2015 Germany Report
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Executive Summary

During the period under review, the German economy has shown remarkable stability within a very unfavorable European economic environment heavily influenced by the euro zone debt crisis. Although in 2013 the economy stagnated and showed only modest growth, in 2014 performance was outstanding with employment at 42.3 million (an increase of 700,000 since 2011). The fact that the German labor market reached its highest employment rate since unification has various explanations. Clearly the controversial, but ultimately successful, Hartz reforms, which reduced structural unemployment, have made a contribution. The employment boom and, by European standards, very low youth unemployment also confirms the impression from recent PISA results that the education system is better than its reputation and that the dual approach combining on-the-job training with general education is a particular strength.

The country’s fiscal performance also indicates that the past years of reforms have started to pay off. Since 2012, the aggregated public sector (including the social security system) has a balanced budget and Germany’s government debt-to-GDP ratio is currently 74.6%, already 6.4 percentage points lower than its all-time high in 2012. This fiscal performance is the consequence of the employment boom, a relatively disciplined management of expenditures and very favorable interest rates. Indeed, the country’s ability to refinance its debt on capital markets is currently better than ever thanks to the combination of its constitutional debt brake and investors’ perceptions of Germany as a safe haven.

Other indicators also confirm the current good shape of the German economy. Foreign direct investment flows have increased considerably and the favorable economic situation attracted the highest number of skilled migrants since 1995. In addition, consumers are increasing their spending, which is quite exceptional given the country’s traditionally very high savings rate and low consumption dynamics.

With respect to the structural and long-term problems of the German economy, political system and society, recent experience is less positive. The buoyant current employment and budgetary situation has clearly lowered the ambitions for structural reforms. Thus, the assessment period showed little progress in a
number of critical fields. The health care system’s cost trajectory is clearly unsustainable, though recent reforms have moved in the right direction. Pension reform came to a standstill with respect to ensuring effective protection against old age poverty, while exclusion and decoupling from society seem to be increasing. In addition, recent reforms (“pension with 63” and additional pension payments for mothers) create new substantial risk for the sustainability of the pay-as-you-go pension system.

Politically, the government has been able to base its approaches on broad voter support. The rise of the right-wing, euroskeptic and, in some regards, populist party AfD (Alternative for Germany) indicates, however, the fragmentation of the German party system. This poses a substantial challenge to securing democratic support for solidarity with European affairs. Furthermore, the recent critical debate on the role of Islam in German society points to unresolved issues with immigrant integration.

Recent economic (euro zone crisis) and political (Ukraine-Russia conflict) troubles have enabled a revealing examination of the efficacy of Germany’s governance system. In the context of the economic crisis, the German government somewhat reluctantly took a leading role in organizing and establishing stabilization mechanisms, and in defining the principle of conditional solidarity (i.e., making credit support conditional on far-reaching institutional reforms and consolidation). Moreover, the government was able to secure far-reaching consensus domestically, as evidenced by the overwhelming parliamentary majorities that supported the establishment of the European Stability Mechanism (ESM) and European Fiscal Compact as well as by the limited success of new anti-euro parties. Likewise, Germany had a major influence in defining the EU reaction to Russia’s involvement in Ukraine.

Overall, the period under review did not bring as much change as had been observed in previous years. It did, however, provide evidence that prior reform efforts had substance. The question remains whether Germany can afford the current slowdown of policy efforts aimed at preparing the country for the looming demographic transition.
Key Challenges

Any strategy aimed at improving the sustainability of governance should first take account of a country’s existing key strengths and weaknesses. In the aftermath of the global financial and economic crisis, Germany recovered more quickly and in a more sustained manner than most of its peers. Growth figures have mostly been exceptionally high since 2009, a year that marked the lowest point of the worst downturn in the country’s postwar history. However, potential growth remains meager and is quantified by the Council of Economic Experts at only around 1.0 to 1.1%.

Germany’s labor market performance remains excellent, with policies proving highly effective compared to those in most other industrialized countries. German companies have also proved to be highly adaptable and productive. For the past three years, productivity has increased at rates above the EU average. However, unit labor costs have started to rise. This increase could signal an end to the wage moderation trade unions offered in exchange for job guarantees, a restraint credited as an important factor in Germany’s economic success these past years. From a European perspective, this rise in real wages should be welcomed as a moderation of the high current account surplus and boost import demand. Nonetheless, given the country’s enduring export success, it is unlikely that this turn will erode the competitiveness of German industry in the near future.

While the short-term situation appears solid, Germany faces substantive challenges and risks over the long term. First, given the European Union’s integrated economic and monetary policies, a number of developments will necessarily be outside the control of individual national governments. The future course of Germany’s economy will depend heavily on the success of the anti-cr
isis measures initiated in other European countries as well as on the actual costs resulting from the financial obligations the country’s policymakers have undertaken. Equally, severe global economic downturns (e.g., caused by a weakening Chinese economy) would hit the export dependent German economy very hard. Second, German governments have had difficulty persuading voters even of the merits of successful reform projects. This is in part due to a widespread public impression that past reforms, while possibly efficient, have been unfair. For instance, the expansion of atypical employment contracts – chiefly temporary, part-time and agency work – may have been an advantage in terms of industrial flexibility, but policymakers’ approval of these comparatively less regulated modes of contracting have
given employers an incentive to increase the frequency of their use. Third, the seemingly sound fiscal situation may disguise severe problems related to the quality of public finances. The share of government budgets dedicated to investment have declined considerably. This may increasingly lead to a situation where insufficient public infrastructure becomes a bottleneck for potential growth.

The perception that the last decade’s reforms may have exacerbated inequality has induced a clear change in reform policies. This has become evident in the policy projects of the grand coalition which came to power in 2013. Reforms since then have tended to move the country into the opposite direction of the Hartz reforms. While the Hartz reforms tried to liberalize labor markets, new substantive regulations, such as the general statutory minimum wage, are being introduced. While the pension reforms of the past prepared the pension system for the coming substantial aging of the population, recent reforms (e.g., lowering the pension age for workers with a long employment history and additional pensions for mothers) have increased pension benefits as well as increased sustainability risks.

Moreover, improving the integration of immigrants into German society is a further challenge. Germany, which remains highly dependent on immigration, has become increasingly attractive for skilled migrants. Recently, unease among parts of the German population has become visible and may well be exploited by populists, with potentially dramatic social and political consequences. This issue needs to be addressed head-on by the federal government as well as state governments and civil society.

Thus, although Germany is currently in good economic shape, it has lost the drive for reform urgently needed to cope with the great social and political challenges posed by demographic change. The relatively strong performance of Germany in the euro zone debt crisis has fed a dangerous perception of invulnerability which may lead to harmful decisions with potentially negative long-term consequences. These considerations call into question whether the current favorable condition is really a useful predictor for Germany’s future performance.
Policy Performance

I. Economic Policies

Economy

Over the last 10 years, Germany’s economic policy has successfully addressed numerous serious economic weaknesses prevalent in the post-unification period. For comparison, Germany’s economic structure is characterized by a healthy mix of service and industrial sectors (cf. Statistische Bundesamt). A wave of reforms, affecting labor market institutions, unemployment benefits, the pension system, corporate taxation, the constitutional debt brake and the liberalization of labor migration from outside the EU, have improved Germany’s competitiveness and increased its attractiveness as a destination for cross-border investment. This trend was recently boosted by uncertainties arising from sovereign debt crises in other European countries. Moreover, trade unions and employers’ associations have eschewed ideology in setting wage policy, granting firms significant flexibility. Over the last decade, productivity has increased and unit labor costs have largely remained stable, in contrast to significant increases in many other European countries. However, Germany’s recent robust economic performance and the buoyant labor market have triggered the end of an era of restraint. There is a marked trend of rising wages, along with a slight increase in unit labor costs – a development which so far has not deteriorated export performance and aligns with external requests to stimulate domestic demand in order to shrink the large current account surplus.

The positive labor market developments contrast with Germany’s very modest growth potential, which the German Council of Economic Experts quantifies at only 1.0 to 1.1%. Actual growth rates were below 1% in 2012 and 2013. With regard to major indicators of economic performance the picture is also mixed. Employment rates have risen continuously and reached an all-time high of more than 42 million persons employed. Unemployment rates are at their lowest level in 20 years. However, rates of unemployment have not altered significantly since 2011, signifying that without further reforms the lower bound has been reached. In addition, the tax system still creates labor market disincentives for second earners in a family. There is also a
significant share of temporary work, though the share of “atypical jobs” did not increase between 2005 and 2013 and is below the OECD average (Sachverständigenrat, 2014: 283). To address the problem of the working poor, a general minimum wage was introduced, but this policy remains heavily debated with respect to the risk of job losses for workers with low qualifications.

Regarding financing public services, Germany’s ability to refinance its debt on international capital markets has never been better. It seems, however, that this period of easy money may come to an end. The inward flow of foreign direct investment reached its peak in 2011 and 2012, and fell back to normal levels in 2013. According to UNCTAD’s World Investment Report 2014, Germany ranked fifth among EU countries (billion) in 2013.

Despite some imperfections, within a broader time frame Germany’s economic policy has clearly been successful in making its economy a highly attractive location for investment. Even though the German government’s willingness to reform has dramatically declined since 2008, global investors perceive the country as an economic safe haven.

Citation:
Unemployment rate 1991-2014

Forecast growth

Employment rate


**Labor Markets**

Germany’s success in reducing structural unemployment has been impressive. Employment rates have risen continuously since the mid-2000s. In 2014, they reached an all-time high of more than 42 million persons employed. Unemployment rates are at their lowest level in 20 years. Germany’s youth unemployment rate is the second lowest in the world, suggesting a highly efficient vocational training system.

Nevertheless, shortcomings remain and it is far from certain that Germany’s labor market success will continue. For example, unemployment rates have not altered significantly since 2011, signifying that without further reforms the lower bound has been reached. In general, however, Germany has improved its position among the leading nations, though mostly because of other countries’ worsening performance (Global Competitiveness Report 2014 – 2015: 207). On a structural note, Germany’s
labor market is still characterized by inflexibilities such as a high level of employment protection (Global Competitiveness Report 2014 – 2015: 207). Here, Germany ranks below the global median of our sample. Particularly wage determination (recently aggravated by the adoption of a minimum wage) and relatively rigid hiring and firing practices seem to be Germany’s weak spots. On the other hand, in conjunction with high employment levels, this may also indicate a healthy balance between economic efficiency and social protection.

