

## Questionnaire

***For all questions, if available, please provide relevant assessments, baseline studies, programme outlines, programme evaluations etc.***

### **Post-crisis adjustment and fiscal consolidation processes (2010 onwards)**

1. Has your country adopted, or does it expect to adopt, contractionary fiscal policy in the aftermath of the global economic crisis?

Germany will implement fiscal consolidation measures from 2011 onwards. The new constitutional budget rule will help to restore confidence in public finances. In structural terms, the Central Government and the *Länder* will have to balance their budgets in the future. (For the Central Government, this principle is met if the structural deficit does not exceed 0.35 % of GDP. For the federal states it means a zero structural deficit.)

The new budget rule will apply for the first time in the fiscal year 2011. However, one has to take into account the enormous deterioration of public finances due to the crises and the need to avoid an overambitious “pro-cyclical” consolidation path. Therefore, a transitional arrangement applies for the Central Government until 2015 (2019 for the *Länder*). By then, the structural deficit must be reduced in annual steps until a balanced budget is reached. This implies structural consolidation efforts of roughly 0.3 % per year.

To meet the requirements of the budget rule the federal government has presented an ambitious consolidation package together with the draft of the 2011 budget and the fiscal plan to 2014. The consolidation package amounts to approx. 80 billion Euros in the years 2011 to 2014. As strong potential growth is a prerequisite for sustainable public finances, these consolidation measures are designed as growth friendly as possible: they focus on the expenditure side, they explicitly exclude education and research, and they strengthen incentives for labour supply.

2. What percentage, if any, of expenditure reductions are being or will be directed at social expenditures, including education, health, social security, housing, water and sanitation?

Given the enormous consolidation needs, in principle, all areas of society will have to contribute to fiscal consolidation (except education and research, see above). As social expenditures account for more than 50 % of the Federal German Budget, successful fiscal consolidation cannot exclude social spending. The consolidation package envisages a reduction in social expenditures of roughly 30 billion Euros until 2014 which approx. equals 35 % of the total volume of consolidation measures. These cuts in social spending mainly comprise labour market related spending.

3. Please describe all actual or proposed reductions in expenditure on specific social protection programmes, including any reduction of **benefits** or **number of beneficiaries**.

With regard to labour market policies, savings have been made in a socially just way. Supported by the improving economic data, especially active labour market policies will be brought down gradually to a level as it existed before the exceptional economic and financial crisis and will thus be consolidated. The labour market policy scope for action will at any rate be preserved.

**Savings decisions of the Government coalition in the field of labour market policy and the assumed medium-term financial planning upon which they are based:**

**a) Savings at the level of the Federal Government**

As regards the administrative costs and integration benefits under the basic security benefits for job seekers scheme, savings will result in particular from increased scopes for action and improved framework conditions for the Federal Employment Agency which are meant to make better targeted support possible.

In the context of the reform of labour market policy instruments which will be implemented in 2011, it will also be considered whether mandatory benefits may be transformed into discretionary benefits. What is more relevant to making the savings, however, is the improved situation on the labour market and the resulting increase in the demand for labour.

<b>Administration and integration budget of Book Two of the Social Code (in million €)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Old fiscal plan (spring 2009)	10.000	10.000	10.000	---
Closed-door Cabinet meeting	-500	-1.500	-2.000	-2.000
New application made by the German Labour Ministry	9.500	8.500	8.000	8.000

In the field of **passive benefits under the basic security benefits for job seekers scheme**, the share of structural savings is comparatively higher. They result from the following:

- abolition of the temporary supplement to unemployment benefits.
- cancellation of pension insurance contribution payments for recipients of unemployment benefits II.
- reckoning of parental allowances against the passive benefits paid under the basic security benefits for job seekers scheme.
- improved efficiency and revival of the labour market in the area covered by Book Two of the Social Code.

<b>Expenditures for UB II (in million €)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Old fiscal plan (spring 2009)	26.200	26.100	25.900	---
- abolition of temporary supplement	-200	-200	-200	-200
- cancellation of pension insurance contributions	-1.800	-1.800	-1.800	-1.800
- reckoning of parental allowances *	-450	-450	-440	-420
- efficiency gains	0	0	-1.500	-3.000
total: sum of UB II savings	-2.450	-2.450	-3.940	-5.420

\*) A possible special regulation for persons who receive a top-up on income from work, which would reduce the savings, has not yet been taken into account.

