

Strengthening the cornerstones of our future

Our eight-point plan to assure solid finances, to create fresh growth and employment and to prioritise education

Solid government finances are a cornerstone of CDU and FDP policy. Our action is focused on clear priorities. We want to shape the future in a way that puts Germany at the top of the international list for economic performance and social responsibility. Our policy centres on people. We aim to allow everyone in our country the opportunity to enjoy prosperity and social cohesion, and to live in freedom and security. For this reason, measures that improve the future outlook for people in our country must come first. This means investment in education and research, investment in the drivers of growth and investment in the jobs of tomorrow.

On several occasions in its history, Germany has experienced how inflation can destroy wealth, livelihoods, jobs and confidence. As a result of this, a culture of stability has developed in Germany, a culture towards which the CDU-FDP government feels a strong sense of duty. A stable currency shores up the foundations of prosperity and justice for everyone. It is a core element of the social market economy, which would be inconceivable without a policy of price stability.

In recent months, we have witnessed with rare clarity how our prosperity, our security and our future are directly linked with those of our neighbours and partners in Europe. The stability of our currency is a matter of concern for all of us.

To be stable, the common European currency needs a reliable basis. From the EU's inception and throughout the further development of its Treaties and rules, Germany has brought to the table its positive experiences with a strong and stable currency. In the last few months, too, Germany has made a significant contribution to managing the crisis in the short term.

The German Government is therefore absolutely committed to ensuring that the European Stability and Growth Pact is implemented more decisively and strictly in future. However, now is also the right time to take a step beyond crisis management in order to analyse and tackle the deeper-rooted causes of Europe's stability crisis. These comprise the poor decisions made in the past, the lack of sustainability in fiscal policy, and consumption that depletes our resources.

To keep our currency stable and to take active control of our future, the key task in all EU Member States is to implement a solid fiscal policy.

Germany's 2011 Federal Budget and its financial plan for the period up to 2014 are crucial milestones on the path to credible and robust government finances. Germany stands by its commitment to reduce the structural deficit by 0.5% a year from 2011 onwards. By 2013 at the latest, Germany will be back below the deficit ceiling stipulated in the European Stability and Growth Pact. By introducing a limit on borrowing in Article 115 of the Basic Law, Germany's constitution, the country has mapped out the course it will follow. This constitutional amendment commits us to a sustainable, solid budgetary policy, and thus also creates scope for dealing with the key challenges of the future.

We will assess every use of resources more stringently than in the past in terms of whether it will take the country forward. Financial resources – which are always the fruits of economic activity, harvested via the tax system – must be put to use where they provide the greatest benefit to society and social cohesion.

We will take care to ensure that all of the measures pursued are balanced and that they help the economy to recover under its own steam. The most important aspect of this approach is our responsibility towards young people and future generations. We will restore the balance in the Federal Budget between individual responsibility and solidarity, between freedom and responsibility, and we will increase the room for manoeuvre available to shape the future. This also includes the additional federal grant of €2bn planned for 2011 to help keep statutory health insurance contributions at a stable level.

All of the government departments have a part to play in ensuring that the Federation meets the requirements of the constitutional budget rule. The Golden Rules set out in the Coalition Agreement will serve as a guide for this. This will place demands on all of us. Yet it is also to our benefit, as Germany will be stronger in future. That is the guiding principle of our budgetary policy.

Against this background, the German Government has decided on the following key points for the preparation of the draft budget for 2011 and financial plan up to 2014:

1. Foundations for the future: education and research to be given priority

Education and research are the central pillars supporting our society's ability to meet future challenges. Well-trained personnel are the backbone of our country's businesses. Innovative products, which result from research and development, safeguard our prosperity and our jobs. This is also the foundation on which our social security systems are built. We are therefore sticking to our target of providing an extra €12bn for research, education and development

between now and 2013. In this way, the Federal Government is setting a clear priority for the future of our country. The Federal Government calls on the *Länder*, the federal states, to continue to work towards the 10% spending target for research and education.

2. Reduction of subsidies and environmental readjustment

Financial assistance and tax concessions have to be re-evaluated. Our aim is to reduce the burden on the Federal Budget in the medium term. The primary course of action will be to cut back the exceptions in 'ecological' taxation, which have led to deadweight losses.

Furthermore, the drive to reduce subsidies also necessarily means that there will be no new subsidies in this parliamentary term, and existing subsidies will not be increased. At the same time, we plan to reduce bureaucracy by simplifying the tax system.