With regard to micro-based labor market instruments, unemployed persons today risk severe benefit cutbacks if they reject a job and employed workers can claim benefit support if their market income is below subsistence levels. Both this threshold for benefits as well as the risk of having benefits revoked have tremendously reduced incentives to stay out of work. Furthermore, there is a comprehensive toolbox of active labor market programs that includes financial support for training programs, self-employment or reintegration into the labor market, workfare programs, and employment subsidies for the hiring of the long-term unemployed. Traditional instruments such as job creation and training or skills improvement measures are now seen as combinable. Tailored to individual needs, they are in particular intended to allow for the reintegration of the long-term unemployed into the labor market. Vocational education, basic skills and preparatory training, retraining programs, counseling measures, placement premiums, and start-up financing all combine to form a versatile labor market toolbox (cf. Federal Employment Agency Monthly Report 2013: 32-36). Furthermore, these tools are continuously evaluated and optimized.

The expansion of atypical employment contracts such as temporary employment programs (Leiharbeit), part-time and agency work may have been an advantage in terms of securing industrial flexibility over the past years. However, the government’s approval of these less regulated contracts has created incentives for employers to use them with increasing frequency. This has potentially severe consequences for the social welfare system, in particular, and social justice, more generally. Furthermore, opportunities for advancement within this low wage labor market are few. Yet, while temporary work had expanded significantly between 2003 and 2008, its growth has come to a standstill since then. Since 2010, the number of temporary workers has slightly decreased, a period when total employment increased by a further 1.5 million (Sachverständigenrat, 2014; Bundesagentur für Arbeit, 2014).

After a lengthy debate, a nationwide minimum wage was adopted by the Grand Coalition in 2014 to take effect the following year. The level, which is going to be reviewed after five years by a commission comprising employer and labor representatives, was set to €8.50. Sector specific minimum wages remain untouched, so long as they exceed the national minimum wage. There are some exceptions for employees under 18 years of age, seasonal workers, apprentices, trainees without vocational training and workers who have been unemployed for more than one year. In
addition, minimum wage provisions do not apply during the first six months of employment. It is too early to formulate a general verdict on this policy change. Whereas some experts highlight the positive effects in terms of social justice, others warn of negative economic effects including soaring unemployment rates especially among low-skilled workers (Knape, Schön und Thum, 2014).

Citation:


Minimum wage:
Gesetz zur Stärkung der Tarifautonomie (Tarifautonomiestärkungsgesetz) in: Bundesgesetzblatt 2014, Teil 1, Nr. 39, S. 1348ff.


Taxes

In recent years, German tax policy lost steam. This was caused by macroeconomic as well as political factors. On the one hand, severe structural challenges and sovereign debt crises in other European countries favored Germany as a business location, signaling that there was no need to overhaul the tax system for competitive reasons. Furthermore, buoyant tax revenues indicated that there was no need to raise tax revenues further. Although economic growth was very modest in 2012 and 2013, the growth rate of tax revenue remained high at 4%. Total tax revenues have risen steadily since 2008 (from 903 billion in 2008 to approximately 1 trillion in 2012) facilitating the proclaimed aim of the Ministry of Finance to achieve a balanced budget. In addition, the soaring labor market created significant surpluses in the social security system. As a consequence, the reform vigor of the previous decade gave way to a complacent uncertainty regarding the future direction of tax policy. The guiding principle of today is “steady as you go.”

With respect to some major indicators, Germany is performing well at the moment. Earnings-related direct taxation and social security contributions are lower than, or have at least held constant with, previous levels. Indirect taxes, such as value-added taxes, are above the OECD average. Direct and earnings-related tax rates on businesses were cut as compared to personal income taxes. The overall corporate tax rate (including local business taxes and solidarity surcharges) fell from around 40% in 2005 to approximately 30% today. The effective marginal tax rate (which takes into account particularities such as depreciation allowances) fell from 37.9% in 1998 to 22.5% in 2012 (ZEW 2012). These changes have shifted Germany into the middle of
the pack within Europe with respect to effective corporate tax burden, thus making the
country a more competitive location.

A key problem within the German tax system is the high marginal tax rate for
employees. The combination of income tax rates and social security contributions
burdens even middle-income earners with marginal tax rates far above OECD
averages. According to OECD data, an average worker in Germany gives up 39.9% of
his gross wage earnings, exceeding the OECD average by 15.1 percentage points.
Income tax takes 19%, while social security contributions for employees amount to
20.9% of average gross wage earnings, respectively exceeding the OECD averages by
4.2 and 10.9 percentage points (cf. OECD, Income tax and social security
contributions). The OECD reports that this unfavorable situation has persisted for a
decade, harming particularly the labor market integration of single parents (OECD,
Taxing Wages) and creating substantial work disincentives for the second earner of a
married couple. A related problem originates from the complexity of the German tax
system, which imposes high compliance costs on households and firms.

The non-wage labor costs for employers are currently buck to 2010 levels. In 2010 and
2013 employers had to pay respectively 28% and 27% of gross earnings, consistently
ranking Germany below average within the EU (currently rank 15). For workers,
social security contributions have been steadily declining since 2011 (from 20.9% in
2011 to 20.4% in 2013), but in 2014 increased slightly to 20.6% (OECD). Notwithstanding, the balanced insurance funds have had a positive effect in this
regard. In contrast, the expansion of the low-wage sector, where less social security
contributions are paid, is a worrying trend.

In spite of the German tax system’s overall positive performance, there is room for
improvement beyond the key challenge of too high a marginal tax rate for workers.
For example, the efficiency of Germany’s municipal tax investments is very much in
doubt. For example, the German association of taxpayers criticized that the amount of
companies owned by municipalities increased by 25% over the last ten years, often not
budgeting as efficiently as they should (Schwarzbuch 2014: 3-13). Nevertheless, the
municipalities generated a surplus of €1.1 billion in 2013 (Destatis). Furthermore, the
current system of inheritance taxation has been accused of granting excessive
privileges to company assets; a case is now pending at the Constitutional Court.

Despite perennial discussions envisaging a tackling of bracket creep, the topic has
been neglected by the government and the Finance Ministry over the last four years.
At least at the moment, the actual effect of any legislative measures would be marginal
anyway, since inflation remains at a very low level.

In summary, German tax policy performs well in terms of revenue generation and in
making the country a competitive location for investment. However, the system
generates excessive work disincentives, the redistributive capacity of the tax system has decreased as indirect taxes have taken a larger role, and – as a consequence of inflationary bracket creep – the progressivity of the income tax structure has declined.

Citation:


Budgets

Given the enormous fiscal efforts resulting from the euro zone debt crisis and previous commitments made in the aftermath of the financial and economic crisis, Germany’s budgetary situation and outlook is surprisingly positive. The German government’s debt-to-GDP ratio amounted to 75.4% (Eurostat 2014) at the time of writing, which is 7 percentage points lower than its all-time high in 2010. It is predicted to decrease even further. However, in absolute numbers, Germany’s debt has been steadily growing, at a time of falling growth rates. There are several reasons for this mixed picture. GDP outgrew new net borrowing, which was facilitated by the fact that Germany kept the highest possible credit rating throughout the crisis (and thus historically low government bond interest rates), in contrast to other European states. Although budget deficits and gross public debt levels were pushed up by crisis-related revenue shortfalls, anti-crisis spending packages, and bank bailout costs, the fast economic recovery led to buoyant tax revenues. At the same time, federal and state governments benefited from the flow of capital into the safe haven of German government bonds, leading to a historically low financing costs. In addition, a constitutional debt limit was introduced (Schuldenbremse) that restricts the federal government’s cyclically adjusted budget deficit to a maximum of 0.35% of GDP and requires the states to maintain balanced cyclically adjusted budgets. In summary, the budget deficit fell radically during the period under review, ultimately coming close to being balanced.

Recently, the most obvious development has been a shift in budget policy focus. In the previous period, balancing the budgets of public social insurance carriers had been of primordial importance. This led to high surpluses within these “parafiscal” institutions and higher than necessary deficits within the budgets of federal, state and communal authorities. In an attempt to bolster growth and change this imbalance, state subsidies and social insurance were cut in 2013, which led to decreasing surpluses (from €15.8 billion in 2012 to €4.6 billion in 2013). For example, pension contributions were reduced from 19.6% to 18.9%, the medical co-pay (Praxisgebühr) was abolished and
state subsidies for the Federal Employment Agency (Bundesagentur für Arbeit) were reduced. Particularly the latter facilitated efforts to reach a balanced state budget.

In summary, “Germany does not appear to face short-term, medium-term or long-term sustainability challenges” (European Commission 2012: 11). Keeping in mind the financial guarantees made to the European Financial Stability Facility (EFSF) and the ESM, Germany’s future financial soundness could, however, still be in jeopardy.

Citation:

Research and Innovation

Germany’s performance in the area of research and development remains positive. Germany ranks seventh in terms of patent applications per inhabitant (Global Competitiveness Report 2014 – 2015: 207). Indeed, according to the World Economic Forum, Germany’s capacity for innovation ranks among the world’s top performers. In the area of technological development, product and process innovation, the country ranks forth, just 0.2 points behind frontrunner Israel (5.8 points) (Global Competitiveness Report 2014 – 2015).

Regarding funding, the German government continues to raise budgets on research and development. It’s spending remains above the European average. In 2013, the government increased the budget of the Ministry of Education and Research by 6%, reaching an all-time high of €13.7 billion (BMBF 2014). In 2014, the budget was once again increased by 2% (to €14.1 billion).