**Reasons** for the structural changes in the field of passive benefits:

The **temporary supplement** under section 24 of Book Two of the Social Code is no needs-based benefit and it does not fit into a scheme providing basic security benefits. It was meant to compensate for the shortening of the period of entitlement to unemployment benefits. Due to the extension of the period of entitlement to 24 months for persons with a long insurance record, the temporary supplement is no longer needed.

The current **payment of pension insurance contributions** on the grounds of a receipt of unemployment benefits II is not in line with the nature of this welfare benefit. The basic security benefits scheme for employable persons in need (unemployment benefits II) provides welfare benefits financed from taxes, and its purpose is to help these persons overcome a need for help

which exists at the moment. It is not the task of unemployment benefits II to improve their old-age security which is still uncertain at the time when they receive unemployment benefits II.

Currently, recipients of unemployment benefits II acquire only very low additional pension rights on the basis of periods of benefit receipt (2.09 € monthly pension for one year of receipt of unemployment benefits II). In future, periods of unemployment of persons in receipt of unemployment benefits II will as a rule be taken into account as so-called non-valued credited periods. This is the procedure which is applied to unemployed persons without benefit receipt already today.

For those who were in receipt of unemployment benefits II only temporarily during their working life, this change will lead to only slightly lower pension rights in old age. To a very large extent, they will be sufficiently covered in old age on the basis of their existing pension rights and thus not depend on the provision of need-oriented basic protection benefits. Persons who were covered by a pension insurance scheme only briefly during their working life but received basic security benefits for many years which means that they hardly acquired pension rights and are in need of assistance will receive need-oriented basic provision benefits in old age and in case of a permanent reduction of their earning capacity; these basic provision benefits are financed from taxes. This means that this category of persons does not benefit from a slight pension increase in any case because the existing pension rights are reckoned against the need-oriented basic provision benefits in old age.

It is true that for the pension insurance, the cancellation of contribution payments for recipients of unemployment benefits II leads to a loss of contribution-based revenue of about 1.8 billion € per year currently. Given the current financial situation it will nevertheless be possible to keep the contribution rate in the pension insurance stable in the coming years.

**Parental allowances** are income replacement benefits which are meant to make it easier for young parents in the first year after their child's birth to cover the increased costs of living on their own. For persons entitled to benefits under Book Two of the Social Code, this is already compensated by the fact that a higher net benefit is paid after the birth of a child. Moreover, the non-reckoning of parental allowances under the legislation in force is not in line with the system as a whole since other public transfers such as child benefits are reckoned against income.

#### **b) Savings at the level of the Federal Employment Agency**

Savings in the budget of the Federal Employment are reflected in the Federal Budget if a Federal Government loan is required to ensure liquidity. The Federal Employment Agency, in agreement with the Federal Ministry of Labour and Social Affairs, presented a forecast for the

expenditure and loans required over the fiscal plan period in the Budget Committee on 19 May 2010. Savings in the budget of the Federal Employment Agency would be deducted from this forecast amount

<b>BA loan</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(€ millions)</b>			
old financial plan re. BA loan (spring 2009)	14,000	11,000	8,000	---
Current estimated loan needs according to BA	9,600	6,600	4,600	2,800
BA's current estimated expenditure development	46,200	43,900	42,800	41,800
closed cabinet meeting	-1,500	-2,500	-3,000	-3,000

### **Economic development prospects, in particular the development of unemployment figures**

Economic data from the spring economic forecast of the Federal Government from April 2010 were the basis for the preparation of the budget.

