

SVEZ

Economist.com

WORLD
EUROPE

Germany's generation gap

Oldies with muscle

Apr 24th 2008 | BERLIN

From The Economist print edition

Growing fears about the political power of pensioners

FORTY years after its invention, the generation gap is making a comeback in Germany. A former president, Roman Herzog, although well on the wrong side of 30, has issued the starkest warning of all. Germany risks becoming a "pensioners' democracy" in which "the old plunder the young", he declared. The cause of his alarm was a decision by the government to give pensioners a bit more money than it had planned. Surely they deserve "at least a smidgen" of the benefit from an economic upswing, shot back Walter Hirrlinger, head of Sozialverband VdK, a group that speaks for the old, the handicapped and the sick.

Germany's allegedly greedy grandparents had already benefited from an expansion of unemployment pay for workers older than 50. This partially rolled back reforms enacted by the previous Social Democrat (SPD)/Green government. Too much of this sort of thing could be poison to an economy trying to remain competitive despite a rapidly ageing population. But the temptation to pander to the old is growing. In next year's federal election more than half the likely voters will, for the first time, be 50 or older.

Germany has done more than most rich countries to defuse its pension timebomb. Between 2001 and 2004 the government reined in future pension increases by linking them to the ratio of contributors to beneficiaries. It also introduced new incentives, financed in part by pensioners themselves, for today's workers to save for their own future pensions. The grand coalition government of the SPD and the Christian Democratic Union (CDU) followed this up by enacting a gradual rise in the pension age from 65 to 67, beginning in 2012.

Germany still has to worry about rising health-care costs. And the Bundesbank thinks the pension age should rise again, to 68 or more. Otherwise, on pensions, "there is not much room for further reform", says Martin Werding of the Ifo Institute for Economic Research in Munich.

The new pension-rise formula has proved Scrooge-like, giving recipients no increase between 2004 and 2006, and a miserly 0.5% in 2007. Now the economy is growing, food and fuel prices are soaring—and the next election is looming. Surely the government can spare a little extra?

The CDU chancellor, Angela Merkel, certainly thinks so. Pensions are to rise by 1.1% in July and by 2% in 2009. The increase comes from giving pensioners a two-year holiday on their contributions to top up pensions for today's workers. It will be paid for by postponing a planned drop in payroll taxes. Pensioners' incomes will still fall in real terms, since inflation will be even higher, but by less than expected. Eventually the gift should cost almost nothing, because the government plans to take it back in 2012 and 2013.

But now that the government has set a precedent for tinkering with pensions on political grounds, it threatens "the credibility of the entire reform path," claims Mr Werding. If it does not prove brave enough to reclaim its gift (before yet another election), the deal will not be as cheap as advertised. A slowing economy and other spending demands already endanger the goal of balancing the budget by 2011.

Pressure to do more for the old is still mounting. The trade unions want the government to prolong subsidies for early retirement that are due to expire next year. Jürgen Rüttgers, the CDU premier of North Rhine-Westphalia, has weighed in with a proposal to fight old-age poverty—not yet a widespread

problem—by guaranteeing a minimum pension to people who have contributed for at least 35 years, regardless of how much they have paid in. Ms Merkel has said no, but for how long?

Yet the politicians may be panicking unnecessarily. Senior citizens do not tend to vote as a block, points out Achim Goerres, a political scientist at the University of Cologne. Rich pensioners have little in common with poor ones. And many invest time and money in the welfare of their children and grandchildren. Almost no European country has an oldsters' political party worth the name—or even a lobby group that can match the political power of America's AARP, a pensioners group.

It is voters in general who are overlooking the benefits and counting only the costs of reform. Fully 90% either backed the pension giveaway or said it was too small. The Left Party is rejoicing, and other parties are trying to keep up. The problem for Germany may not be pensioners' democracy but plain old democracy.

Copyright © 2008 The Economist Newspaper and The Economist Group. All rights reserved.