To boost the business innovation budget, the Ministry of Education and Research established a program for small and medium-sized enterprises in 2008. The government plans to increase spending on research and innovation to 3% of GDP by 2015. In contrast to numerous other European countries, Germany does not offer general R&D tax incentives, but rather concentrates on targeted funding of specific programs. In recent years, medium-sized businesses in particular have contributed to the development of innovation and cluster development increased by 0.1 points from 2013 to 2014, promoting Germany from rank 4 to rank 3. Companies’ expenditures on R&D is strong, but public-private partnerships and collaboration between universities and industry leave room for improvement. In the previous Global Competitiveness Report, Germany was ranked 10th out of 144 countries with respect to the quality of its scientific research institutions (a score of 5.6). That was 0.7 points behind top-ranked Israel, but slightly better than countries such as Finland, France and Canada (cf. Competitiveness Report 2012 – 2013: 513). The government has continued to pursue its so-called excellence initiative within the tertiary education sector. The federal
government and states have agreed to resume the Joint Initiative for Research and Innovation, and intend to increase the program’s budget by 5% every year. Furthermore, a constitutional change (Art. 91b GG) has facilitated the cooperation of the federal government and states in financing university research. Over the past years, as Germany increased the Research and Education Budget and pursued its excellence initiative within the tertiary education sector, the quality of its scientific research institutions improved slightly. Out of 144 countries, Germany was ranked 8th in 2014 with a score of 5.8, competing with countries such as Japan (5.8 points) and the Netherlands (5.9 points) (Global Competitiveness Report 2014 – 2015: 207).

Citation:

**Global Financial System**

In the aftermath of the financial crisis, policy initiatives in the field of financial market governance underwent a strategic realignment from private self-regulation toward public regulation, with the aim of in the future avoiding costly public bailouts of private banks.

Domestically, the regulatory framework for banks and financial markets is being comprehensively overhauled. The Restructuring Law (Restrukturierungsgesetz) has introduced rules that allow for insolvent banks to be closed. Germany was among the first EU countries to introduce a legal obligation for banks to produce “testaments” that define contingency plans in case of the bank’s collapse. This law has become a model for similar EU regulations, where the most striking changes have occurred. The so-called banking union comprises a number of measures in banking regulation that are apt to shift the primary responsibility from the national to the European level. With that aim, the banking union is made up of two regulatory novelties: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). Enacted by two EU regulations in 2013, the former promulgates that credit institutions whose balances exceed €30 billion (or 20% of a country’s GDP) are under the direct supervision of the European Central Bank (ECB). The latter regulates bank recovery schemes. It provides access to a Single Resolution Fund in exchange for rule-guided behavior during a bank’s reorganization. Germany’s individual role in these European efforts is hard to assess. Most of German savings and cooperative banks are excluded from supranational supervision and remain under national supervision. This seems to indicate that Germany was not particularly interested in more far-reaching solutions. The ECB’s asset quality review conducted before the ECB took over supervisory responsibility painted a favorable picture of the large German banks’ inherent stability. According to the review, only one German bank (Münchener Hypothekenbank) had insufficient capital; this capital gap was quickly closed in 2014.
Germany has assumed a leading role in the fight against the sovereign debt crisis in Europe. Its maximum financial guarantee for the European Stability Mechanism amounts to €190 billion. The country is also exposed to risks through the ECB’s TARGET payment system.

Internationally, Germany argued vigorously in favor of coordinated, international steps to reform the global financial system. In addition, Germany is one of the driving forces that helped to develop the G-20 summit into a first-class forum for international cooperation. Despite these efforts, however, Germany has also clearly defended the interests of its domestic banking system, particularly with respect to the special deposit insurance programs of state-owned savings banks (Sparkassen).

Although skeptical at first, the German government ultimately revised its position regarding the implementation of an EU level financial transaction tax (EU FTT). The European Commission proposed to introduce an FTT within the European Union by 2014. Later on, implementation was postponed until 2016. The proposal received mixed reviews among experts and policymakers. However, 11 EU member states, including Germany, are determined to introduce the FTT driven by the (contested) argument that it may reduce risky derivatives transactions, raise significant revenue and promote justice.

II. Social Policies

Education

Since the first PISA study in 2000, the OECD has often repeated its criticism that access to education in Germany is stratified and educational attainment is particularly dependent on pupils’ social backgrounds. Educational opportunities are particularly constrained for immigrants and children from low-income families. In comparison to other highly developed nations, German education structures also seem federalized and segmented. The most recent PISA results from 2012, however, show significant improvements (OECD 2013), reflecting possibly a catalytic effect of the “PISA shock” in the early 2000s. Germany now ranks above the OECD average in mathematics, reading and science, and has made considerable progress on education equity over the last decade. The importance of students’ socioeconomic background has lessened. While in 2000, the level of social equity in German education was among the lowest of all OECD countries, Germany was around the OECD average in 2012.

Other indicators confirm that Germany is still lagging behind the top education performers but slowly catching up. Germany ranked twentieth worldwide in the World Economic Forum’s Global Competitiveness Report, trailing 1.1 points behind
Switzerland, which achieved a score of 6.0 in the overall assessment of education system quality (Global Competitiveness Report 2012 – 2013: 442). Although the overall quality of the education system improved considerably (a score of 5.2, ranking the country 12th in 2014), Germany is still trailing 0.8 points behind frontrunner Switzerland (Global Competitiveness Report 2014 – 2015: 207).

However, the various periods within the lifelong learning process (cf. OECD 2011: 26), including pre-primary, primary and lower secondary education, upper secondary and post-secondary non-tertiary education, tertiary education and advanced vocational training, have vastly dissimilar performance profiles. For example, along with Australia and Iceland, Germany achieves a mediocre 5.1 score and is ranked second worldwide with respect to the quality of primary education (Global Competitiveness Report 2014 – 2015: 207); a moderate performance improvement over 2012 (when it scored 4.7 and ranked thirtieth). The primary education enrollment rate increased by 0.2% in comparison with 2010 (97.9% in 2014), resulting in a thirtieth place ranking (Global Competitiveness Report 2014 – 2015: 207). On the other hand, Germany was in the top group with respect to the local availability of specialized research-and-training services in the same survey. Here, Germany ranked third, only 0.5 points behind Switzerland, the leading nation with 6.5 points (Global Competitiveness Report 2014 – 2015: 207).

In contrast to other countries, the proportion of individuals with tertiary education (International Standard Classification of Education, ISCED, level five) has remained constant for decades but the proportion of young people with tertiary education (53% in 2012) is gradually approaching the OECD average (58%). In contrast, Germany exceeds the OECD average in youth participation in vocationally-oriented tertiary programs by 4% (OECD 2014: 4). The success of Germany’s dual conception of vocational training has become a role model especially for southern European countries facing high youth unemployment, such as Spain (where a reorganization of vocational programs has been intended since 2012).

Regarding segmentation, the OECD’s criticism is not uncontested, since it overemphasizes academic degrees as a criterion of educational success. Vocational education (ISCED levels three and four) “reduces the need for initial on-the-job training,” tends to increase the individual productivity that can be initially expected from a worker (OECD 2011: 122) and provides students with occupation specific skills. In general, Germany’s education system is strong in terms of vocational training, providing skilled workers with good job and income prospects. The rate of vocational education and training (i.e., the level of education that is either upper secondary or post-secondary but not tertiary education, ISCED levels three and four) is 22.1 percentage points higher than the OECD average. Within the 25 to 34 age cohort, 52.4% of the total population attained their formal qualification in this education category. In 2009, 81.2% of those with vocational education and training were
employed (OECD 2011: 135). All in all, the German education system excels in offering competencies relevant for labor market success, resulting in a low level of youth unemployment (OECD 2014: 3).

Defining educational achievement primarily on the criterion of university degrees (as the OECD does) might not do justice to the merits of the segmented German dual education system. While in the category below upper-secondary education, only 54.9% of the total population of 25- to 64-year-olds are employed (1.1 percentage points below the OECD average). Within the other categories of upper-secondary and tertiary education, Germany is slightly above the OECD average (respectively 75.5%, or 1.3 percentage points above the OECD average, and 86.4%, 2.8 percentage points above the OECD average). Although these figures fall short of placing Germany in the OECD’s leading group, they have improved considerably. In comparison to 1997, there has been an increase of 9.2 percentage points in the employment rate of people with an educational attainment below secondary education, reflecting the country’s substantial progress in this area (OECD 2011: 41; cf. statlink on this page: 118 – 135). Nonetheless, particularly among younger cohorts, upward mobility is less common than downward mobility (OECD 2014: 7).

Recently, reforms to reduce the number of years necessary to finish upper-secondary education were revoked in a number of states (Schleswig-Holstein, Baden-Württemberg, Hesse). This brought about a pluralization of educational standards. In consequence, issues of comparability of A-level exams between states have not been resolved.

Citation:
OECD (2013): Programme for International Student Assessment (PISA), Results from PISA 2012, Country Note Germany.

Social Inclusion

Germany has a mature and highly developed welfare state, which guarantees a subsistence level of income to all citizens. The German social security system is historically based on the insurance model. However, unemployment benefits have required some supplementation over the last decade and have to some extent even been replaced by need-oriented minimum levels of income. Furthermore, the amalgamation of unemployment assistance and social security benefits into a basic jobseekers’ assistance scheme led to the creation of minimum income levels for low-skilled single parents that may exceed this population’s actual earning potential.
There is ongoing debate over whether the current subsistence level is sufficient. Recipients of minimum income benefits are also entitled to goods and services such as health insurance and education free of charge. Nonetheless, according to the latest figures from EU-SILC, 20.3% of Germany’s population (approximately 16.2 million people) were considered to be at risk of poverty in 2013 (Statistisches Bundesamt, 2014). There has also been an increase in poverty and social exclusion. The latter is measured on the EU level by a combination of indicators on low income, deprivation and household joblessness. Concerning elderly people, the risk of poverty for current pensioners is lower in comparison to the general population but projected to rise significantly for future generations of retirees. This risk is already much higher for women than for men; the risk of poverty for women is generally always higher.

The positive employment situation over the past years reduced the poverty risks associated with long-term unemployment and also contributed to a stabilization of the Gini coefficient. Today, Germany’s Gini coefficient is slightly below the 2005 level, when Germany suffered from a peak in unemployment (Sachverständigenrat, 2014: 380). Whether the newly introduced statutory minimum wage will contribute to an improvement for workers with low qualifications remains to be seen and will crucially depend on the amount of job losses resulting from the minimum wage.

Citation:
https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2014/12/PD14_454_634.html.

Health

The German health care system is of high quality, inclusive and provides health care for almost all citizens. It is, however, challenged by increasing costs. Recently, the system’s short-term financial stability was better than expected due to buoyant contributions resulting from the employment boom. However, long-term financial stability is challenged by the aging population. In its coalition agreement, the incoming grand coalition negotiated a variety of reform measures to increase the quality of the health care system, redefine some financial details, and reorganize the registration of physicians in private practices and the distribution of hospitals.

