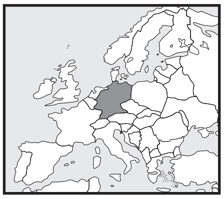
No social progress in Germany, artificially inflated development aid abroad



The tax burden has been increasingly shifting towards lower income sectors, despite a continued decrease in real wages and social assistance payments. One result is the alarmingly high number of "working poor", many of whom depend on state support despite being employed. Meanwhile, contrary to its claims of increased contributions to development assistance, Germany's genuine ODA spending has actually fallen in recent years.

Social Watch Germany
Forum World Social Summit
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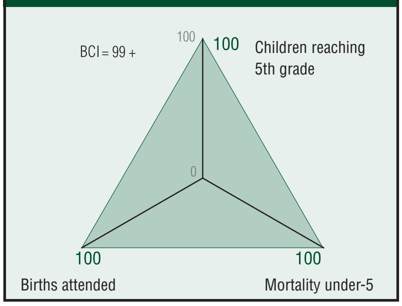
For years, politicians aiming to consolidate government revenue in Germany have relied on types of taxation whose impact is felt mainly by people living on low and medium incomes. According to statistics produced by the trade unions, over the last 25 years, the share of business and wealth tax has fallen by around 10% and now constitutes just 17.7% of total tax revenue. (Eckelmann *et al*, 2006).

This socially inequitable policy is still being pursued rigorously despite the fact that the incomes of the dependent employed (waged or salaried workers), as well as government hand-outs, when adjusted for inflation, have been shrinking for some time. The last Social Watch Report notes: "In 2004 alone, national income rose by 3%. However, while government hand-outs, wages and salaries stagnated, there has been a substantial rise (10.4%) in income generated from business activity and capital assets." This was not exceptional, as the report also bears out: "In 2001, the German Trade Union Confederation (DGB) calculated that workers' purchasing power had decreased by an annual average of 0.7% between 1991 and 2000. In total, there has been a drop of 5.9% in purchasing power since 1991." (Social Watch, 2005). And now, the trade unions calculate that since 1998, "all the tax measures affecting the business sector" have cost the State EUR 12 billion annually in lost revenue. They reject the politicians' claim that low tax revenue means higher investment and therefore more jobs, pointing out that between 2000 and 2004, gross fixed capital formation fell by 11%, with the result that the rate of investment now stands at a lamentable all-time low. (Eckelmann *et al*, 2006).

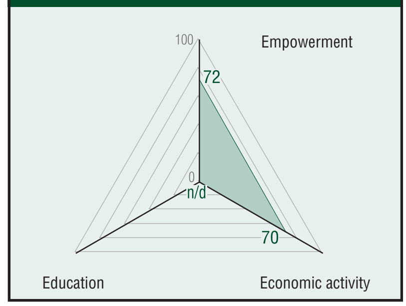
Business and wealth taxes fall

So far, however, these warnings have gone unheeded. As of 1 January 2007, the standard value added tax (VAT) rate will rise by three percentage points to 19%. This tax hike will have a disproportionate impact on low earners, pensioners on small incomes, families and people on state benefits, who have to spend almost all of their disposable income on consumption. Higher earners and the wealthy spend only part of their income on consumption and invest the rest at good rates of interest, so a rise in living costs has less of an impact on them. There is concern that the social divide will widen even further as a result of this VAT increase.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Moreover, despite the policy failures of recent years, plans are afoot to introduce a further cut in business taxes in 2008. For incorporated companies, the overall tax burden will fall from 39 to 30%, while corporate income tax will be cut from 25 to 16%. Partnerships can also look forward to a lower tax rate of 30% if the proprietors do not withdraw their profits for private use.[1] In the first two years alone, this tax cut is likely to cost the State between EUR 5 billion and EUR 10 billion. The proportion of the tax burden borne by those in dependent employment therefore seems set to increase further in future.

Social funding under pressure

The financing of the social systems has also come under growing pressure in recent years. In Germany, employees are compulsorily insured against social risks such as illness, the need for long-term care and unemployment, as well as for retirement. However, anyone earning a relatively high income or belonging to specific occupational groups (self-employed, freelancers and civil servants) can take out private insurance against these risks, thereby effectively opting out of the community's system of solidarity, which consequently loses these contributions. The widening gaps in the funding of the social insurance schemes are the result of Germany's high level of unemployment as well, since the jobless also pay no contributions to them. And finally, increased life expectancy will also play a role in the future, because a larger number of pensioners will need to be provided for.