We want to enter the age of renewable energies as quickly as possible. Nevertheless, it will be necessary, as part of an overall energy concept, to prolong the operational life of nuclear power plants. Unlike other producers of energy, the nuclear power industry is not affected by emissions trading. At the same time, electricity prices have risen as CO₂ certificates are priced in, while the cost of producing electricity has remained unchanged. Plant operators have made substantial extra profits as a result. This justifies the taxation of nuclear power on environmental and economic grounds. The German Government faces a considerable cost burden for decommissioning nuclear power plants alone – including the expected costs of final repositories for nuclear waste. The Coalition Agreement, too, stipulates that operators of nuclear power plants should make an appropriate contribution to the cost of renovating the Asse II nuclear waste repository. Making the nuclear power industry contribute to the renovation costs via the tax system and reducing its extra profits should generate €2.3bn annually in additional revenue for the Federal Budget.

In international air traffic, too, stronger incentives are needed for environmentally-friendly behaviour. However, the introduction of an international tax on aviation fuel does not appear realistic in the short term. Until air traffic is included in the CO₂ emissions trading scheme which has already been agreed, a national environmental levy will be charged for all passengers departing from airports in Germany. The levy will be structured to reflect various factors (such as price, noise and fuel consumption).

3. Increasing incentives for employment and readjusting social benefits

Germany's social security system is unique. It channels the solidarity of society to support those who suffer difficulties through no fault of their own. In the current year, social spending is set to account for more than half of federal expenditure in the budget. It is therefore clear that if we are to succeed in bringing down the government deficit in a

sustainable manner, this area, too, must make a targeted and fair contribution.

The Federal Government stands by the social security system. We will take action in areas where there is obvious room for consolidation because the wrong incentives are currently in place. The temporary supplement to long-term unemployment compensation is no longer appropriate. The Federal Labour Agency needs to be given greater discretion to provide support in a more targeted manner. We will therefore convert the current mandatory benefits into discretionary benefits and abolish the pension insurance contribution for recipients of long-term unemployment and welfare benefits. Each of these initiatives has the aim of increasing the incentives to take up employment on which social-security contributions are payable.

In the medium term, the optimised placement system and the effects of demographic change on the labour supply will revive the labour market for the long-term unemployed. This will be reflected by additional savings in the Federal Budget from 2013 onwards.

Parental benefit has been a success. However, we plan to make some changes. For recipients of parental benefit whose relevant net income for calculation purposes is more than €1,240 per month, the government will make a modest cut in the rate at which loss of income is compensated for, taking it down to 65% from the current 67%. At the same time, the €1,800-per-month upper limit for parental benefit will remain in place. This will serve to ensure parental benefit can be financed in future and, most importantly, will guarantee support for medium and low-income earners.

The basic needs of individuals receiving long-term unemployment compensation are met by the standard benefit rates and additional benefits. Granting €300 in parental benefit on top of this reduces the income gap between welfare and work. It is therefore admissible – and comparable with the arrangement in the case of child benefit – to stop paying parental allowance to recipients of long-term unemployment compensation in future.

The Federal Government calls on local authorities to continue and accelerate the extension of childcare for children aged under three, despite the difficult budgetary situation. The Federation will continue to provide the full amount of funding planned for the purpose. This is the only way in which we can build up childcare infrastructure that permanently safeguards the place of mothers and fathers alike in the world of work.

The supplement for heating costs available to housing benefit recipients was introduced at a time when energy costs were at an historic high. Thankfully, the situation is now back to normal. It is therefore appropriate to return to the previous legal provisions.

In addition, the government is examining ways to improve the coordination of the wide

variety of programmes and promotional instruments designed to integrate young people in vocational training or the workplace, and to combine these programmes where it is sensible and possible to do so. To this end, a cross-departmental working group will be set up, headed by the Federal Ministry of Labour and Social Affairs, with representatives from the ministries affected, in particular the Federal Ministry of Education and Research, the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth, and the Federal Ministry of Economics and Technology. The working group is to present a proposal for implementation in 2011 together with the reform of labour-market instruments.

4. Adapting the Bundeswehr to new requirements

The Federal Ministry of Defence is at present examining, within the context of the reform plans currently under consideration, how to optimise the structures of the Bundeswehr (Federal Armed Forces) in line with the requirements of fitness for deployment. This examination also extends to the organisation and composition of the armed forces, including the personnel strength in the various status groups.

At the same time, the Federal Ministry of Defence – together with all the other ministries of the federal government – also has to make its contribution to consolidating the federal budget and to observing the “debt brake” budget rule which is anchored in Germany's Constitution.