The most important reforms included the reduction of the contribution rate from 15.5% to 14.6% and the confirmation of a fixed contribution rate for employers of 7.3% (employee contributions are 7.3%, again equal to that of the employers’ share). The additional contribution from employees, which was previously a lump-sum contribution, is now calculated as a percentage of their assessable income. This additional contribution rate can in future be set by each health insurance provider in accordance with its own financial needs, with the consequence of rising competition.
between insurers.

Concerning long-term care, the contribution rate for long-term care insurance will be raised by 0.3 percentage points in 2015 and by a further 0.2 percentage points in the course of the current legislative period. Thus, a total of €5 billion will additionally be available for improvements in long-term care. A part of the additional revenue will feed a precautionary fund intended to stabilize future contribution rates. In addition, families that wish to provide care at home are given greater support.

In general, the health and long-term care insurance systems are structures of continuing reforms that try to balance high quality and inclusive health care with increasing costs.

**Families**

For decades, family and work/care policies were largely uncontroversial in Germany. A broad consensus among political parties and major societal actors aligned the German system paradigmatically toward the male breadwinner model. Universal family benefits, incentives tailored to the needs of married couples and single-earner families, and a shortage of public child care contributed to women’s low rate of participation in the labor market.

Today, Germany’s family policy expenditure levels (about 2.2% of GDP in 2011) is around the OECD average (OECD Social Expenditure Database). Parental leave periods, previously short and lacking adequate compensation, have been extended. Paternity leave has been introduced and promoted. Today, a parent’s net income while on leave is on average just 25% less than their net income prior to leave (OECD 2010; PF2.4 Parental leave replacement rates). Additionally, the number of public child care places has been increased. Particularly in the west of Germany, care infrastructure for young children had often been virtually nonexistent. In 2012, just 27.6% of children under the age of three had access to a child care institution. However, a legal right to child care beginning at age one came into effect in August 2013. At the time of writing, the actual demand for early child care has not been sufficiently met, particularly in Germany’s western states. Furthermore, the number of children per kindergarten teacher varies considerably between the states, with rather high child-teacher ratios seen in the eastern states. Thus, significant investment in child care facilities remains necessary.

Another highly disputed policy on the government’s reform agenda during the period under review was the introduction of a financial child care supplement for children up to age three who were not attending a child care facility. This child care supplement was hotly debated inside and outside the Bundestag, with critics arguing that it provided poor incentives and would serve as a hindrance to integration. Nevertheless,
the supplement came into effect in August 2013. From that point onwards, parents have been eligible to claim the new benefit for children beginning 15 months after birth (subsequent to the expiration of the parental-leave subsidy), for a maximum of 22 months. The benefit amounted to a total of €100 per month in 2013 and rose to €150 in 2014.

In November 2014, a new bill was passed stipulating further measures to facilitate both work and family. Parents who want to work part-time during while on parental leave may apply for parental allowance Plus (ElterngeldPlus). The law is scheduled to come into effect in 2015.

In summary, these measures, in combination with an increasing shortage of qualified labor, have led to a considerable increase in women’s labor market participation. While in 2000 only 57.7% of 15 to 64 year old women were employed, this measure has increased to 67.8% (Statistisches Bundesamt, 2014). In the EU today, Germany (together with Denmark) ranks second only behind Sweden in terms of female labor market participation (Eurostat). However, German women are particularly often in part-time work. It is also striking that these favorable family support policies have not led to an increase in Germany’s low fertility rate.

Citation:

Pensions

Germany has engaged in a significant number of pension reforms in recent decades. All these reforms have improved the long-term sustainability of the pension system, leaving it in a favorable condition when compared to some other European countries. While German pensioners today have a low risk of poverty, projections indicate that this risk will grow over the coming decades as a result of previous reforms.

Far-reaching pension reforms were adopted by the new government in 2014 which have reversed the course of previous reforms (which had managed to preserve the pay-as-you-go system). The recent reforms were hotly disputed, with critics claiming they would undermine the long-term sustainability of the pensions system, lead to higher social security contributions, and burden younger generations and business with higher financial costs.

First, the government reduced the retirement age from 65 to 63 for workers who have contributed to the pension system for at least 45 years. This allows workers to retire at 61, registering as unemployed for two years and then drawing a full pension at 63.
Second, it provided a catch up for housewives with children born before 1992 relative to those with children born after 1992. An additional pension point will be added to the former group, which now can claim two points (instead of one), while the latter group can claim three. Finally, pensions for invalids were improved. The calculation will now include two additional years of (fictive) contributions. All in all, the costs of these reforms will amount to approximately €160 billion by 2030. Public subsidies for the pension fund will increase from €400 million to €2 billion euros in 2022.

The reforms go against the measures undertaken in recent decades to raise the participation rate of older workers, reduce early retirement, moderate the increase of the contribution rate and balance the pay-as-you-go system for the future.

Citation:
http://www.deutsche-rentenversicherung.de/Rheinland/de/Inhalt/5_Services/05_Fachinformatio nen/00_rundschreiben_/2014/4_2014.html.

Integration

About 15 million people in Germany (20% of the population) have or come from an immigrant background, a population share that has been increasing over time. Germany, however, still lacks a modern immigration law, one driven by the country’s economic self-interest in attracting highly skilled migrants. For instance, by the close of the review period, dual citizenship was still only allowed until the age of 23, though the grand coalition government formed in late 2013 has plans to change this policy. Since the German population is aging and shrinking, this protective approach to migration is problematic.

As a consequence of its positive labor market performance and the deep crisis in southern Europe, Germany has again become an attractive destination for migrants. The civil war raging in Syria adds to the growing numbers of migrants. According to provisional calculations by the Federal Statistical Office, 1,226,000 people immigrated to Germany in 2013 – the highest level of immigration in the last 20 years. In comparison to the previous year, this amounted to an increase of 146,000 persons (13%). Additionally, 789,000 left Germany in 2013 (an increase of 11%). In sum, the net immigration amounted to 437,000 people, which is the highest figure since 1993. These numbers pose a major problem especially at the communal level. The capacity for receiving new asylum seekers and refugees seems to have been exhausted. As a result, communal officials called for federal and regional financial aid to remedy the most severe shortcomings. Nonetheless, the naturalization rate remains low. In 2011, 106,900 people acquired German citizenship, representing a naturalization rate of just 1.44% of the country’s annual immigrants.
While Germany previously had an extremely liberal regime for migrants from EU member states, a liberalization of labor migration from non-EU countries has recently taken place. According to the OECD (2013), these reforms “have put Germany among the OECD countries with the fewest restrictions on labor migration for highly skilled occupations.”

Integration of immigrants is smooth with respect to most migrant groups from other European countries. The integration of Muslim migrants (especially from Turkey), however, has been more difficult, as evidenced by their lower educational achievement and higher unemployment rate compared to other immigrant groups. These problems are being addressed through the education system; for instance, through early German-language instruction in child care facilities, but this cannot yet be deemed a clear success story.

Lower Saxony is about to become the third German state (after Bremen and Hamburg) to sign a State Treaty (Staatsvertrag) with organizations representing German Muslims. These State Treaties express mutual respect and address important practicalities like Muslim religious holidays. Germany has a Federal Office for Migration and Refugees, but no ministry-level entity. An intercultural dialogue between representatives of German Muslim organizations and government officials was established with the assistance of the German Islam Conference (Deutsche Islam Konferenz). In addition, the government provides free language courses to support migrants’ integration. Notwithstanding, anyone who wants to become a German citizen must pass a citizenship test.

Citation:
OECD, 2013: Recruiting Immigrant Workers: Germany, Paris: OECD.
https://www.destatis.de/EN/FactsFigures/SocietyState/Population/Migration/Current.html

Safe Living

In general, residents of Germany are well protected against security risks such as crime or terrorism. Crime rates are on the decline. While in 1998 a total of 7,869 crimes were recorded per 100,000 inhabitants, this figure had fallen to 7,404 in 2013, with a slight increase in the detection rate from 52.3% to 54.5% (Bundesministerium des Innern 2013: 18). In absolute numbers, a total of 5,961,662 crimes were committed in 2013 – a drop of 0.6% in comparison to 2012.

However, the National Socialist Underground (NSU) scandal revealed institutional problems inside domestic intelligence and police agencies. In November 2011, right-wing terrorists Uwe Bönhardt and Uwe Mundlos killed themselves in order to avoid arrest. Along with Beate Zschäpe, who was facing trial at the time of writing, they had formed the NSU, a neo-Nazi group that had murdered nine people from immigrant
families as well as a German policewoman between 2000 and 2007. The trial of Beate Zschäpe, the only surviving member of the group, is still pending. Five leading officials of various intelligence agencies at the state and federal levels had been forced to resign as a consequence of mismanagement and possible misconduct related to the case.

Along with extremist activities by right-wing and left-wing groups and organizations, Islamic extremism is perceived as a threat in Germany. The Salafist movement (a Muslim group considered radical) is perceived to be a threat to domestic security and under surveillance by the Office for the Protection of the Constitution. The group is quickly growing in number and attracts support principally from younger German Muslims. However, right-wing reactions appear to be a greater threat to public order. In October 2014, an anti-Salafist rally by hooligans got out of control when they attacked police. Many demonstrators and police officers were injured when police used a water cannon and pepper spray to get the situation back under control.

In summary, authorities have been successful in securing public order and preventing major terrorist attacks, largely by detecting conspiracies at an early stage.

Citation:
Crime rates 2013

Global Inequalities

In absolute terms, Germany ranks third among donor countries with respect to the provision of official development assistance. However, when considered relative to its gross national income (GNI), it is positioned only among the average performing OECD countries.

The country’s trading system is necessarily aligned with that of its European partners. In trade negotiations within the European Union, Germany tends to defend open-market principals and liberalization. This position is in line with the country’s economic self-interest as a successful global exporter. For agricultural products in particular, the EU’s Common Agricultural Policy still partially shields European farmers from international competition, thus limiting the ability of developing countries to export their agricultural products to Europe. However, Germany has been more open than peers such as France to a liberal approach that would provide greater benefits to developing countries and emerging markets.

In order to enhance efficiency and cut administrative costs, three previously independent German developmental agencies were merged into GIZ (Deutsche
Gesellschaft für Internationale Zusammenarbeit) in 2011. GIZ works with the Federal Ministry for Economic Cooperation and Development (BMZ) in the context of international cooperative ventures focused on sustainable development. This concentration of tasks into a single agency has improved the efficiency of Germany’s development activities.

