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Greying Germany finds pensions a political issue

By Bertrand Benoit
Montag Mai 12 2008 13:35

As on every Monday for the past four weeks, **Walter Bromberger** and several hundred supporters yesterday took over Braunschweig's market square, turning the centre of the sleepy German town into a sea of grey hair and angry placards. The 64-year-old retired salesman chairs a "pensioners are mobilising" movement, whose main goal is a big rise in retirement payments.

He can already claim a victory: the government of **Angela Merkel**, the chancellor, last month approved a €10bn ($15.5bn, £7.9bn) increase in payments to beneficiaries of the state retirement scheme. Mr Bromberger is not packing up his soapbox any time soon, however. "This rise is just a drop in the ocean. If anything we are even more mobilised now," he says.

Demographic change, and in particular the rapid ageing of the established industrial nations, has generated tomes of economic research. Yet less attention has been given to the political implications. This could change. After Berlin's decision to increase pension payments, the greying of Germany could, some fear, be turning Europe's largest economy into something approaching a dictatorship of the old.

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As an ever-larger share of the population nears or enters retirement, electorates will increasingly resist the sacrifices necessary to prop up social security systems for the benefit of those who follow. **Roman Herzog**, a former German president, unleashed outrage last month when he told an interviewer that young families faced "mass plundering" by the elderly.

Although Germany has one of the world's lowest fertility rates at 1.4 children per woman, birth rates in **Poland and Spain** have dropped below that level while such countries as **South Korea and Japan** have experienced steep falls too. But Germany, the first industrial nation to experience a sharp drop in births - almost 40 years ago - is further along the process.

"Germany is a laboratory," says **Reiner Klingholz**, director of the **Berlin Institute** for Population and Development. "We are now in the second round of this ageing process - it's not just that we are having too few children: now we're having too few adults of childbearing age to produce children." This explains why, although birth rates stopped falling in the early 1990s, Germany still has the fewest children per inhabitant in the world.

Mr Klingholz's projections show that, with rising life expectancy, the proportion of Germans over 60 will increase by one-third within the next 20 years. The population will keep shrinking, as it has done since 2003, stabilising at around 70m - down from today's 80m-plus and ranking it below neighbouring France.

Skills shortages will intensify from 2010 when the postwar babyboomers enter retirement. Virtually all measures of economic dynamism, from gross domestic product per head to labour productivity and working time, will fall dramatically.

The impact on the social security system will be worst. This is because the €700bn in benefits paid out each year are financed not through savings but from a 40 per cent levy on gross wages. As the working population shrinks and the number of pensioners rises, pension and health insurance benefits will increase and so will contribution rates.

Every German who draws social benefits depends on the contributions of 2.2 workers today. This ratio will drop to 1.3 by 2050. Yet even today, the pensions system loses €80bn

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a year. Without radical reforms, it is just a matter of which - social security or the economy - will collapse first. But how ready is the country to address that?

The general election in **September 2009** will mark a turning point: "For the first time ever, the number of voters aged 50 and over will be as big as the rest of the electorate," says **Meinhard Miegel**, head of the Institute for Economics and Society. "From then on, this group will grow with every new election." Pointing to the decision to raise pensions, **Daniel Bahr**, a 31-year-old member of parliament for the opposition **Free Democratic** party, says: "It is clear that the ruling parties are growing scared of alienating the silver vote."

So they should, says Mr Miegel. The over-50s are more inclined to vote than their juniors and are more likely to be members of a political party or trade union. With more spare time and a high level of education, they are politically aware and easily mobilised.

Jens Spahn, aged 27 and an MP for Ms Merkel's CDU, felt his elders' political muscle last month when he criticised the chancellor's pension decision. Angry pensioners bombarded him with e-mails and leading members of the **Senioren Union**, an influential group of older CDU members, called for him to be banned from the party.

An unpublished report by the DIW economic institute shows pensioners are generally better off than families with children. Yet the activism of the elderly and their rising numbers mean they are more likely to grab politicians' attention - as happened last month when **Jürgen Rüttgers**, the CDU premier of **North Rhine-Westphalia**, called for a substantial increase in retirement payments for low earners.

This would fundamentally change the way pensions are calculated. Entitlements, currently based on the amount of money one had paid into the scheme, would relate instead to the length of time one had worked. The result: a substantial increase in public spending. Yet last week Ms Merkel agreed to add a barely watered-down version to the CDU's 2009 electoral platform.

But to what extent do Germany's 20m pensioners form a coherent electorate? Politicians "perceive them as a defined group of voters which they are afraid to alienate", **Achim Goerres**, political scientist at **Cologne University**, wrote in a recent essay. "Yet apart from pension increases, it is hard to name another political interest shared by all pensioners."

Mr Miegel disagrees: "Age brings a homogenisation of political views in a number of areas. People become dependent on social benefits; they grow averse to change, risks and experiments; they value security and predictability; become less entrepreneurial, more conservative."

This notion is supported by the age profile of party members. The Left party, whose members are 68 on average, is the most categorically opposed to diluting the welfare state. Members of the **CDU and the SPD**, its "grand coalition" partner, average 56-57, against 49 for the economically liberal FDP. The socially progressive Green party has the largest group of members aged 32-44.

Pensions are the costliest part of German social insurance. Yet the health and old-age nursing schemes, which lack spending caps, could face even more daunting problems. "The older voters get, the more difficult it will be to solve this," says **Dennis Snower**, president of the **Kiel Institute** for the **World Economy**.

Back in Braunschweig, Mr Bromberger also wants free treatment and medicines for pensioners - and warns: "There was another movement that started with small protests on a market square. It was in **Leipzig 20** years ago. In the end, it brought the **Berlin Wall** and the entire Soviet bloc down. Politicians should remember that."

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