It is against this background that the Federal Minister of Defence has the mission, in collaboration with the Structural Commission of the Bundeswehr, of identifying by the beginning of September 2010 the consequences which a sharp reduction in the armed forces by up to 40,000 career and short-service soldiers would have for Germany's ability to implement its security policies, for deployment and Alliance duties, for questions of procurement, for the structures and the total strength of the Bundeswehr as well as for the type of armed forces and their configuration. Over and above that, the Commission is charged with identifying ways to achieve savings potential through better division of effort within the Alliance.

Independently of whatever decisions have to be taken as a result of this examination, the 2010 Military Law Amendment Act will be retained in the form adopted by the Federal Cabinet in order to provide planning predictability and legal certainty for those who are called up for military and civilian service on 1 July 2010, so they can be sure that their basic military service or their civilian service will last for six months.

Since any change in the universal military service obligation would also have a direct impact on the civilian service, which is legally tied to compulsory military service, the Federal Minister for Family Affairs, Senior Citizens, Women and Youth is charged with depicting,

likewise by the beginning of September, the impact which any changes in the military service obligation would have on civilian service and the functioning of the social infrastructure which benefits directly from the work done by those performing their civilian service.

5. Achieving savings in all possible areas and boosting efficiency in the administration

In the medium term, the expenditure of the federal budget will be reduced at a flat rate of about €4bn a year. This will be done in those areas in which there is room for flexibility and with other controllable expenditure, including programmed expenditure. The application of this rule will be up to the respective ministries. Methods based on estimates, however, cannot be used. The Christmas bonus for tenured civil servants will not be raised in 2011 as had been planned, which will lower their remuneration by 2.5% as against the present legal situation.

Those employed in the civil service of the German federal government make an essential and commendable contribution to the stability of the state and of society. The German government likewise recognises that in order to maintain this contribution a level of staffing is required which is adequate for the duties which are to be performed. Nevertheless, in view of the new debt rule and the need for consolidation it entails, the federal administration must also make a suitable contribution to this effort. Since pay rises have already been agreed by collective bargaining, or are contained in the draft of a Civil Servants' Remuneration Adjustment Act, the flat-rate staffing cuts reintroduced in the 2010 Budget are meant to help the ministries obtain the funds for the additional expenditure which these pay rises involve. Since the flat-rate staffing cuts in the year 2010 can compensate for only a part of the extra funding which is needed, they will be continued in the year 2011 and in following years. By the year 2014 more than 10,000 staffing positions are to be permanently abolished. This measure will not call into question the fundamental ability of the administration to function. Rather, this will at the same time mean that we are adapting the public service to demographic trends. The ministries are called upon, now and in future, to ensure this by setting priorities in the tasks to be performed.

Furthermore, we shall be reintroducing the privileged claim of the revenue authorities in bankruptcy proceedings which existed until 1999. In this way we shall be putting the public sector on equal terms with other creditors again. The change in the law made in 1999 resulted in a privileged position for banks.

6. Strengthening the autonomy of the Federal Labour Office

The German government will strengthen the autonomy of the Federal Labour Office. This will be combined with greater flexibility in shaping labour market programmes in the

direction of more discretionary services.

The system of unemployment insurance will be set up in such a way that in the medium and long term it will be able to function without loans or subsidies from the federal budget. The Federal Labour Office is to be given the option of meeting any need for liquidity which may arise in the course of a year by means of short-term borrowing of its own.

7. Responsibility for the municipalities

The financial situation of the municipalities is in some cases very strained. Here the German federal government assumes its share of the overall responsibility for the state of the nation.

The Commission on Municipal Finance set up by the German federal government is therefore currently drawing up a proposal for putting the finances of the municipalities on a stable foundation. As soon as these proposals have been put forward, the German federal government will quickly examine them and bring them to a decision.

8. Appropriate contribution of the financial market branch to the costs of the crisis

In order that in future we may avoid financial market crises such as the one we are now experiencing, fundamental principles of the social market economy – liability and responsibility – must again more strongly determine the actions of the protagonists in the financial markets. The financial market branch must be made to bear its fair share of the costs of the crisis; and it must also make provision for possible future crises. The German federal government will swiftly create the legislative preconditions for a bank levy, the proceeds of which are to go into a restructuring fund.

In addition, further measures of burden sharing are being prepared. The German government feels that an international or a European approach would be helpful here. In the coming months work will be intensified at international and European level to achieve a common solution. The German government aspires to having a solution in place by 1 January 2012.