III. Environmental Policies

Environment

In recent years, there has been a change in focus in Germany from traditional regulatory policies to new environmental policies such as ecotaxes, tradable permits and environmental agreements. German environmental policy is embedded in and influenced by the European framework; however, Germany has established itself as a pioneer and market driver in the fields of renewable energy, offshore wind farms, cogeneration, and the energy efficient redevelopment of buildings and other infrastructure. In the latest Environmental Performance Index, Germany is among the “strongest performers,” achieving a score of 80.47. Ranking sixth worldwide, Germany considerably reduced its distance from Switzerland (87.67), the leading country (cf. Environmental Performance Index 2014). Germany performs well in the areas of water resources, sanitation, biodiversity, air quality, climate and energy. With regard to forests and fisheries, however, there is ample room for improvement.

The Fukushima meltdown in 2011 resulted in a controversial change in German environmental policy. In May 2011, Chancellor Angela Merkel announced that nuclear power would be phased out by the end of 2022, reversing her previous policy. Although the decision was generally welcomed by the public, certain questions remain unanswered. Long-term radioactive waste storage remains a challenge for public authorities. As do the costs for the consequent changeover in the energy mix, the financing of much needed electric grid expansion and additional renewable energy subsidies. These costs will result in the medium term in ballooning energy prices for consumers.

In addition, it is highly plausible that this phaseout will result in a higher share of fossil fuels in the country’s energy mix, making it more difficult for the country to achieve its CO2 emissions goals. Due to the turnaround in energy policy, German electricity production relied to a greater extent on lignite in 2013. Lignite is the most CO2-intensive technology of all fossil fuels with almost one ton carbon emission per megawatt hour (in comparison, natural gas emits 350 kg/MWh). The decision by the German energy industry to abandon large-scale carbon capture, transport, and storage (CCTS) implies that the country’s CO2 objectives can only be met through a rapid
phasing out of lignite plants (DIW Berlin, 2012). On the other hand, the European trading system for industrial carbon emissions permits, which is in place and working, is apt to absorb the shocks stemming from the policy turnaround. Its introduction, despite myriad complexities and difficulties, has without a doubt been a fundamental step toward a market-oriented strategy for reducing externalities. The energy tax, which is an indirect tax on the consumption of fossil and renewable fuels, is also driven by market principles.

Nevertheless, the phaseout policy will add new difficulties to an already mixed environmental policy picture. While environmental concerns have been among the top issues on Germany’s policy agenda in recent years, policymakers have in some cases failed to align implemented measures with market incentives. The extremely expensive subsidies provided to renewable energy producers represent one such example. In this case, the Renewable Energy Act (Erneuerbare Energien Gesetz, EEG) has guaranteed fixed prices for renewable energy suppliers over a long-term investment horizon. The EEG, in addition to its distorting effects on prices, is highly discriminatory between different types of renewables. In particular, the EEG heavily promotes and subsidizes photovoltaic electricity production, which is extremely expensive in comparison to other renewable energy sources.

On 1 August 2014, an amended version of the Renewable Energy Act (EEG) came into force to remedy some of the most serious distortions. The EEG created the basis for the further development of renewable energies and has become a main pillar of the German electricity supply (with a share of 25%). However, the rapid increase of renewable energies has resulted in a rise in EEG apportionment, and has presented a challenge for the stability and security of the electricity supply. The aim of the reform is to keep the EEG apportionment stable and to guarantee that the electricity supply remains both secure and affordable. The measures are expected to decrease feed-in tariffs for new electricity facilities and contain expenditure growth. An unresolved issue, however, relates to reserve capacities in electricity production for instances of peak demand and situations of low renewable production (e.g., in windless and dark winter days). Although these capacities are needed, they do not pay off for investors due to their very low expected production times.

Citation:

Global Environmental Protection

Germany is a driving force in international climate policy, in the development of renewable energies, and in efforts to improve energy and resource efficiency. The German government actively promotes strategies fostering environment- and climate-friendly development. Since 1990, Germany has reduced its greenhouse gas emissions
by almost 24% and is committed to a reduction of 40% by 2020. The country has achieved high economic performance levels with relatively modest energy consumption by international standards. The World Climate Summit in December 2011 in Durban, South Africa, showed Germany to be one of the prime advocates and architects of a new, post-Kyoto climate order, despite ongoing difficulties in reaching compromise on the specific design of an international climate regime.
Quality of Democracy

Electoral Processes

Germany’s constitution ensures that members of the Bundestag, the country’s lower parliamentary house, are elected in general, direct, free, equal and secret elections for a legislative period of four years (Basic Law, Arts. 38, 39). Parties that defy the constitution can be prohibited by the Federal Constitutional Court.

The Political Parties Act (Parteiengesetz, PPA) sets general criteria for the management of political parties and candidates. While independent candidates have to fulfill a signature gathering prerequisite (modest by international standards) in order to qualify for the ballot, parties must meet strict organizational requirements (PPA Section II). If parties have continuously held at least five seats in the Bundestag or a state parliamentary body (Landtag) during the last legislative period, they are allowed run in the election without any initial approval from the Federal Election Committee (Bundeswahlausschuss, FEC). Currently, even the right-wing National Democratic Party of Germany (Nationaldemokratische Partei Deutschlands, NPD), which remains under observation by the German intelligence services, fulfills this requirement. All other parties must register formally with the Federal Returning Officer (Bundeswahlleiter, FRO) at least 97 days before the date of elections and obtain at least 2,000 signatures in order to offer a list of party candidates at the state level.

In summary, German regulations allow for a broad range of political groups to run in elections. However, in its report on Germany’s last general election, the OSCE’s Office for Democratic Institutions and Human Rights (ODIHR) stated some shortcomings: “…[T]he legal framework for filing complaints has been improved, the lack of opportunities [for parties and candidates] to file an appeal prior to election day […] still limits [the capacity to challenge] incorrect administrative decisions and actions” (OSCE 2013: 9). In July 2012, the Bundestag passed a law that improved the legal rights of parties to file such a complaint previous to election day (OSCE 2013: 10). However, FEC decisions such as denying a candidate or a state list still cannot be challenge before election day. The ODIHR, once again, suggested that more precise and measurable criteria should be developed to decide which parties were eligible to participate in elections. Like in the previous general election in 2009, apart from these suggestions, no irregularities with respect to the application of Germany’s election rules have been reported.
Political campaigning is largely unregulated by federal legislation, a fact modestly criticized by the latest OSCE election report (OSCE 2013: 1). Article 5 of the Political Parties Act (Parteiengesetz, PPA) requires that “where a public authority provides facilities or other public services for use by one party, equal treatment must be accorded to all parties.” During electoral campaigns, this general criterion applies to all parties that have submitted election applications (Art. 5 sec. 2). The extent of public services parties are able to use depends on their relative importance, which is based on each parties’ results in the last general election (Art. 5 sec. 3). This is called the “principle of gradual equality,” and constitutes the basis for parties’ access to media in conjunction with the Interstate Treaty on Broadcasting and Telemedia (Rundfunkstaatsvertrag). The gradual equality principle is also applied to television airtime, although in this case the time granted to large parliamentary parties is not allowed to exceed twice the amount offered to smaller parliamentary parties, which in turn receive no more than double the amount of airtime provided to parties currently unrepresented in parliament. While public media networks provide campaigns with airtime free of charge, private media are not allowed to charge airtime fees of more than 35% of what they demand for commercial advertising (Die Medienanstalten 2013: 12). Despite these rules, there is persistent criticism of the media’s tendency to generally focus coverage on the six largest parties and, in particular, on government parties.

The OSCE’s Office for Democratic Institutions and Human Rights (ODIHR) concluded with respect to the penultimate general election in 2009: “[t]he amount and pluralistic nature of the information available allowed the voters to make an informed choice” (ODIHR 2009: 2). This general evaluation has not changed.

German citizens (Basic Law, Art. 116 sec. 1) aged 18 or older are eligible to vote and run for election to the Bundestag, provided that they have resided in Germany for at least three months (Federal Electoral Act, sections 12.1, 15). By judicial order, the right to vote can be denied to criminals, persons lacking legal capacity and convicts residing in a psychiatric hospital (Federal Electoral Act, sec.13). Before the election, every registered citizen receives a notification containing information on how to cast a vote as well as an application form for postal voting. Today, postal voting is widely used, largely without issue (according to the Federal Returning Officer, in the last
general election 24.3% of registered voters voted by mail). Citizens not included in the civil registry (e.g., homeless people) are eligible to vote but have to apply to authorities in order to be registered.

After the Federal Constitutional Court declared some provisions regarding the voting rights of Germans living abroad to be unconstitutional, a new amendment on the issue was drafted and passed in May 2013. Today, Germans living abroad have the right to vote (Federal Electoral Act, sec. 12) if they have lived at least three months in Germany after their fifteenth birthday and have not lived more than 25 years abroad without interruption. Those who do not fulfill these requirements are still eligible to cast their vote if they can verify that they are both familiar with and affected by German political conditions. Germans living abroad have to register to vote with the authorities of their last domestic residence at least 21 days before the election. They can then cast their vote by mail (cf. Federal Elections Act sections 36, 39 and Federal Electoral Regulations).

The period under review saw a number of elections on the state level (Brandenburg, Thuringia and Saxony) as well as the European elections in May 2014. No irregularities or complaints about voter registration, voter lists or postal voting have been reported.

Citation:

Postal ballot:
Information provided by the Federal Returning Officer
http://www.bundeswahlleiter.de/de/glossar/texte/Briefwahl.html
Federal Elections Act (BWG) Sections 36, 39
Federal Electoral Regulations (BWO) Sections 20, 25 to 31, 66, 74, 75

Elections in Thuringia, Brandenburg, and Saxony cf.
http://www.wahlrecht.de/termine.htm

Germany’s political parties finance their activities under the terms of the Political Parties Act (PPA) through state funding, membership fees, donations and sponsorships. In order to be eligible for state funding, parties must win at least 0.5% of the national vote in federal or EU elections, or 1% in state elections. A party’s first 4 million votes qualify it for funding of €0.85 per vote; for every vote thereafter, parties receive €0.70. In addition, individual donations up to €3,300 are provided with matching funds of €0.38 per €1 collected. State funding of political parties has an upper limit, which in 2012 was €150.8 million. From 2013 onward, this cap will be annually adjusted for inflation. Germany has no legislative campaign finance or expenditure caps. In the last OSCE election report, this practice was heavily criticized. OSCE experts recommended that authorities “consider adopting measures to require parties […] to provide detailed information on campaign expenditures” (OSCE 2013:
In this vein, there should be clearer rules that specify the use of financial support allocated to parliamentary groups. Most importantly, a clear line is needed that prohibits the use of this financial support in parties’ election campaigning (OSCE 2013: 9).

