

Debate report
 “Die große Koalition ist mit dem Rentenpaket auf dem falschen Weg.”
 2 July 2014

Germany is an ageing, shrinking society. According to the Federal Statistics Office, the “population pyramid” will change dramatically in the coming decades:



Over the same period the overall population is forecast to shrink from around 82 million to around 65 million. And crucially: in 2060, 32.6 million people of working age will need to support 22 million over-65s - or fewer than 1.5 workers per pensioner. Today, the ratio is just under 3:1.

Awareness of this looming demographic crisis is not new. The SPD-led government of Gerhard Schröder moved to raise the retirement age to 67. And Germany has been pushing its eurozone neighbours to enact similar reforms in the light of the debt crisis.

But now the Grand Coalition of CDU/CSU and SPD has pushed through a reform that goes in the opposite direction. The “Rentenpaket” will make it easier for some workers to retire early, at the age of 63, as well as extending benefits accruing to mothers for years spent occupied with childcare. The reform has the flavour of horse-trading: the provisions for early retirement come from the SPD, the “mothers’ pension” comes from the CDU/CSU, and neither side is very keen on the other’s part of the bargain. The projected costs are enormous: over €160 bn by the year 2030, according to the government’s own estimates. And yet the reform sailed through parliament, coasting on the coalition’s huge majority.

Has Germany just taken an unthinking and hugely costly step in the wrong direction? Or is the reform simply doing justice to workers and parents who have made their contribution to society? We decided to tackle these questions with our second Berlin Debate in partnership with the European Commission Berlin, under the motion:

“Die große Koalition ist mit dem Rentenpaket auf dem falschen Weg.”
 (“The Grand Coalition is on the wrong track with its pensions reform.”)

Proposing the motion was Marcel Fratzscher, President of the German Institute for Economic Research. Opposing was Hans-Jürgen Urban, Executive Board Member of IG Metall. The debate attracted a richly varied audience, with ages ranging from 18 to over 70 and representation from the full spectrum of political opinion from the Young Liberals all the way to the communist publication RotFuchs.

Opening the debate, Fratzscher's arguments focussed on the cost of the reform - both in absolute terms and as an opportunity cost that would likely prevent Germany from investing in essential infrastructure.

Urban countered that the reform's costs shouldn't be seen purely as outlays, rather as a redistribution that, by benefitting those at the lower end of the incomes scale, will circulate through the economy with a high "multiplier" and thereby help boost demand, long seen as weak in Germany.

Fratzscher responded that by improving benefits to those already "inside" the system, the reform fails to help the most vulnerable in society. He went on to argue that the added burden on the economy would blunt Germany's lauded competitiveness, hard-won since the Schröder reforms.

Opening his case against the motion, Urban underlined his argument that the reform did not represent a pure cost: that the benefits would flow through the economy in the shape of higher consumption. He rejected Fratzscher's argument on competitiveness, arguing that Germany's best route to competitiveness was through quality and productivity, not through cost-cutting.

Urban here added a European perspective, saying that a slight increase in labour costs in Germany would help bridge the competitiveness gap with eurozone partners that has played a role in the debt crisis. Fratzscher countered with a reminder that Germany was seen 10 years ago as the "sick man" of Europe, and should not risk a return to that status.

Urban continued by arguing that the cost in particular of the early retirement component of the reform was quite manageable. He added that it was a fallacy to imagine that raising the retirement age automatically extends people's working lives: many workers leave employment before the pensionable age for a variety of reasons, and struggle to plug the gap. Here he supported efforts to develop "flexi-pensions" that allow a more staggered entry into retirement. But he stressed that only those who wish - and are able - to work beyond 65 should have to.

In the rebuttal round, Fratzscher returned to his view of the reform as creating an opportunity cost - that Germany needed a better trade-off between supply and demand-side policies. He reiterated that he saw infrastructure investment as much the better and more sustainable use of the state's resources, rather than a reform that would merely boost consumption.

Urban picked up on Fratzscher's support for the wider use of private pensions. He argued that such pensions, dependent on the capital markets, are far less dependable than the public system - and that the latter must remain the primary system for the vast majority of German citizens.

There followed a very lively floor debate, with contributions from young and old that in many cases were based on the perspectives of different generations. Older members of the floor told of

malpractice by employers cutting their (largely manual) workers adrift as they become more expensive and less productive over the age of 55 - stressing that the very business lobby that opposes early retirement is also reluctant to employ older workers. Younger speakers voiced concern over Germany's €2 tn public debt - a burden they saw as falling on their shoulders.

Here Urban made the argument against austerity - saying that countries cannot save their way out of debt, rather they have to grow. He agreed with Fratzscher that Germany urgently needs to invest in its public infrastructure. But he said this need not be a trade-off against the pension reform - that Germany should do both.

In summing up, Fratzscher said he did not begrudge those who will benefit from the reform. But he warned that Germany risked overburdening its economy - saying it is fundamentally not nearly as strong as it is perceived to be. And he returned to his central argument that the reform represents the lesser use of the state's resources: that the focus should be on investment, not consumption.

In his summing-up, Urban returned to the reform itself and the benefits it will bring to those who need them - highlighting the improvements for those facing incapacity in particular. And he argued that the costs are manageable - particularly given his point that they will help stimulate demand in the economy.

Finally the floor voted on the motion, with the following result:

For the motion:	43%
Against the motion:	34%
Abstentions:	23%

Thus a plurality of those present rejected the Grand Coalition's reform - a measure that faced no such opposition in the Bundestag. We hope that our audience will follow the effects of the reform in the years to come with interest and greater understanding of the many issues it raises.