

German coalition agrees on a second stimulus package

Evaluation of IG Metall

Germany's governing grand coalition of christian democrats and social democrats has agreed on a € 50 billion stimulus package for 2009 and 2010. Partly, the package is following IG Metall's proposals for a stimulus programme outlined in December 2008, i.e. regulations on short-time work and training measures, a scrapping bonus for older cars, a protective shield for the real economy and an increase in public investment. Most measures shall take effect on 01.07.2009 and might be subject to minor changes in the legislative procedure.

I. Public investment programme

For 2009 and 2010 € 14 bn are provided for additional public investments in schools, day-care centres, refurbishment of traffic infrastructure and the extension of broadband LAN infrastructure. The better part of the amount (€ 10 bn) will be available for municipalities, € 4 bn will be spend by the federal level directly.

Evaluation

Public investments give the best economic stimulus with the highest multiplier effect. The focus on local investments is important as backlog-need is very high. However, the total volume of € 14 bn is far too low. IG Metall proposed 100 € bn for the next three to four years. The economic situation requires additional investments of at least 1% of GDP (~ € 25 bn).

II. Short-time work (Kurzarbeit)

Background: Short-time work is a tool on the company level to prevent redundancies. Workers will work less or even not all for a limited period of time. The difference in net income will partly (60 – 67 %) be paid by the labour office. Short-time work must be agreed between management and the works council and needs to be approved by the labour office. The maximum allowance period for short-time work has already been extended from 6 to 18 months. Half of the Social security contributions that normally have to be paid by the employer will be paid by the labour office. In case of further training/education during the period of short-time work, the employer's Social security contributions may be paid fully by the labour office.

Evaluation

In the current situation short-time work is a key element to prevent redundancies. By providing the financial means for additional training measures and the absorption of the Social security contributions, short-time work is feasible also for SME. A main demand of IG Metall, to include contract workers in the short-time work scheme, has already been fulfilled by the Ministry of Labour.

III Supporting the car industry

A scrapping bonus of € 2,500 for cars older than 9 years is being paid when the car is replaced by a new one. This bonus is limited to the end of 2009. Total volume is expected to be around € 1.5 bn (depending on demand).

A long-discussed reform of the car tax will be realised as soon as possible, preferably by 01.07.2009. The tax will then be based on emissions rather than engine displacement. The means for research in mobility are increased by € 500 m for 2009 and 2010.

Evaluation

IG Metall supports the adopted measures. In the short-term older cars with outdated technology (esp. with regard to emissions) will be replaced. The reform of the car tax brings planning reliability to the consumers.

IV. Corporate finance

Larger companies can apply for debt guarantees to the state-owned KfW bank. The programme has a volume of up to € 100 bn, guaranteeing up to 80% of the lending bank's risk. A similar programme has already been installed for SME in the first stimulus package (~ € 15 bn). Further, it is considered to expand guarantees for export transactions. A programme to advocate R&D for SME (up to 1,000 employees) in Eastern Germany is expanded to the west and increased by € 450 m.

Evaluation

Positive. However, to secure the supply of credit banks should be forced to join the € 480 bn protective shield that has been installed last year. The existing voluntary regulation is not sufficient.

V. Families / children

A one-off payment of € 100 per child will be paid in July. High-income families will not benefit from this payment. Benefit payments for children on social welfare are increased by € 35 per month.

Evaluation

Positive. However, the standard rate for benefit payments should be increased as well.

VI. Taxes and Health insurance premium

Tax-free income is increased by € 340 per annum to € 8,004 per person (amounts double for joint income of married persons). The starting tax rate is reduced from 15% to 14%.

Additional measures are taken to minimise the effects of the so called cold progression. The total volume is € 2.9 bn for 2009 and € 6 bn for 2010.

Health insurance premiums are reduced by 0.6% of monthly gross income, split evenly between the employer's contribution (labour tax) and that of the employee. This represents a total volume of € 9 bn for 2009 and 2010.

Evaluation

Reducing the tax burden for low-income earner is leading in the right direction. However, taxes on higher incomes and assets should be increased as to finance the package. The reduction of the health insurance premium is not satisfying, especially as a part of the reduction is discharging companies instead of employees.

VII. Limiting borrowing possibilities

In a reform of the German constitution, a limit of net borrowing shall be included. In normal times the budget should be almost balanced with a 'structural' deficit limited to 0.5 % of GDP. Fluctuations around the business cycle and in times of special situations shall be possible.

Evaluation

The stimulus package shows that such a limitation could be fatal. IG Metall opposes the idea.