The insufficient transparency of party finances continues to receive criticism. The Group of States against Corruption (GRECO) has identified some progress with respect to transparency, but continues to point out shortcomings in the German system (GRECO 2011). However, as their 2013 report notes, the Bundestag’s Committee on Internal Affairs and “the coalition parliamentary groups […] saw no need for further action” (GRECO 2013: 5) to implement GRECO’s previous recommendations. In a recent assessment based on the accounting reports of all major parties, the nonprofit organization LobbyControl found that three-quarters of all donations to parties lack transparency. All donations less than €10,000 and revenues coming from party sponsorship remain opaque. By law, the names and addresses of campaign donors must be made public only if donations from that source exceed €10,000 per year.

German regulation on monitoring party financing is developed, but there is still room for improvement. Under Article 21 Section 1 of the Basic Law and Article 23 of the PPA, parties must file annual financial reports with the president of the Bundestag within nine months after the close of the reporting year. If a party fails to comply, a fine of two or even three times the amount of a misstated donation can be imposed. According to GRECO, the most pressing issue not implemented yet is ensuring the “…independence of the external audit of the parties’ financial statements…” (GRECO 2013: 5).

Finally, it must also be noted that, in recent years, several parliamentary parties have been accused of circumventing the PPA regulations.

Citation:


In Germany, referenda are of importance at the municipal and state levels. At the federal level, referenda are exclusively reserved for constitutional (Basic Law, Art. 146) and territorial issues. On the municipal and state levels, voter initiatives have been used in growing number since German unification, with their increasing frequency bolstered by legal changes and growing voter awareness.

By the close of 2013, 6,447 direct democratic procedures had been recorded in
German municipalities, 3,177 of which led to a referendum. Approximately 300 procedures are processed per year. City-states, North Rhine-Westphalia and Bavaria have disproportionately high numbers of direct democratic procedures. On the individual state level, the number of procedures fluctuates between 10 and 20 per year. At the end of 2011, 33 procedures were planned across a total of nine of the country’s sixteen states (Mehr Demokratie: Bürgerbegehrensbericht, 2014).

In some states (e.g., Baden-Wuerttemberg, North Rhine-Westphalia, Rhineland-Palatinate), the government or parliament can, under certain conditions, call a referendum with the power to confirm or overturn a decision by the legislature. This opportunity was first employed in Baden-Wuerttemberg in the conflict over Stuttgart’s new underground railway station. After more than 15 years of formal planning and approval procedures as well as formal approval by Baden-Wuerttemberg’s legislature, reconstruction of Stuttgart’s main station started in February 2010. However, massive demonstrations and broad popular resistance soon brought this to a halt. The conflict resulted in an out-of-court dispute resolution in October and November 2010. The arbitrator’s decision favored the continuation of the project with some additional construction requirements, which proved to be costly concessions to opponents of the project. A referendum on the issue held on 27 November 2011 provided popular legitimacy to the project, confirming the decision previously made by Baden-Wuerttemberg’s parliament.

Citation:

Access to Information

Germany’s Basic Law guarantees freedom of expression, press and broadcasting (Art. 5 sec. 1) and prohibits censorship, with exceptions delineated by the standards of mutual respect, personal dignity and the protection of young people. Print media, which are largely self-regulated, are broadly independent of political interference. The German Press Council is tasked with protecting press freedom. Germany ranked 14th in the Worldwide Press Freedom Index 2013 – 2014, improving by three places.

The Interstate Treaty on Broadcasting and Telemedia (Rundfunkstaatsvertrag) provides a general nationwide framework for the operation of public and private broadcast media. In the private broadcasting sector, governmental influence is limited to the general provisions, regulations and guidelines stated in the interstate treaty that ban discrimination or other abuses. While the relationship between public authorities and private media can be seen as unproblematic, one can observe dependencies between authorities and the public media organizations (ARD and ZDF) that are at least questionable.
In Germany, the Interstate Treaty on Broadcasting and Telemedia (Rundfunkstaatsvertrag, RfStV) defines a threshold of average annual viewership share of 30%, over which a broadcaster is considered to have an unallowable dominance over public opinion (RfStV, Sec. III, Subsection 2). The Federal Cartel Office (FCO) regulates most questions of oligopoly and monopoly in Germany, and has blocked several potential mergers in both print and electronic media markets.

Two main public television broadcasters operate at the national level in Germany: the Arbeitsgemeinschaft der Rundfunkanstalten Deutschlands (ARD), a conglomerate composed of various regional TV channels, and the Zweites Deutsches Fernsehen (ZDF). According to the Arbeitsgemeinschaft Fernsehforschung (AGF), a broadcast media research group, the public broadcasters together had a market share of 42.1% in 2012, slightly less than in 2009. In the private sector, the RTL Group holds a 25.4% market share, while the ProSiebenSat.1 Media AG accounts for 19.8% of the total television market.

The nationwide print media market is dominated by five leading daily newspapers, including Frankfurter Allgemeine Zeitung, Süddeutsche Zeitung, Die Tageszeitung (taz), Die Welt, Frankfurter Rundschau and the tabloid Bild, the last of which has by far the biggest circulation in Germany. Additionally worth mentioning as agenda-setters are a number of weeklies, in particular Der Spiegel, Focus, Die Zeit and Stern.

With newspaper circulation continuously falling, the Internet has become an increasingly important medium for citizens to gather information. This has forced the print media to engage in significant cost cutting measures, including reducing the size of editorial staff. In 2012, several newspapers closed down. The Financial Times Germany was the most prominent among them. Frankfurter Rundschau was taken over by the Frankfurter Allgemeine Zeitung, but is to keep its specific (left-leaning) profile. This structural change from print to electronic media has not been accompanied by increasing concentration, since there is a high level of diversity among electronic news providers.

Thus, Germany has a diversified media ownership structure and comparatively pluralistic and decentralized television and radio markets.

In his third annual report, covering the years 2011 – 2012, Federal Commissioner for Data Protection and Freedom of Information (FfDF) Peter Schaar made clear that considerable effort is still required in order to create a transparent federal
Score: 7

administration. Five federal states (Bavaria, Baden-Wuerttemberg, Hesse, Lower Saxony and Saxony) have not yet adopted their own freedom of information laws, although the right to petition remains a substitute. Furthermore, citizens are not broadly aware of the federal Freedom of Information Act. Although many federal agencies try to act transparently, some public authorities have interpreted the act in a very restrictive manner. Some have sought to introduce delays in the process of providing information, while others have refused to provide access to documents altogether, arguing that the contents were of vital importance to ongoing government activities and thus confidential. According to the FfDF, changes in governmental practices as well as a reduction in the number of statutory exceptions to the act are needed. The FfDF’s annual report listed 276 cases in which citizens sought help in response to federal authorities’ reluctance to make documents available. In 45 cases, information access was granted by public authorities after the FfDF issued a formal complaint.

Citation:
BfDI’s annual report 2011-12 http://www.thm.de/zaftda/tb-bfdi

Civil Rights and Political Liberties

In general, all state institutions respect individual freedoms and protect civil rights. Civil rights are granted by the Basic Law and their modification is possible only by a two-thirds legislative majority. Some provisions concerning basic human rights are not alterable at all. The court system works independently and effectively protects individuals against encroachments by the executive and legislature. In the Economist Intelligence Unit’s 2013 Democracy Index, Germany received a steady score of 9.12 out of 10 on the issue of civil liberties. However, 26 countries were awarded (slightly) higher scores.

In view of recent scandals which brought to light that the intelligence services neglected laws and disregarded national boundaries, it is at least questionable whether state security agencies respect citizens’ civil rights as an inalienable prerequisite of a constitutional state. It is, however, difficult to assess the amount of malpractice going on. Even the parliamentary investigation committee – tasked with scrutinizing the conduct of intelligence forces – complained about the government’s reluctance to provide all necessary information (FAZ 26.09.2014).

Despite these imperfections, the overall level of protection accorded to civil rights in Germany is high. The significance of civil rights is rooted in the country’s particular political history and the rule of law is given high priority.

Citation:
Due to Germany’s historical experience with National Socialism, political liberties are highly protected by the country’s constitution (i.e., Basic Law). Political pluralism is generally guaranteed, with the exception of laws restricting political forces clearly denying the democratic order. However, these exceptions are applied in a very restrictive way so that even extreme parties like the far-right Nationaldemokratische Partei (NDP) have full freedom to operate. Freedom of expression is protected by the constitution (Art. 5), although there are exceptions for hate speech and Nazi propaganda, such as Holocaust denial. Except in cases where individuals are deemed to be actively seeking to overturn the democratic order, the right to assemble peacefully is guaranteed (Basic Law, Art. 8) and is not infringed upon. The freedoms to associate and organize (Basic Law, Art. 9), as well as academic freedom, are generally respected. Non-governmental organizations operate freely. Every person has the right to address requests and complaints to the competent authorities and to the legislature (Basic Law, Art. 17). Freedom of belief is protected by the constitution (Basic Law, Art. 4).

Germany’s Basic Law (Art. 3 sec.3) states that every person, irrespective of parentage, sex, race, language, ethnic origin, disability, faith, religious belief or political conviction is equally important and has the same rights. The General Equal Treatment Act of 2006 added age and sexual orientation to that enumeration of protected categories. The Federal Anti-Discrimination Agency (FADA) monitors compliance with legal anti-discrimination norms and principles, supports persons who have experienced discrimination, mediates settlements, informs the public about infringements, and commissions research on the subject of discrimination.

Nevertheless, discrimination remains a problem in various spheres of society. For example, there is widespread agreement that women should be better represented in the business sector’s upper management, but political parties disagree on the proposed use of obligatory quotas. In its coalition agreement, the Grand Coalition agreed to introduce a gender quota to increase the number of women on corporate supervisory boards and the cabinet has initiated a law obliging a 30% share on the boards of large companies.