The Federal Government's savings decisions however, implied clearly more optimistic figures compared with the spring economic forecast, and they were confirmed by the autumn economic indicators. The most important indicators are

<b>Indicators</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
GDP growth (in real terms)	+2.0 %	+1.5 %	+1.5 %	+1.5 %
Δ spring economic forecast	+0.4 percentage points	-0.2 percentage points	-0.2 percentage points	-0,2 percentage points
Workers (1,000s) (domestic concept)	36,171	36,207	36,244	36,280
Δ spring economic forecast	+ 431 (+ 1.2 %)	+ 353 (+ 1.0 %)	+ 276 (+ 0.8 %)	+ 197 (+ 0.5 %)
<b>Unemployed (1,000s) according to BA definition</b>	<b>2,944</b>	<b>2,851</b>	<b>2,775</b>	<b>2,726</b>
<b>Δ spring economic forecast</b>	<b>-489 (- 14.2 %)</b>	<b>-558 (- 16,4 %)</b>	<b>-555 (- 16,7 %)</b>	<b>-472 (- 14,8 %)</b>
Gross wages and salaries, domestic concept	+2.5 %	+2.4 %	+2.4 %	+2.3 %
Δ spring economic forecast	+ 1.5 percentage points	- -0.1 percentage points	- 0.1 percentage points	- 0.2 percentage points
Gross wages and salaries per worker	+1.9 %	+2.2 %	+2.2 %	+2.2 %
Δ spring economic forecast	+ 0.7 percentage points	- 0.0 percentage points	0.0 percentage points	0.0 percentage points

In particular the favourable prospects regarding the development of unemployment and employment figures give rise to the hope that the saving targets in the area of labour market policy are realistic.

4. Please describe all actual or proposed reductions in expenditure on the wage bill, including any cap or cut in wages of public health and education sectors workers.

In Germany there is no system of government wage fixing and thus no possibility for government to reduce the expenditure on the wage bill as a response to the crisis in a targeted manner.

5. Have current economic recovery policies taken into account developments in unemployment, food prices and social inequalities?

As already described above, everybody has to contribute to consolidating the national budget - the administration, private businesses and individual citizens. The consolidation package thus ensures that austerity measures are pro-growth, equitable and socially well-balanced. By securing the social balance, the package is strengthening social cohesion and ensures that the welfare state remains effective and affordable.

6. Does your country expect to restore public expenditure after a certain time period, and, if so, when?

The new budget rule requires structurally balanced budgets of the federal government from 2016 onwards (see question 1).

#### **Impact of the reductions in social expenditure on those living in extreme poverty**

7. What is the assessment of the current access of the most vulnerable groups (particularly women, children, the older people and persons with disabilities) to social goods, services and assistance, which are essential to their enjoyment of human rights? To what extent is their inadequate access attributable to the reductions in social expenditure? Please provide major findings.

In the framework of the comprehensively developed social security system, contribution-funded benefits in upstream insurances protect people against the risks of unemployment, illness, accidents, old-age and long-term care. Moreover, in Germany, persons who are unable to help themselves or who do not have any or only insufficient coverage by upstream insurance systems, are entitled to public support. . In Germany, access to public support is guaranteed by the two basic income support systems under Books Two and Twelve of the Social Code (SGB II and SGB XII). Benefits from these systems make sure that every citizen can lead a decent life at a socio-cultural minimum level.

Subsistence assistance required for this guarantee includes in particular food, clothing, personal hygiene, household effects, personal needs of daily life, protection against illness as well as housing and heating costs. Personal needs of daily life also include a reasonable degree of participation in social and cultural activities. This applies to children and youth in particular. Basic income support for jobseekers (SGB II) also provides for comprehensive support towards vocational integration.

In spite of this comprehensive protection it remains a political objective to improve the chances of participation for disadvantaged groups of citizens. Permanent dependence on public welfare leads to a consolidation of poverty – sometimes over generations – and must be avoided. Therefore it is decisive to make offers to the persons concerned regarding care, education and continuing education and to empower them to become independent from transfer benefits by accepting an adequately remunerated job. All citizens must have a chance to make full use of their individual potential. The priority of the Federal Government's activating labour market and social policy is thus to (re) integrate as many employable persons into the labour market. If this attempt fails it will be an important challenge to maintain or restore the person's employability by targeted supportive activation, qualification or by way of working in publicly assisted employment, thus preparing the transition into regular employment.

The risk of a restricted participation in social activities rises with the length of unemployment. Statutory unemployment benefits as well as basic income support for jobseekers (securing the persons' livelihood) aim at preventing the exclusion from participation in social life. In this context it is important that unemployment remains as far as possible a limited period between jobs and is also perceived as such by the unemployed himself.

