



Japan Local Government Centre, London

Monthly Report June 2010 (Germany) – Federal Government announces cuts in social welfare and city regeneration

Currently more than half of all expenditure by federal government is spent on welfare transfers. This proportion has increased from barely a third at the time of German reunification in 1990 to the level seen today. The federal government has announced on 17 June that welfare expenditure will be cut by 3%, which means that some benefits will be reduced. The federal government has announced that those people who cannot change anything in their situation such as retired and disabled people will not be affected, while the measures are aimed to improve the situation in regard to assisting people back into work, so will therefore mostly affect those of working age who are more in a position to bring about a change in their circumstances.

In consequence, the transition benefit paid when people come off unemployment benefit and enter long-term welfare assistance (so-called Hartz IV benefits) will be discontinued, as the aim is not to let people slide into long-term unemployment. Also, the contribution to pension insurance for those on long-term welfare assistance is to be cut.

Instead, the opportunities for education and social participation for children from low-income are to be improved, in order to avoid perpetuating worklessness. Also, better assistance is to be given to people out of work, to improve their qualification and skills in order to get back into employment quicker, taking the form of guaranteed training programmes for younger people, and increased efforts to improve the outcome for older unemployed people.

Meanwhile, the federal minister for urban development published proposals to cut by half the programmes for urban development, as well as the large-scale subsidy run by the 'Kreditanstalt für Wiederaufbau KfW' (Reconstruction Credit Institute which harks back to 1948, initially providing finance for reconstruction after the Second World War and still mostly government-owned) aiming to improve energy efficiency of housing. This would affect the large-scale programmes such as 'Soziale Stadt' (the social city) which tries to improve social cohesion and involvement of all residents in improving conditions in the more deprived areas of cities as well as the 'Stadtumbau' (city re-imagining) programme, which is divided into an East and a West part. In particular the last programme has been judged to have been highly successful, and it had been agreed to extend it past its original running time. However from 2011, under this proposal all funding would be reduced by 50%.

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This announcement met with severe criticism not only from the Federal Association of German Housing and Property Businesses, the umbrella body for the construction and housing industry, but also from the representative organisations of local government. A massive reduction in funding on this scale endangers the progress that has so far been made in adapting cities to the modern environment and increase social participation and cohesion, and also threatens employment. In urban development, it has been demonstrated that every Euro of public investment will attract a further six Euros of private investment in its wake. As for the funding to make housing more energy efficient, a reduction here would make it very difficult to achieve climate protection targets, and have a direct effect on jobs as well, as many new 'green' jobs are established through these programmes. Between 1995 and 2006 the annual rate of improving the energy efficiency of housing was nearly 3%, which contributed to a sizeable reduction in CO₂.

However, it is only to be expected that any proposed cuts are greeted with dismay by those which will be directly affected – it is a question of what measures the government can push through against powerful vested interests, and to perform the very difficult balancing act of achieving cuts without doing too much damage to the social fabric of the country.

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