The Federal Constitutional Court decided in June 2013 that treating same-sex and opposite-sex marriages differently from a taxation perspective was unconstitutional. Regulatory changes reflecting this ruling were adopted within weeks by the parliament. In an October 2012 ruling, the Higher Administrative Court of Rhineland-Palatinate delivered an important signal against police discrimination by prohibiting the federal police from engaging in racial profiling. These examples indicate that legislators and administrations sometimes need a push from the courts to fight existing discrimination in a more uncompromising way.
Rule of Law

Germany’s Basic Law (Art. 20 sec. 3) states that “the legislature shall be bound by the constitutional order, the executive and the judiciary by law and justice.” In reality, German authorities do live up to this high standard. In comparative perspective, the country generally scores very highly on the issue of rule of law in indices whose primary focus is placed on formal constitutional criteria.

In substantive terms, German citizens and foreigners appreciate the predictability and impartiality of the German legal system, regard Germany’s system of contract enforcement and property rights as being of high quality, and put considerable trust in the police forces and courts. Germany’s high courts have significant institutional power and a high degree of independence from political influence. The Federal Constitutional Court’s (FCC) final say on the interpretation of the Basic Law provides for a high degree of legal certainty.

In a nutshell, Germany’s government and administration rarely make unpredictable decisions, and legal protection against unlawful administrative acts is effective.

Germany’s judiciary works independently and effectively protects individuals against encroachments by the executive and legislature. The judiciary also inarguably has a strong position in reviewing the legality of administrative acts. The Federal Constitutional Court (FCC) ensures that all institutions of the state obey constitutional dictates. This court acts only when an application is made to it, but it can declare laws to be unconstitutional and has exercised this power several times. In case of conflicting opinions, the decisions made by the FCC are final; all other governmental and legislative institutions are bound to comply with its verdicts (Basic Law, Art. 93).

The FCC engages in its review function even in cases of policies that are extremely important to the government. For example, the court ruled that the provisions of the European Stability Mechanism (ESM) treaty were consonant with the German constitution, but set out requirements for the interpretation of the treaty. Most importantly, the FCC ruled that any payment obligations for Germany exceeding the €190 billion mentioned in the treaty must be approved by the German legislature. Moreover, the FCC strengthened the information rights of German parliamentarians, as government officials had been reluctant to provide the Bundestag with full information on this issue on the grounds of professional secrecy.

Under the terms of the Basic Law (Art. 95 sec. 1), there are five supreme federal courts in Germany, including the Federal Constitutional Court (Bundesverfassungsgericht), Federal Court of Justice (the highest court for civil and criminal affairs, Bundesgerichtshof), Federal Administrative Court (Bundesverwaltungsgericht), Federal Finance Court (Bundesfinanzhof), Federal Labor
Court (Bundesarbeitsgericht) and Federal Social Court (Bundessozialgericht). This division of tasks guarantees highly specialized independent courts with manageable workloads.

Germany’s courts, in general, and the FCC, in particular, enjoy a high reputation for independence both domestically and internationally. In the World Economic Forum’s Global Competitiveness Report 2013 – 2014, Germany fell out of the top ten and was ranked thirteenth place among 148 countries on the issue of judicial independence. However, in absolute terms, Germany’s court system achieves a very high score of 6 out of seven. Germany’s court administration has also been successful in reducing the average duration of a lawsuit from 18.7 months in 2000 to 10.8 months in 2011 (Statistisches Bundesamt 2012).

Federal judges are jointly appointed by the minister overseeing the issue area and the Committee for the Election of Judges, which consists of state ministers responsible for the sector and an equal number of members of the Bundestag. Federal Constitutional Court (FCC) judges are elected in accordance with the principle of federative equality (föderativer Parität), with half chosen by the Bundestag and half by the Bundesrat (the upper house of parliament). The FCC consists of sixteen judges, who exercise their duties in two senates, or panels, of eight members each. While the Bundesrat, in accordance with the provisions of the Basic Law, elects judges directly and openly, the Bundestag delegates its decision to a committee in which the election takes place indirectly, secretly and opaque. The composition of this 12 member committee reflects the various political parties’ share of seats in the chamber. Decisions in both houses require a two-thirds majority.

In summary, in Germany judges are elected by several independent bodies. The election procedure is representative, because the two bodies involved do not interfere in each other’s decisions. The required majority in each chamber is a qualified two-thirds majority. By requiring a qualified majority, the political opposition is ensured a voice in the selection of judges regardless of current majorities. However, the opaque election procedure of one-half of the judges is potentially problematic. Although the FCC has ruled that this procedure is in accordance with the constitution, Bundestag President Norbert Lammert appealed in 2012 for a change to a more public and transparent election procedure. Further hampering transparency, the media does not cover the election of judges in great detail.

Despite a series of corruption scandals, Germany performs better than most of its peers. According to the World Bank’s Worldwide Governance Indicators, Germany is in the top category in this area, outperforming countries including France, Japan and the United States, but falls behind Scandinavian countries, Singapore and New Zealand (World Bank 2011).

The country’s Federal Court of Audit (Bundesrechnungshof) provides for independent auditing of national spending under the terms of the Basic Law (Art. 114 sec. 2).
According to the 2011 Audit Report, the revenues and expenditures of the federal authorities were in general properly documented.

Financial transparency for office holders is another core issue in terms of corruption prevention. Until very recently, provisions concerning required asset declarations by members of parliament have been comparatively loose. For example, various NGOs have criticized the the requirements for MPs in documenting extra income which merely stipulate that they identify which of the three tax rate intervals they fall under. This procedure provides no clarity with respect to potential external influences related to politicians’ financial interests. However, beginning with the current parliamentary term, members of the German Bundestag have to provide additional details about their ancillary income in a ten step income list. Auxillary income exceeding €250,000 is the uppermost category. Four Members of Parliament (all members of the conservative government party CDU/CSU) declared auxillary incomes exceeding €250,000. For example, Peter Gauweiler (CSU) declared 19 auxillary income sources, among them one of the highest category. The number of different sources reveals that this more precise system of declaration is flawed, too. Similar to party financing, it seems likely that, in order to avoid public attention, Members of Parliament will resort to the partitioning of their auxillary income. The current system is thus not apt to eradicate corruption via a transparent declaration regime. Instead, it sets incentives to declare auxillary income in slices of lesser amounts.

In 2013, Bavarian parties, particularly the governing Christian Social Union (CSU), were shaken by a scandal concerning the employment of legislators’ family members in parliamentary offices.
Governance

I. Executive Capacity

Strategic Capacity

On 17 December 2013, a new German government headed by the country’s two most important political parties, the Christian Democrats (CDU/CSU) and the Social Democratic Party (SPD) came into office and formed a grand coalition. The grand coalition has shown no interest in improving strategic planning in the Federal Chancellery or in the federal government. No important organizational devices for strategic planning were introduced at the beginning of the parliamentary term. The new head of the Federal Chancellery, Peter Altmaier, was again given the status of a minister without portfolio, strengthening his position vis-à-vis the minister-presidents of the federal states (Länder) and the heads of the federal ministries.

Although the Federal Chancellery is staffed by as many as 500 employees, the organizational structure of the German government is not well designed for strategic planning. The government is strongly influenced by party-political considerations, and all main decisions are made by the heads of the governing parties. In addition, the principle and practice of ministerial autonomy (Ressortprinzip) contributes to the fragmentation of the governmental process and hinders the development of a coherent policy orientation. Cabinet meetings are not able to compensate for this weakness.

Although there is a planning group in the Federal Chancellery, its number of staff is extremely small. It is led by Eva Christiansen, who also serves as Chancellor Merkel’s media adviser. For quite some time now, strategic planning has not been afforded high-priority by the federal government.

In some policy fields, expert commissions advise policymakers on a regular basis. Most of their members are appointed by the government or by respective ministries. In addition, ad hoc commissions are created to help with specific policy questions or major reforms that involve complex issues. There are other established expert advisory bodies providing the government with expertise and advice, such as the
German Council of Economic Experts (Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung) and the German Advisory Council on the Environment (Sachverständigenrat für Umweltfragen), which produce reports on current policy problems regularly (the former at least once a year, the latter every four years).

Most ministries maintain external, academic or legal advisory bodies. In addition, ministries commission studies that assess the likely impact of existing or planned measures. These independent evaluations sometimes have an impact on legislation that is manifest in some of the substantive policy reforms over the past decade. The 2003 Hartz reforms addressing labor market issues represent one notable example of how a report issued by an expert commission served as a blueprint for government reforms. The introduction in 2009 of the debt brake to the German constitution was prepared by a commission (Föderalismuskommission) that drew extensively on expert input from academia in defining the provisions for a debt limit. However, the impact of experts is often less visible and policymaking is heavily influenced by party positions. When the issue at hand is central to a party’s ideology, the parties tend to be less open toward independent or external advice.

The Commission of Experts for Research and Innovation (Expertenkommission Forschung und Innovation, EFI), established in 2006 by the federal government, presented its third report on research, innovation and technological performance in August 2014 with proposed measures that were, however, met with criticism by the government.

In a different case, an expert commission was established in 2009 to evaluate the impact of the state’s family benefits. In its report that was published in 2014, the experts criticized these benefits as ineffective in practice and ill-suited to address specific problems. Although this report – like many others similar to it – did not have an immediate impact, they do bear some influence on political debates within the government, the parliament and among the general public because they are made publicly accessible.

**Interministerial Coordination**

The Federal Chancellery is organized into six directorates, with various numbers of subgroups that are again subdivided to better mirror the line ministries (Spiegelreferate). With respect to European politics and international tasks, the Chancellery seems to coordinate with partners and to function quite effectively. However, national policies are mainly worked out by the individual ministries in accordance with previously struck political compromises. In general, the Chancellery does not autonomously evaluate important draft bills or assess them according to
strategic and to budgetary government guidelines. In addition, it appears that its capacities are generally lower than those of the line ministries.

The Chancellery, and particularly its head, sets the agenda for cabinet meetings. However, real political power lies elsewhere. The cabinet’s agenda is negotiated in advance between the top politicians of coalition partners, and the cabinet simply works as a certificating institution for policy matters decided by the heads of the political parties. Thus, the Chancellery will only in exceptional cases refuse items envisaged for the cabinet meetings on the basis of policy considerations. Generally, the heads of political parties rather than the Chancellery act as gatekeeper.

