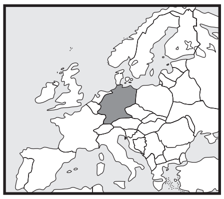
# GERMANY

# Before the storm: social impacts of the financial crisis



The German Government's crisis management strategy does not include social or indeed ecological goals. Its stimulus packages and tax cuts are socially inequitable; layoffs and the rise in part-time workers are revealing the ugly face of deregulation. Although German ODA has increased and commitments for the Least Developed Countries (LDCs) in 2009 are higher than ever before, they are still insufficient. Declarations of Chancellor Angela Merkel may promise a new approach in international relations, but in practice, the Government's crisis management policies have been focused on the G20.

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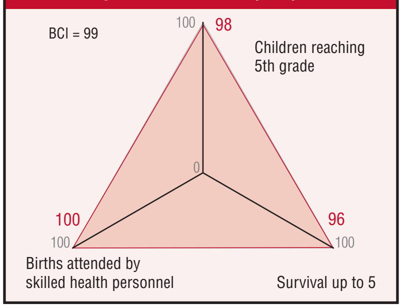
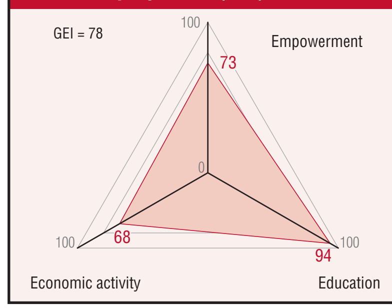
### Basic Capabilities Index (BCI)




### Gender Equity Index (GEI)




The last three years were marked by a reduction in unemployment but stagnating real wages.[1] However, it is becoming increasingly apparent that, contrary to the Government's claims, its deregulation of the labour market did not spur the growth in employment; the credit should go to the healthy economy. Now that the (credit-financed) boom is ending, the ugly face of deregulation is being revealed. Unemployment is climbing. Informal jobs have been the first to go: Annelie Buntenbach, a member of the Federal Executive Board of the German Trade Union Confederation (DGB, in German), estimates that by the end of January 2009, roughly 120,000 temporary workers had already been dismissed.[2]

Official jobless figures are also rising, though not yet alarmingly. According to the Federal Employment Agency, in January 2009 unemployment was actually down 170,000 from a year earlier. Nonetheless, the seasonally adjusted unemployment rate was moving higher, while the number of reported vacancies was plunging.[3] Frank-Jürgen Weise, head of the agency, is worried that the number of jobless could climb from the current 3.4 million to almost 4 million before the end of 2009.

The real surge, however, has occurred in part-time work. In February 2009 alone, more than 16,900 companies applied to put 700,000 workers on part time for economic reasons; that was 648,800 more than a year earlier. The employees affected are only paid for the hours they work, but they also get a state-subsidized part-time-work supplement for a specified period—recently extended to 18 months. They thus receive two-thirds of their normal income without losing their jobs, at least at first.[4] Despite these subsidies, it is already clear that the economic and financial crisis will damage the social welfare of several million people.

## Government response

Government measures to ease the crisis include the following:

- EUR 480 billion earmarked for a special Financial Markets Stabilization Fund, to bail out troubled banks. An additional EUR 80 billion is available for recapitalization and absorbing toxic assets.
- EUR 100 billion for liquidity guarantees and credit facilities/loans for industry, with a strong focus on the car industry.
- EUR 11 billion for a first stimulus package (*Konjunkturpaket I*), which offers tax breaks and provides funding for infrastructure projects, with a focus on transport.
- EUR 50 billion for a second stimulus package (*Konjunkturpaket II*). In addition to a one-time extra child benefit, known as the *Kinderbonus,* and investments in infrastructure, this package includes tax cuts and a "scrapping premium" that gives Germans who buy a new car an extra EUR 2,500 for their old one.

Figures on economic stimulus allocations from the ministries concerned are in some cases far higher than those stated above. For example, in November 2008 the Ministry of Economics and Technology and the Ministry of Finance announced that the first economic stimulus package would cost a total of EUR 32 billion through 2010. However, the Government is pouring 9-10 times more cash into private debt (the "bailout") than it is spending to promote economic activity. As these packages also include tax breaks, investments that have a direct effect on the economy are likely to be relatively small. Indeed, according to some calculations, the second stimulus package is likely to provide only EUR 9 billion per year in extra investment[5]—certainly not enough to break the public investment bottleneck. Just to match the European average, Germany would have to spend an additional EUR 25 billion – and the emphasis on road-building projects, the "scrapping premium" for cars and the renovation of military barracks hardly inspires confidence.

Not only will tax cuts undermine impact of the stimulus programmes; they are also socially inequitable, as the following examples indicate:

- According to calculations by the DGB, municipalities are supposed to receive EUR 11.51 billion from the two economic stimulus packages. However, tax cuts implemented at the same time will reduce municipal budgets by EUR 6 billion. "Ultimately, not even half the amount pledged will be available (...) It's debatable whether this can actually save jobs", says the DGB.[6]
- The tax cuts for households are structured in a way that is socially inequitable. Earners with annual incomes up to EUR 10,000 will receive tax cuts totalling EUR 0.15 billion, whereas those with annual incomes above EUR 53,000 will get nearly 10 times as much. As one analysis concluded, "Other than raising the subsistence level for children from low-income families with the *kinderbonus* (...), no other measures are included."[7]

This depressing trend will be reinforced by the "debt brake" unveiled to the German Bundestag, which is intended to limit annual net borrowing

1 Social Watch Germany has decided to focus this year's report on economic policy responses to the systemic crisis as this is where the social impact is most evident in Germany.

