioners

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The return of widespread poverty for the elderly in Germany is inevitable. In particular, pensioners in East Germany are expected to be confronted with declining pensions. This is the conclusion reached by the German Institute for Economic Research (DIW) in a study published last week.

The report declares that millions of German citizens will be forced under the poverty level by declining pensions. After many years characterized by high levels of unemployment, miserly Hartz IV welfare payments, one-euro jobs and other forms of cheap wage labor, a broad layer of the population is faced with the prospect of living out their retirement in bitter poverty. The sober set of figures put forward by the DIW makes clear how effectively the Social Democratic (SPD)-Green government (1998-2005) and the subsequent grand coalition of conservative parties with the SPD have wrecked the country’s social welfare system.

In East Germany the report states that pensions will drop to an average of around €600 a month or even less, with women receiving an average of less than €500.

The study analyzes the results for future pension payments of political measures introduced by a number of federal governments that have fundamentally changed the nature of the job market in East and West Germany. Over a period of decades a huge cheap wage labor sector has been established in Germany involving millions of workers whose employment contracts contain no, or a vastly reduced, pension entitlement.

This tendency has been intensified by the reduction of pension entitlements as a result of the pension reform laws introduced by the former Chancellor Helmut Kohl (Christian Democratic Union, CDU) and additional legislation introduced by the SPD-Green coalition led by Chancellor Gerhard Schröder (SPD).

The study computes its data based on the year 2005 and the birth years 1937 to 1971, divided into groups of five years, and dealing with all aspects of job market development. In its estimation of the effects of recent pension reforms the study assumes that wages increase annually by an average 1.7 percent.

In fact, according to the figures of the Federal Statistical Office, average gross earnings sank in 2009 by 0.4 percent, for the first decline since the establishment of the Federal Republic of Germany. This drop was due in particular to the rapid increase in short-time working.

Based on the unduly optimistic figure of a 1.7 percent annual increase in wages, the study predicts a relatively small decline in pensions for men in West Germany and a very slight increase for women.

In East Germany, however, both sexes must reckon with a steep decline in their pensions in future. The DIW researchers attribute this tendency to the high level of unemployment that has predominated in East Germany since reunification in 1990. In addition to long-term unemployment, East German workers are more likely to have changed jobs, taken part in occupational training programs and when working received lower wages than the equivalent worker in West Germany.

The study anticipates a dramatic rise in unemployment and a decrease in the number of full-time jobs available in East Germany. This also applies to women and men with higher education. The period of unemployment for the group of East German men born between 1967-1971 with little or limited education is predicted to exceed on average more than nine years.

It should be kept in mind that the DIW study does not take into account the effects of the recent financial crisis and the deepest crisis of the capitalist system since the 1930s. Even prior to the worldwide crisis of 2008 there was already a tendency towards decreased pensions, especially for layers of less qualified workers. The above average high ratio of unemployment, long-term unemployment and lesser qualified workers, particularly amongst young people in East Germany for the past 20 years, has meant that contributions to pension funds have been limited and will be reflected in meager pensions in the years to come.

Elderly East Germans can currently anticipate a pension of between €900 to €1,000, but for those born between 1962 and 1971 this level will sink to approximately €600. In the case of women, pensions will rise for those born between 1947 and 1951 but will then decline steadily.

In one section of their study the authors put forward of an alternative scenario based on a more favorable development of the job market, but then come to the conclusion that such a development would be unable to prevent the long-term decline in pensions. Even the decision by the former grand coalition government (conservative parties and the SPD) to increase the pension age from 65 to 67 will do little to counter this process.

The DIW study concludes: “From a sociopolitical view it must be feared therefore that these job market developments linked to the measures already decided for a long-term lowering of pension levels will lead to an increase of poverty amongst the elderly and increased dependence on social welfare payments.”

Despite the fact that unemployment and long-term unemployment is at record levels among older layers of workers the completely reactionary conclusion of the DIW study is that the working life should be further lengthened until sufficient contributions have been paid in for a pension that falls above the basic level of social welfare payments.