German Chancellor Merz announces massive cuts to social welfare benefits

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Germany's federal government is preparing massive cuts to social welfare benefits, pensions and healthcare starting in the autumn. Chancellor Friedrich Merz made this clear last Friday at his summer press conference. The business pages of the main media outlets are also full of suggestions on how to save billions at the expense of the needy, pensioners, the sick and wage workers.

It is now clear that the Christian Democratic Union/Christian Social Union and Social Democrats (SPD) deliberately omitted the planned social cuts from their coalition agreement and delegated them to expert commissions in order to first push through the massive increase in military spending. They apparently anticipated tremendous resistance if they had announced a huge increase in rearmament spending and social cuts at the same time. But now, as Merz made clear, there is no more time to lose. Workers and the most socially vulnerable are to pay the costs of rearmament and war.

"The population must know that we all have to make greater efforts for old-age care, healthcare, and long-term care," said the chancellor at the summer press conference. "We confront a huge socio-political challenge."

While it was originally stated that experts would work out proposals for "reforming" social insurance provision by the middle of the legislative period in spring 2027, Merz is now pushing for faster action. "We don't have that much time," he urged. "What we haven't decided by the middle of the legislative period will no longer be possible in the second half. We have to solve the problems faster than we currently think we can."

Reports on the growing deficits of the social insurance providers make it clear how much money is at stake. The spread of low wages, collective agreements below the inflation rate, and so-called "non-insurance benefits," which have been imposed on the social insurers without the provision of corresponding revenues to fund them, are causing their income and expenditures to diverge further and further.

The deficit of the statutory health insurance providers rose from €1.9 billion in 2023 to €6.2 billion in 2024 and €4.5 billion in the first quarter of 2025. Estimates for the whole of 2025 put the deficit at between €10 billion and €27 billion. Due to high inflation, health insurance fund expenditures are rising much faster this year, at 6.8 percent, than revenues, which are based on the wages of insured persons and will only increase by 3.7 percent.

As a result, statutory health insurers have increased the additional contribution, half of which is paid by employers and half by employees, from an average of 1.7 percent of earnings last year to 2.5 percent (in some cases even more than 4 percent) this year. A considerable portion of the meager wage increases agreed upon by the unions is thus eaten up by the increased additional contribution alone.

There is also a big hole in the statutory pension insurance system. After several positive years, the deficit amounted to €2 billion in 2024, and this year it is expected to reach €7 billion. The reserves will be depleted by 2027 at the latest.

The federal government is determined to pass these deficits on to the insured through lower benefits and higher contributions. It has categorically rejected an increase in state subsidies, which already fall far short of covering "non-insurance benefits." Because government debt will rise from €2.7 trillion to €3.7 trillion in the coming years solely due to additional war loans, it has ruled out any increase in social spending.

Pensions have been declining for years because, despite regular nominal increases, they are subject to additional taxes. Until 2004, pensions were only taxed at a low rate. Since then, the portion subject to income tax has been gradually increasing and will reach 100 percent in 2040. At that point, there will no longer be any tax-free pensions.

Pensioners also pay compulsory contributions to health and long-term care insurance. Since its introduction 30 years ago, the contribution to long-term care insurance has risen from 1 percent to 3.6 percent (4.2 percent for childless people). This year, a one-time flat-rate contribution of 4.8 percent will be levied, which will eat up half of the 3.74 percent pension increase.

As a result, more than half of all pensioners, a total of more than 10 million, receive a pension of less than €1,100 per month, which is below the official poverty line. One in five residents of Germany over the age of 65 is now considered at risk of poverty. Nevertheless, the next round of cuts is imminent.

At the same time, the citizens' income benefit, which is available to people with no or low incomes, is at the top of the government's list of cuts. It is to be downgraded to a "basic security" payment before the end of this year. The €40 billion spent on regular payments, housing and heating in 2024 will be drastically cut.

Meanwhile, the most absurd scenarios for solving the social insurance crisis are circulating. Marcel Fratzscher, president of the German Institute for Economic Research (DIW), which is close to the SPD, has proposed the introduction of a "baby boomer solidarity surcharge." Pensioners who earned slightly more and who followed the advice of politicians and paid into an additional private pension scheme would give up part of their income to supplement the pensions of those who could not afford such additional provision.

The rich and super-rich, whose assets and incomes have exploded in recent years and who do not contribute a cent to the statutory insurance funds, often not even paying taxes, are not being prosecuted. There are now 249 billionaires and 1.6 million millionaires in Germany (not including owner-occupied properties) with total assets of €5.4 trillion.

Society simply can no longer afford these super-rich, and the billions spent on war and armaments. They must be expropriated, and society must be reorganized on a socialist basis, according to the needs of the majority rather than the profit interests of the rich.

Bourgeois commentators are certain that fierce class struggles are imminent. The *Frankfurter Allgemeine Zeitung* carried the headline: "Now it's going to be expensive for all of us," and the *Süddeutsche Zeitung* declared: "Friedrich Merz must take money from all citizens."

Under the headline "The last summer before the great distribution struggle," *Wirtschaftswoche* drew a long arc from Friedrich Engels' 1845 work *The Condition of the Working Class in England* to Emile Zola's novel *Germinal*, which depicts the misery and struggles of French miners, and Thomas Piketty's analyses of today's "wealth gaps between rich and poor." Piketty concludes "that we are now dealing with a new class society that is divided into a (small) property-owning class of the wealthy, rentiers, and heirs on the one hand, and a (large) working class of service providers on the other."

Wirtschaftswoche proceeds to give Merz advice on how he can best master "the great redistribution struggle of the coming years." But this struggle cannot be mastered. Capitalist society is bankrupt. The ruling class is responding to this with war, class war and dictatorship. That is the reason for Donald Trump's rise in the US. In Germany, Merz and Klingbeil are moving in the same direction.

Workers must prepare for the inevitable class conflicts by breaking with the SPD and its accomplices in the trade unions and the Left Party, and building their own party, the Socialist Equality Party and the International Committee of the Fourth International.