Yet instead of trying to increase the number of contributors, politicians are funding the revenue shortfalls from taxation.[2] And in an effort to limit this expenditure, they are reducing the range of benefits and services available. For example, patients are increasingly being required to pay a contribution from their own pockets towards the healthcare services provided by their insurers. However, the most significant issue for the under 45s is that in the future, they will have to work until they are 67 instead of retiring at 65. Anyone taking early retirement – for example, on health grounds – will receive less money.

Working and non-working poor

Let's look more closely at the current social situation in Germany: according to Diakonisches Werk, the German Protestant Church's organisation for welfare and social work, at the end of 2005, more than seven million people in Germany – including some two million children and young people under 18 – were living on benefits at the level of social assistance.[3] In December 2005, 4,955,770 people

1 *Süddeutsche Zeitung*, 4 May 2006.

2 This point is made by Professor Christoph Butterwegge in a lecture based on his book *Krise und Zukunft des Sozialstaates*. Available from: <www.labournet.de/diskussion/arbeit/realpolitik/allg/butterwegge.html>. For a shorter version of this lecture, see Social Watch Report Germany 2005, p. 71ff.

3 Diakonisches Werk [online]. Available from: <www.diakonie.de/nl/fiba/20060131-Statistik-BSHG-2004-2005.pdf>.

were receiving Unemployment Benefit II and 1,779,859 people were claiming "social money" (Sozialhilfe), the two forms of basic social assistance. A further 500,000 or more people, including around 250,000 asylum seekers, were receiving other state benefits.

The second major group of the poor or people living in relative poverty is found in the so-called low-wage sector, where wages are sometimes even lower than state benefits. As a result, large numbers of people in work are still reliant on state support. According to Employment Minister Franz Müntefering, around 300,000 people are in this position.[4] As for the rest of the working poor, they cannot earn enough to achieve an income above the relative poverty line. The United Services Union, known as ver.di, estimates that almost seven million people now work in the low-wage sector.[5] Contrary to popular belief, however, this group is not under-skilled: according to ver.di, two-thirds of them have vocational qualifications and only a quarter of them are actually employed in unskilled occupations. Women, yet again, are especially hard hit.

The poor die younger

In light of this situation, it is hardly surprising that an alarming trend is emerging in the health sector as well: studies show that Germany's increasing social inequality is also reflected in variations in life expectancy.[6] The German Medical Association (Bundesärztekammer) has stated that the life expectancy of people living in poverty is as much as seven years lower.[7] This variation in mortality can only be partly explained by inequalities in access to health services. Personal pressures (work or family-related) are more significant factors. However, health-damaging behaviour (e.g. smoking, obesity) has proved to be the most important factor of all, and in Germany, this is particularly prevalent in the lower strata of society, especially among people with a poor level of education.

Development policy

Officially, the share of expenditure on official development assistance (ODA) in Germany rose to 0.35% of gross national income (GNI) last year, compared with just 0.28% in 2004. In line with the European Union's phased plan, the EU member states are to increase their ODA/GNI ratios to 0.51% by 2010 and to the internationally agreed target of 0.7% by 2015. Germany's Development Minister Heidemarie Wieczorek-Zeul has pledged her support, saying: "We are committed to this plan." According to the minister, the EUR 300 million increase in ODA funding this year shows that "the plan [will be] implemented consistently."[8] The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) also reports that Germany's ODA contributions have increased from USD 7.534 billion in 2004 to a total of USD 9.915 billion in 2005 and states that in real terms, Germany is the world's fifth-largest aid donor.[9]

Inflated Aid

However, a closer look at the figures reveals a different picture: only part of this total is actually "new money" for development cooperation. When calculating its ODA/GNI ratio, Germany routinely includes various items of often substantial non-aid expenditure, resulting in a higher ODA/GNI figure. German NGOs therefore talk about "inflated aid". According to the OECD's statistics, a total of USD 3.573 billion included in the calculation of Germany's ODA/GNI ratio was spent on debt cancellation alone, with the lion's share going to just two oil-producing countries, Nigeria and Iraq.[10] If this figure is removed from the calculation, we see that Germany's ODA spending has actually fallen by 9.8% since 2004. Another item which has accounted for an increasingly significant portion of German ODA in recent years is the spending on subsidized education for students from developing countries studying in Germany. According to the OECD, Germany's spending on this item amounted to USD 774 million in 2004.[11]