Benefits under the basic income support scheme will not be reduced in spite of the need to save money to consolidate the budget, on the contrary – at the end of the legislative procedure and at the end of the mediation procedure it will be increased to take retroactive effect on 1 January 2011. Apart from the increase in the monthly rates payable (standard needs) for adults, specific additional needs, e.g. for orthopaedic aids and appliances will be fulfilled for the first time.

Moreover, children and young people will come to enjoy a package composed of education and participation vouchers to enable them to keep up with other children at school and in leisure time activities. The bill on the identification of standard needs and on amending the Book Two and Twelve of the Social Code submitted by the Federal Ministry of Labour and Social Affairs fulfils the requirements of the Federal Constitutional Court as to the identification of the standard needs.

From the savings measures mentioned in the answer to question 3 only the reckoning of the parental allowance against the basic provision for jobseekers reduces the financial means available to recipients of basic income support. In the past the minimum parental allowance of 300 EUR was paid irrespective of an engagement in gainful employment directly before the beginning of parental leave, thus supplementing subsistence allowances. As of now parental allowance - an income replacement benefit - is reckoned against subsistence allowances as the livelihood of the family is fully guaranteed by providing for standard needs, the assumption of accommodation costs and the additional needs pursuant to SGB II.

8. Did the Government carry out any impact analysis (incidence analysis) of the impact of the public expenditure or social expenditure reduction on the most vulnerable groups in society prior to its implementation? If yes, please provide major findings.
9. Were any alternative fiscal policies considered and discarded? If so, please specify.

The consolidation package is the outcome of the cabinet meeting on consolidating needs for the German federal budget on June 6/7<sup>th</sup> 2010. During this meeting the pros and cons of possible consolidation measures have been discussed. After these discussions, the government has agreed on the design of the consolidation package which has been considered as the best mix of measures which are pro-growth, equitable and socially well-balanced.

10. What mechanisms are in place to ensure that the human rights of those living in extreme poverty are protected, respected and fulfilled in light of reductions in public expenditure)?

Social assistance legislation provides for different assistance schemes for people living in poverty. For the Government preventive measures have priority in order to prevent homelessness and social problems before they arise. In this context subsistence assistance and also assistance to overcome particular social difficulties pursuant to sections 67 to 69 of Book Twelve of the Social Code (SGB XII) in conjunction with the corresponding implementing



ordinance is of particular importance. These schemes include not only assistance towards vocational training, to finding and securing employment, but also to finding housing. The focus of these types of assistance is on consultation and personal assistance. A comprehensive catalogue of assistance tools is available which extends from identifying the causes of social problems to a multitude of assistance tools in order to overcome them. Benefits under these assistance schemes have not been reduced. Reference is also made to our statements in the answer to question 7.

In order to integrate homeless persons joint efforts are made by housing and social policy experts and the cooperation between all players in this area is being intensified. Social participation of homeless persons is restricted in particular if these persons must cope with other problems, too, as e.g. long-term unemployment, drug addiction, delinquency and health impairments.

People in particular social difficulties can find help through qualified, diversified and interconnected assistance packages. In this context need-based assistance at the local level and a broad professional assistance system should also be mentioned.

The overwhelming number (according to estimates of the BAG-W about 2/3) of homeless persons is able to work. The benefits under the basic income support scheme for jobseekers guarantee these persons' livelihoods. This includes that they receive support in finding and keeping housing. Removal costs and a security deposit can be paid for, too. In the case that somebody is at risk of becoming homeless it is also possible that the responsible provider of basic income support for jobseekers pays the costs for housing and heating directly to the landlord or even pays the debts of the needy person in exceptional cases. In order to make it possible for poor persons under 25 to leave their severely disturbed family situation they are granted benefits to set up their own household pursuant to Book II of the Social Code so that they do not run the risk of becoming homeless. This also applies *mutatis mutandis* to the recipients of benefits under the basic income support scheme according to Book Twelve of the Social Code (unemployable beneficiaries).

11. Please indicate whether there was a public consultation prior to taking measures to reduce public expenditure. If yes, please describe which non-governmental agencies or groups were consulted.

Before the Budget Supplement Act which includes a large part of the consolidation package was adopted by parliament a variety of non-governmental experts were heard in a public hearing, including, among others, the German Trade Union Federation, the Confederation of German Employers, the Central Bank of Germany, academics, and charity organisations.