

Germany's public pensions In the wrong direction

The government is reversing some of its predecessor's sensible pension reforms

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AS THE country with the European Union's fastest-ageing population, Germany has repeatedly tweaked its pension system to avert a slow-motion demographic disaster. The biggest reform came during Angela Merkel's first term as chancellor. Then, as now, her centre-right Christian Democrats were yoked with the centre-left Social Democrats in a "grand coalition". In 2007 the coalition decided that the normal retirement age should gradually rise from 65 to 67.

Mrs Merkel has since preached similar demographic and economic sanity to most of her EU partners, criticising France in particular for straying off the right path. So it comes as something of a shock that Mrs Merkel, now in her third term and running another grand coalition, is reversing course. On the campaign trail for last September's election, she promised to raise pensions for older mothers. The Social Democrats countered with promises to let certain workers retire at 63 instead of 65 (not to mention 67). As coalition partners, they will do both at once.

It falls to Andrea Nahles, the labour minister and a Social Democrat who likes to wave the banner of "social justice", to push the pension package through parliament by the summer so that it can take effect on July 1st. A previous reform let women with children born after 1992 treat three of their stay-at-home maternity years as if they had worked and paid full pension contributions. The new "mother pension" will be for the 8m-9m women (and very few men) who took time off for children before 1992. They will be allowed to count two of those years, instead of just one, as working years for pension purposes.

The second part of Mrs Nahles's reforms, retirement at 63, is aimed at people who have contributed to the pension system for at least 45 years. But Mrs Nahles wants to count not only years spent working or caring for children or other family members but also periods of short-term unemployment. Separately, she will also boost the pensions of people who cannot work due to disability, and spend more money to rehabilitate them.

Individually, these proposals may seem noble-minded. But as a package, the plan is “short-sighted and one-sided,” thinks Axel Börsch-Supan, a pension adviser at the Munich Centre for the Economics of Ageing. It benefits the older generation, which is already well looked after, at the expense of younger people who will have to pay higher contributions or taxes.



Nahles presents her gifts

“The financial and psychological costs of the pension at 63 are disastrous,” Mr Börsch-Supan says. There will no longer be any incentive to keep working longer. In some cases, people may, in effect, retire at 61, register as unemployed for two years, and then draw their full pensions.

Criticism of the pension changes straddles German politics. Social Democrats who were involved in previous reforms, such as Franz Müntefering, a former party boss, are against. So are members of the business-friendly wing of Mrs Merkel’s own party. Employers are opposed, because they face labour shortages and are trying to persuade older workers to stay in their jobs longer, not leave sooner. Even the churches are critical, on the grounds that the plan violates “generational justice”. Germany’s EU partners are especially upset. Olli Rehn, the European economics commissioner, has said that the commission may even sue Germany if it goes ahead with the plans.

It is not only the details of the measures that are disturbing but also the overall signal they send, argues Thomas Straubhaar, director of the Hamburg Institute of International Economics. Germany’s “sandwich generation”—those in their 30s and 40s who must pay ever more to support their elders and will get ever less in their own old age—will sulk and might even emigrate. The pension package, he says, is testimony only to “the power of the grey hairs”, as the grand coalition cynically doles out political gifts to a few favoured groups of voters.

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