Little support for innovative funding for development

As described above, Germany's tax burden – which of course also provides the funds for development cooperation – is increasingly shifting onto average earners. And yet so far, Germany's pledge as a member of the Lula Group[12] to play an active role in introducing innovative instruments for the financing of poverty reduction and development has been followed by nothing more than declarations of intent. Responding to a parliamentary question from the Left Party, the Federal Government indicated that it currently has no plans to introduce a tax on securities or on foreign exchange transactions, nor does it intend to join the International Finance Facility (IFF) or, indeed, to levy separate charges on major corporations as a means of financing development.[13]

In its answer to this parliamentary question, the Federal Government's reaction to France's decision to introduce a levy on airline tickets is terse: "The Federal Government has… followed the French decision with great interest and is working in the international community's Leading Group for innovative financing for development." And yet at the Paris Conference on Innovative Financing Instruments this past 28 February, Minister Wieczorek-Zeul was still asserting that: "If we are to achieve the Millennium Development Goals, we have no option but to introduce innovative financing instruments… One possible initial concrete step could be the introduction of a development levy on air tickets. Such a levy could be introduced in a short period of time."[14] Since then, other countries besides France, including Brazil, Chile, Congo, Côte d'Ivoire, Cyprus, Jordan, Luxembourg, Madagascar, Mauritius, Nicaragua, Norway and the United Kingdom (with some restrictions)[15] have declared their willingness to levy this charge. The revenue will be used to help fund malaria and HIV/AIDS control programmes. ■

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4 *tagesschau.de* [online]. Available from: <www.tagesschau.de/aktuell/meldungen/0,1185,OID5390026_REF1,00.html>.

5 Michael Schlecht, chief economist at ver.di, in the Internet edition of *Frankfurter Rundschau*. Available from: <www.fr-online.de/in_und_ausland/politik/meinung/standpunkte_aus_der_zeitung/?em_cnt=886919>.

6 See, for example, the findings of a European Science Foundation research programme on "Social Inequalities in Health in Europe". A German-language summary (Siegrist) is available from: <www.bundesaerztekammer.de/30/Aerztetag/108_DAET/24Referate/Top04SiegristFolien.pdf>.

7 Bundesaerztekammer [online]. Available from: <www.bundesaerztekammer.de/30/Aerztetag/108_DAET/10Presse/200505051.html>.

8 Federal Ministry for Economic Cooperation and Development. Press release no. 34/2006, 29 March 2006. Available from: <www.bmz.de/de/presse/pm/presse_200603291.html>.

9 Federal Ministry for Economic Cooperation and Development. Press release no. 35/2006, 4 April 2006. Available from: <www.bmz.de/de/presse/pm/presse_20060404.html>.

10 <www.oecd.org/dataoecd/34/24/36418634.pdf>.

11 Organization for Economic Cooperation and Development, Development Assistance Committee (2005). *DAC Peer Review Germany*, p. 32. Available from: <www.oecd.org/dataoecd/54/0/36058447.pdf>.

12 The Technical Group on Innovative Financing Mechanisms, commonly referred to as the Lula Group, was founded by Brazilian President Luiz Inácio "Lula" da Silva, French President Jacques Chirac and Chilean President Ricardo Lagos in January 2004 with the aim of identifying new sources of financing to increase development aid.

13 Bundestag Printed Paper 16/1072 (Interpellation): <http://dip.bundestag.de/cgi-bin/getdokg?s=++bt+d+16/1072 and 16/1247>. Answer, 18 April 2006): <http://dip.bundestag.de/cgi-bin/getdokg?s=++bt+d+16/1247>.

14 Federal Ministry for Economic Cooperation and Development. Available from: <www.bmz.de/en/press/speeches/ministerin/rede200602028.html>.

15 Tourism Watch. Available from: <www.tourism-watch.de/dt/43dt/43.entwicklungsabgabe/print.html>.