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Germany's 2014 budget and indicative budgets through 2018 – ambitious commitments and plans of the CDU/CSU and SPD coalition

Having come into power, the new CDU/CSU and SPD coalition needed to pass a new federal budget in keeping with the terms of the coalition agreement of November 2013. The agreement contained a significant clause (Solide Staatsfinanzen) on the Federation’s budget and finance which provided for creating a solid financial foundation for balancing the budget and bringing the runaway state debt in check. Furthermore, funds had to be found to finance the estimated €23 billion worth of election promises. The parties have committed to secure budget appropriations for a range of projects which were mainly social or designed to benefit future generations, foster economic growth and create jobs at the federal as well as federated state and municipality levels. In drawing up the budget, account had to be taken of the country's commitments to the European Union. Under the Maastricht Treaty, the authorities are required to keep the budget deficit under 3% of the Gross Domestic Product (GDP) and the public debt (of the federation, its constituent federated states and local public entities such as municipalities and municipality associations) under 60% of the GDP. The 2011 Stability and Growth Pact and the so called Sixpack (a package of six legislative measures governing the adoption of national budgets, the pace of spending increases, the required pace of public debt reductions, etc.) reminded the governments of their responsibilities.

In passing the budget, the government must abide by restrictions laid down in national legislation and specifically in art. 115 of the German Constitution which states that new loans may not exceed investment expenditures. Departures from that principle are only allowed during exceptional disruptions affecting the entire economy. Furthermore, in 2009, the Bundestag and the Bundesrat established a debt ceiling of 0.35% of the GDP. This allowed the government to plan borrowings up to €10 billion from external market sources. The fact of the matter is that the ceiling will only apply to the Federation as of 2016 and to the federated states as of 2020. Nevertheless, stable budgets of eurozone member states are seen as pivotal for ensuring the stability of the euro.

In preparing the budget, Minister of Finance Wolfgang Schäuble could rely on a document which had been drawn up earlier together with another coalition partner and which the outgoing cabinet, interrupted by the electoral calendar, did not manage to adopt. Finally, on March 12, 2014, the new coalition cabinet passed the 2014 budget, the draft 2015 budget, the indicative budgets through 2018 and the Supplementary Budget Act of 2014.

Put in a nutshell, this structurally balanced budget (which does not account for possible economic turbulence and only contains purely financial transactions) stirred a sensation. This was mainly because the budget was designed to prevent public debt increases as of 2015. It is this very claim that caused the sensation. What it meant was that for the first time since 1969, which is when the office of Prime Minister was held by Franz Josef Strauss, the budget would be balanced without external financing (the revenues would fully cover the spending). For the first time since 2009, Germans are gaining an opportunity this year to bring their public debt down to a level acceptable to the European Union (the debt was at 78.4% of the GDP in 2012, and at 82% in 2013) even after the financing of projects set out in the coalition agreement has been factored in. The objective, however, of the German coalition government is to reduce debt to 60% of the GDP in the next decade. In 2013, the previous German government still borrowed €22.3 billion. Note, however, that a substantial proportion of that amount went to help Germany make two payments to the European Stability Mechanism (€4.3 billion each, bringing the total to €27.14 billion) and aid flood affected areas (€8 billion). The plan for 2014 is to borrow a mere €6.5 billion, less than in any year in the last four plus decades.

It is worth noting that the main driver of Germany's public debt was the US subprime mortgage crisis which began in 2007 as well as the impact it had on the German banking sector. The debt's initially-slow ascent started as early as the late 1970s. The pace of its rise picked up significantly in the 1990s only to soar to dizzying heights from 2009 onwards. According to the public debt counter, the nation's total debt as of March 2014 amounted to €2.1 billion with another €1556 added every second. Germany "owes" the rise to its eighteen ministers of finance, including the current one. It was during the term of office of no other but Wolfgang Schäuble, of all ministers, that the latest debt record of €44 billion in new borrowings was set.