2 See: <www.welt.de/wirtschaft/article3146760/Schon-bis-zu-120-000-Leiharbeiter-entlassen.html>.

3 See: <www.arbeitsagentur.de/zentraler-Content/Pressemeldungen/2009/Presse_09_007>.

4 See: <www.arbeitsagentur.de/zentraler-Content/Veroeffentlichungen/Merkblatt-Sammlung/MB-08b-Kurzarbeitergeld-AN.pdf>.

5 *Junge Welt*. See: <www.jungewelt.de/2009/02-07/023.php>.

6 See: <www.dgb.de/themen/themen_a_z/abisz_doks/k/klartext05_2009.pdf/view?showdesc=1>.

7 *Junge Welt*, *op.cit.*

to 0.35% of gross national income (GNI).[8] Critics expect that austerity policies being pursued in the social sector will continue unabated in the wake of the massive bank bailout. Hendrik Auhagen, a member of ATTAC Germany's Coordinating Council, has warned that "public debt to serve the interests of the banks and corporations, tax cuts for the affluent, plus a debt brake in future all set the course for a further dismantling of the welfare state (...) and for mass poverty and rising crime".[9]

## Development policy

German ODA increased to USD 13.91 billion in 2008, up from USD 9 billion in 2007. In absolute terms, this makes Germany the world's second largest donor of ODA. However, if ODA is measured as a share of Gross National Product (GNP), its ratio of 0.38% gives it a rank of 14th amongst the lead donor nations. It is also noteworthy that in 2008 around one-fifth of German ODA consisted of debt relief.[10] The 2009 ODA budget, however, contains some good news: commitments for less developed countries (LDCs) are higher than ever before, at EUR 827 million (USD 1.09 billion); they make up more than half of country's total aid commitments.

As part of the second economic stimulus package, the Government made an extra-budgetary allocation of EUR 100 million (USD 132 million) to the Federal Ministry for Economic Cooperation and Development in order to 'support' World Bank infrastructure projects.[11] The Association of German Development Non-Governmental Organizations (VENRO, in German) applauded this as a step in the right direction, but characterized this "economic stimulus package for developing countries" as inadequate: "The poorest of the poor are being fobbed off with charity despite being hardest hit by the impacts of the crisis", objected Claudia Warning, chairperson of the VENRO Board.[12] Development Minister Heidemarie Wieczorek-Zeul maintains that "the financial plan for the period 2008-2012 includes further measures to stimulate growth",[13] but the prospects for fulfilling this pledge appear poor. To reach the European Union target of development spending equal to 0.51% of GNP by 2010, Germany would have to increase its ODA to EUR 13.1 billion (USD 17.33 billion).[14]

## A new approach in international relations?

German Chancellor Angela Merkel raised some eyebrows with her recent proposal to create a UN World Economic Council. "The G20 is a step forward, of course, but it certainly does not represent a complete picture of the world", she declared at a Christian Democratic Union party conference in December 2008. "I am firmly convinced that we need a world economic council to deal with economic issues, just as we have (...) the UN Security Council."[15] Chancellor Merkel followed this up at the G20 financial summit in February 2009 by calling for a global "charter for sustainable economic governance" that would establish principles for a future world financial architecture.[16]

How serious the Chancellor is about these initiatives remains to be seen. So far, the Government's crisis management policies have remained firmly focused on the G20. ■

8 See: <de.wikipedia.org/wiki/Schuldenbremse_(Deutschland)>. Accessed on 27 February 2009.

9 See: <www.attac.de/aktuell/presse/detailsicht/datum/2009/02/13/schuldenbremse-steuersenkungen-demontage-des-sozialstaats/?cHash=fe6adf2d10>.

10 See: <www.oecd.org/dataoecd/48/34/42459170.pdf>.

11 Regierungserklärung zum Stand der Millenniumsentwicklungsziele 2015 und zu den Auswirkungen der Finanz- und Wirtschaftskrise auf die Entwicklungsländer [Government Statement on the Status of the Millennium Development Goals 2015 and the Impacts of the Financial and Economic Crisis on the Developing Countries], 29 January 2009. Available from: <www.bmz.de/de/zentrales_downloadarchiv/Presse/20090129_Regierungserklaerung.pdf>.

12 See: <www.venro.org/404.html>.

13 See: <www.bmz.de/de/zahlen/deutscherbeitrag/index.html>. Accessed on 27 February 2009.

14 See: <www.tdh.de/content/materialen/download/download_wrapper.php?id=294>.

15 See: <www.stuttgart08.cdu.de/wp-content/uploads/2008/12/081201-rede-merkel-stbericht.pdf>.

16 See: <www.netzeitung.de/wirtschaft/wirtschaftspolitik/1282337.html>.