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The CDU/CSU/SPD government in the face of economic challenges. The early experience.

Without a doubt, the four months elapsed since the formation of the Grand Coalition government of the Christian Democratic Union (CDU), the Christian Socialist Union (CSU) and the Social Democratic Party (SPD) provide hardly enough time to judge the unity of the new cabinet or even attempt to assess chances of fulfilling election promises. While Angela-Markel-led Christian Democratic Union ran its election campaign on the slogan of “Carry on as before” (*Weiter so*), the Social Democratic opposition offered a wide array of change proposals to the voting public. Its flagship economy-related postulate was to establish a minimum wage (*Mindestlohn*). One way the party proposed to deliver social justice was to retroactively equalize all child care benefits. The fact that the postulate came from the Bavaria-based Christian Socialists turned out to be quite a surprise. Satisfied with the status quo, its sister party, i.e. Christian Democratic Union, opted to maintain the current state of affairs and, most of all, refrain from raising taxes.

It was therefore far from easy to forge a program that would incorporate as many postulates of the three coalition parties as possible. The coalition agreement entered into in the late November 2013 stipulates a number of very ambitious economic and social goals. The primary purpose appears to be to raise investment spending. Another is to boost the financial standings of hired labor by adopting a universal minimum wage. The German economy will soon be at risk of slowing down due to a certain investor reluctance to invest their funds in the country. Traditionally open-minded and faced with high domestic labor costs, German investors are quick to move their projects abroad. On the other hand, as pointed out in the election campaign, Germany’s infrastructure and education badly needs additional funding.

With the benefit of hindsight available several months after the close of the campaign pursued in the run-up to the autumn parliamentary election, one can confidently conclude that the main postulate of the Social Democrats was to adopt a universal minimum wage. Laws regarding the minimum wage have been put in place in 21 of the 28 member states of the European Union. This does not mean, however, that Germany has no related arrangements. A significant part of the country's labor force enjoy minimum wage guarantees enshrined in collective agreements which cover several industries.

Under the coalition agreement, a minimum wage of €8.5 per hour will take effect throughout the country at the start of 2015. The parties nevertheless reserved an option of delaying the adoption of such arrangements. As noted by Federal Minister of Labor and Social Affairs Andrea Nahles in an interview for the Der Spiegel weekly, exclusions, if any, will be incidental and will by no means extend to entire industries.

By and large, therefore, a minimum hourly wage of €8.5 will take effect country-wide as of January 1, 2017. As emphasized by Andrea Nahles, the step is to raise appreciation of work. However, as she herself admitted in the interview, the instrument will not be an all cure for long-term unemployment. External financing will still be needed in the future when employing persons who have remained unemployed for at least 12 months.

Another postulate featured in the Social Democratic Party’s election campaign was to offer an option of early retirement to persons with long documented years of service. Federal Minister Andrea Nahles presented the precepts of her reform plan as early as her first away cabinet meeting in January of this year. The plan boils down to reducing retirement age as of July 2014. Retirement would be available at 63 for persons capable of demonstrating having worked for at least 45 years and whose insurance premiums had been paid throughout that period. Nevertheless, the reform poses an inherent risk which was evidently overlooked by its authors. The new law allows for retirement benefits to be claimed by persons who have collected unemployment benefits for up to 24 months during their 45 years of service. As a consequence, the system offers no safeguards to stop individuals aged 61 who are capable of proving they have worked a sufficient number of years from resigning, claiming unemployment benefits for two years and acquiring full retirement rights at the end of that period. Notably and regardless of this obvious oversight by the reform authors, simulations have shown that such a retirement system may nevertheless prove impracticable. To keep retirement benefits at a decent level, the government may be forced to increase contributions from active workers so as to finance the pension system. By 2030, retirement premiums are expected to reach at least 22%.

In assessing the pension system reform scheduled to take effect on July 2014, one must not ignore the responses which the decision has evoked in certain countries of Europe. The reactions are quite understandable, especially those coming out of Greece and Spain. After all, it was only recently that Chancellor Merkel called on the citizens of these countries to step up their efforts and apply themselves harder. Her government is now opposing the trend followed by the majority of highly developed countries and choosing what in fact amounts to lowering retirement age. The conclusion remains valid despite the view, expressed predominantly by members of the ruling coalition, that the legal retirement age remains unchanged at 67.

Another social policy decision was adopted at the initiative of the Bavarian party of Christian Socialists. As stated by advocates of the reform, the point this time around is to make up for unfairness in granting entitlements to child care benefits. So far, only mothers (and fathers) whose children were born in or after 1992 were entitled to receive the so called maternal pension (*Mütterrente*) offered on top of regular benefits. As of July 1, 2014, such pension, which amounted to €28 per child per month, can additionally be claimed by persons whose children were born before that date. Needless to say, this undeniably fair measure will generate an enormous expense. According to estimates, the so called maternal pension will cost the country € 6.5 billion per annum. In the initial years, the project may be financed out of the retirement fund reserve. At the time the Grand Coalition came into power, the reserve was estimated at €19.4 billion. Should the status quo remain unchanged, the total cost of financing the project over the four-year term of the CDU/CSU/SPD administration will add up to €26 billion.

In addition to labor market reforms and social policy, the government's first assembly held in Merseburg near Berlin gave a great deal of attention to the need to continue revamping the country's energy industry. Germany has for years stayed the course of gradual transition from nuclear towards renewable energy. However, at the time the new government was formed, matters appear to be headed in a very different direction. The changes came in a number of forms. For the first time ever, the government chose to set up a ministry dedicated exclusively to economy and energy. The switch to new sources of energy has turned out to cost far more than originally foreseen. The European Commission has criticized the growing involvement of state funds spent to finance the overhaul.

Under the coalition treaty, the federal ministry of economy and energy is to formulate a plan to reform the system of funding the restructuring of the energy sector. Changes are to affect the law on renewable energy sources (*Erneuerbare-Energien-Gesetz*) which has regulated the matter since 2010. The point was to prevent undesirable

consequences of differences in the costs of energy generation. Such costs are particularly high for producers of energy from alternative sources. A complete liberation of electricity prices could spell disaster for the German economy. For the time being, the German energy market is experiencing significant price diversification. Whereas in 2013, households, service companies and crafts workshops paid an extra €5.28 for every kilowatt hour, large industrial users were exempted from the surcharge. Most of the latter were chemical, metallurgical and pulp & paper enterprises relying heavily on energy-intensive production technologies. The privilege was also granted to German railways.

All this makes it all the harder for Vice Chancellor Sigmar Gabriel to come up with a new system of financing the restructuring of the German energy sector. The Vice Chancellor needs to balance the interests of the coal industry and those of “green” energy producers. In the process, he must additionally recognize the aspirations of federated state governments intent on supporting their home enterprises at all cost. To make things worse, Germany is in danger of having the European Commission impose sanctions in an administrative procedure. As early as December last year, the Commission brought to the attention of the German government its unreasonable preferential treatment of energy-intensive industries. If the Commission is not convinced by the clarifications supplied by the Vice Chancellor, all German companies will be forced to pay for energy nearly one hundred times what they are charged today. Either way, Brussels has banned granting any further benefits to any of the 1663 companies allowed access to low-cost energy.

The statements expressed in this text exclusively reflect the views of its author.

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