The current budget may well be described as supportive of long-term growth although there are no guarantees that the ambitious plans it envisions will actually be accomplished. Note that the SPD-affiliated Minister of Finance Hans Eichel also proclaimed no new debt around 2005 only to see his ambitions dashed by the big crisis. Similarly in the United States in 2000, President Clinton and Secretary of the Treasury Robert Rubin managed to achieve a budget surplus of US$236 billion. Upon winning the presidential election, George Bush promised a substantial tax cut to the richest Americans. It was George Bush, however, that turned the surplus into a US$412 billion deficit within just four years.

How did Germany manage to pass a structurally balanced budget without raising taxes? By and large, the budget was expected to be carried by new direct and indirect tax revenues generated on the back of continued economic growth. In addition, certain expenditures, which had originally seemed to be set in stone, were moved forward to later periods (and even beyond the legislative perspective despite such measures being against the law). Cuts were also made in the state funding of certain projects. An example is the federal contribution to health management organizations reduced in 2014 and 2015 by approximately €6 billion. While many see such measures as an assault on the social insurance system, it should be noted that as much as €14 billion in statutory insurance subsidies had been appropriated to the system to finance benefits which were only temporarily provided since 2009. Health management organizations claim the new approach will force the government to raise insurance premiums. The Minister of Finance wants to withhold the agreed €14 billion until 2016. The contributions are to be increased even further in the following years.

On the other hand, the coalition has postponed its increase in aid for children (without agreeing on the form such aid would take). The CDU/CSU spoke of €35 per month in their election campaign, today, however, there is talk of raising the contribution even further but only starting in 2016.

The promise to have aid for disabled people, so far financed by municipalities and federated states, reimbursed by the federal budget, has been postponed to 2018, a year which falls outside of the current legislative framework. The aim in doing so was to adopt a structurally balanced budget by circumventing certain provisions of the coalition agreement.

Another initiative which might interest an outside observer is the CDU/CSU-postulated and coalition-approved maternal pension (Mütterrente). The package constitutes an increase in maternal benefits granted to mothers whose children were born before 1992 – its total cost has been estimated at around €6.7 billion. Up until 2017, the benefits are to be funded by the pension insurance system while in the following years, the government will need to secure alternative funding. Originally scheduled for January 2014, the rollout of this initiative has also been postponed to July 2014.

Expenditures in the 2014 budget will amount to €298.5 billion, down from €308 billion in 2013. A closer look at the budget structure shows that capital investment expenditures have been increased to €27 billion in 2018. Other expenditure increases have been envisioned to finance education and research, the pension package (Rentenpaket) and efforts to integrate job seekers. In the latter case, municipalities will save a total of €1 billion annually between 2015 and 2017 and €5 billion annually starting in 2018. Note that full compensation had been promised to municipalities. The budget also provides for a €2 billion increase in development aid to be extended through 2017.

The majority of budget expenditures will finance projects which fall within the responsibility of the Ministry of Labor and Social Affairs (41%), the Ministry of Defense (11%) or go to debt servicing (10%).

By no means has Germany accepted the new budget without misgivings. Its critics stress that the new budget neglects investment, primarily in infrastructure, education and research. Their claim is supported by studies carried out in Germany demonstrating that every second business operating in the country has been affected by communication and transportation difficulties. Experts believe there is a need to invest €120 billion over the next decade, including in the construction and maintenance of bridges and IT infrastructure. Meanwhile, the Global Competitiveness Report for 2011/2012 ranked Germany's infrastructure as second best (second to Hong Kong).

It has also been pointed out that this structurally balanced budget allows no safety margin for adverse events despite the current crisis appearing to be far from over. For one, the unstable Greece may well need further rescue in the form of debt cancellation packages.

A significant weakness of the proposed budget and the indicative budget for the following years is the absence of ideas for servicing the enormous debt of the federation as well as the federated states and municipalities which weighs heavily upon the future generations of Germans. Notably, the previous coalition's plan went as far as to envision a budget surplus of €15 billion in 2016.

It seems that the key dilemma faced by the minister of finance was to choose between debt reduction and creating a budget which dedicates substantially increased amounts to development-fostering investments. The latter, however, would imply putting the country deeper into debt. When presenting the budget, the German authorities stressed it was immoral to increase debt and that they strived to make Germany a shining example (Musterknabe) for the rest of Europe.

The views presented in this article are those of its author only.

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