The preparation of bills is mainly the prerogative of the line ministries (Ressortprinzip). In the course of regular policy processes, the Chancellery is well informed throughout, but is not strongly involved in ministerial initiatives. Most disputes between ministries and the Chancellery are discussed and resolved in the often-weekly meetings between the state secretaries and the Chancellery’s staff. However, in the case of the current government, SPD-led ministries have displayed increasing autonomy from the government and the CDU/CSU-led ministries, often exploring the limits of their respective ministerial competences.

As a rule of thumb, the cabinet functions as an institution that formally ratifies policy decisions that have been made elsewhere. In principle, line ministers are responsible for policies within their own jurisdiction. Therefore, they have at least some leeway to pursue their own or their party’s interest, potentially hampering effective policy coordination. This leeway is quite substantial in international comparison, as coalition partners during the period under review mostly abstained from sending watchdogs in the form of state secretaries to ministries led by the other partner. Nonetheless, individual ministers’ maneuvering room is circumscribed by the cabinet principle and the chancellor principle. According to the cabinet principle, all important decisions have to be made by the cabinet as a whole. However, the cabinet only rarely discusses policy issues. For most day-to-day issues, line ministries briefly present their proposals, and the cabinet simply accepts them.

Most bills are effectively rubberstamped by the cabinet committee, as most controversial issues have already been settled before reaching the cabinet agenda. The dominant mechanism for conflict resolution is the coalition committee.

Ex-ante coordination between the line ministries’ leading civil servants has not been particularly strong under past German coalition governments. In addition, an entrenched political practice ensures that no ministry makes any proposal that might be postponed or blocked by other ministries. Proposals are often heatedly discussed in public by party politicians, ministers or the federal-state minister-presidents before any interministerial coordination takes place. The federal Ministry of Finance must be involved when budgetary resources are concerned, while complicated legal or constitutional issues necessitate the involvement of the federal Ministry of Justice. But generally, every ministry is fully responsible for its own proposed bills.
There are a number of informal mechanisms by which government policy is coordinated. The most important of these is the coalition committee, which comprises the most important actors (the chancellor, the deputy chancellor, the chairpersons of the parliamentary groups and the party chairpersons) within the coalition parties. According to the coalition agreement from November 2013, the coalition committee is expected to meet regularly at least once a month, or can be convened at the request of any of the coalition partners. However, during the review period, in which intragovernmental tension was rising at the end of 2014, the coalition committee has not met on a regular basis. Indeed, agenda-setting and policy formulation within the CDU/CSU-SPD coalition government proved to be much more difficult than the coalition agreement would suggest. More than once, the coalition partners publicly displayed a substantial and sometimes fundamental discord. In November 2014, the coalition committee met to resolve important conflicts, such as the gender quota for corporate boards, foreign policy concerning Russian politics in the Ukraine, financial assistance for municipalities slated to absorb growing numbers of asylum seekers, and climate policies.

Evidence-based Instruments

In 2000, the revised rules of procedure for the federal ministries (Gemeinsame Geschäftsordnung der Bundesministerien, GGO) came into effect, requiring that an impact assessment (Gesetzesfolgenabschätzung, GFA) be performed for every draft law. Thus, regulatory impact assessments are institutionally anchored in Germany. GFAs aim to limit the amount of state regulation to no more than is necessary, examine alternative regulation possibilities and improve the quality of regulations. The GFA process analyzes both intended and unintended effects of draft laws and potential alternatives. The Federal Ministry of the Interior has developed guidelines for the application of impact assessments. An evaluation of actual effects, and therefore the production of a retrospective GFA of existing laws and regulations, is part of the assessment process.

The government’s Bureaucracy Reduction and Better Regulation program, implemented in April 2006, created a number of new policies relevant to the assessment process. It established the National Regulatory Control Council (Normenkontrollrat, NKR) as an independent watchdog and advisory body tasked with assessing new legislation. It adopted the Standard Cost Model as a tool for measuring bureaucratic costs. Finally, it institutionalized the bureaucracy-reduction process by creating a coordination unit within the cabinet office and setting up a committee at the ministerial undersecretary level. However, the NRK only concentrates on potential bureaucratic costs, and not on impacts of laws foreseen through the evaluation process. In addition, about 30% of laws – specifically, those which are initiated by parliament – are not reviewed under the NKR.
A separate program is in place for environmental-impact assessment. The likely budgetary and bureaucratic consequences of draft laws also have to be assessed.

The National Regulatory Control Council (Normenkontrollrat, NKR) cooperates with a large number of different actors on various levels of the administration. Its cooperation with German states and local authorities has intensified, in particular with the development of methodological standards for assessing compliance costs. Moreover, dialogue and cooperation between various administrative levels has been further intensified (Federal Government 2012: 6).

Since social security institutions are self-governed in Germany, their evaluation does not fall under the jurisdiction of the NKR. But in order to facilitate policy learning, the NKR does cooperate with social insurance carriers, the federal statistical office and experts from individual federal ministries in an effort simplify measures and cost-reduction plans. Mechanisms for cooperation across the European Union and within the OECD also exist.

However, in its 2014 annual report, the NKR claimed that the government does not abide by its own rules. With respect to the most important laws introduced during the period under review (July 2012 – July 2014) the NKR complained that bills went to cabinet without involving the NKR or presenting reliable data on expected costs. This holds true for the pension reform, the statutory minimum wage, the gender quota, and the car toll. The government sought to stave off criticism by making references to external interference in the matters of government.

Citation:


Whereas RIAs examine alternative options and possibilities for improving the quality of regulations, environmental impact assessments is also assessed if the measure touches upon environmental aspects. Two institutions are important in German politics. First, the National Council for Sustainable Development. The council consists of 15 public figures and its tasks comprise developing contributions to implement the National Sustainability Strategy, specifying concrete areas for action and projects, as well as making sustainability an important issue in public politics and lawmaking. Secondly, there is a parliamentary Council for Sustainable Development which was introduced in 2004 and must be newly reconstituted after every parliamentary election. However, both Councils are not strongly integrated into the RIA, do not have an exhaustive set of measurable indicators and do not address the expected impacts of proposed laws on social, economic, and environmental issues.
Regularly, RIA comprises an assessment of budgetary consequences of draft legislation. In the context of the new constitutional debt brake, a transition phase toward balanced budgets has been defined (the federal level must keep its constitutional deficit limit by the year 2016, the states by 2020) and a surveillance council (this “Stabilitätsrat” is monitored itself by an independent advisory council) has been installed.

Citation:
http://www.nachhaltigkeitsrat.de/en/home/

Societal Consultation

In general, government representatives meet with societal stakeholders as part of their daily routine. Nevertheless, the CDU/CSU-SPD government did not make use of social pacts or other direct bargaining mechanisms to elaborate their policies or to seek compromises that satisfy stakeholder organizations.

As under previous governments, ministries and parliamentary committees during the period under review relied heavily on information provided by interest groups, and took their proposals or demands into account when developing legislation. The impact of civil-society actors in general depends on their power resources and organizational status. Since interests are sometimes mediated through institutionalized corporatist structures, employer’s associations and unions play a privileged role. On a regular basis, experts and interest groups take part in parliamentary committee hearings in the course of the legislative process.

During the first year of the grand coalition, both parties, the CDU/CSU and the SPD, sought to live up to the promises made in the coalition agreement in order to satisfy the perceived interests of their respective electorates. Some major policy projects – such as the introduction of a minimum wage and a reduction (to 63) in the statutory pension age that have been advocated by certain interest groups (primarily trade unions), were indeed realized. Although the country’s largest interest groups and representatives of the most important social movements have access to government officials and political parties, it seems that bargaining processes are not highly institutionalized and interest representation is conducted on an ad hoc basis.

Policy Communication

In a formal sense, the federal government’s Press and Information Office is the focal point for communication, serving as the conduit for information originating from individual ministries, each of which organizes their own communication processes and strategies. However, this does not guarantee a coherent communication policy,
which is a difficult goal for any coalition government. The persistent tendency of coalition partners to raise their own profile versus that of the other government parties explains what has sometimes appeared to be very dissonant communications policy. This became apparent during the processes involved with the partial realization of each governing party’s pet policies laid out in the coalition agreement.

Implementation

The current government has successfully realized many of the pledges made in the coalition agreement (cf. Coalition Agreement 2014). Within a relatively short time span, the government has introduced significant changes to a variety of policy areas. It introduced a pension reform that allows eligible workers to retire at 63 and increases pension payments to older mothers and those with a reduced earning capacity. The Bundestag also approved the country’s first general statutory minimum wage, set at €8.50 per hour. The regulations came into effect on 1 January 2015. In addition, the coalition parties agreed to introduce legal gender quotas for corporate boards in order to help break the glass ceiling for women in corporate leadership positions. Whereas implementation of the pension reform is expected to run smoothly, implementation of the minimum wage and legal quota reforms are expected to be much more difficult. Although each of these projects have been subject to considerable criticism from experts, the coalition government has stuck with its pursuit of its stated objectives and demonstrated its capacity for compromise.

A less favorable example concerns a much more complicated project, Germany’s energy transition toward renewable energy (Energiewende). A recent National Audit Office report fiercely criticized the project which lacks proper coordination and is subject to the whims of too many ministries at both the federal and state levels, which often work against each other or create redundancies. Despite the report’s criticisms (aimed primarily at the previous CDU/CSU-FDP government in power from 2009-2013), the current government remains committed to the project and how it is approached. While the government has made some efforts to, for example, contain the costs of renewables by amending the Renewables Energies Act (EEG), it remains to be seen how successful such attempts will be.

Citation:

In principle, line ministers are responsible for policies that fall under their jurisdiction. Therefore, individual ministers have some leeway to pursue their own or their party’s interests. This leeway is substantial in international comparison. Ministers sometimes pursue interests that therefore clash with the chancellor or coalition agreements. In the case of the current government, the coalition agreement
bears considerable political weight and has thus far proved effective in guiding ministry activities.

In terms of budgetary matters, Minister of Finance Wolfgang Schäuble is particularly powerful and is able – when he has the chancellor’s support – to reject financial requests by other ministries.

Some informal mechanisms are used to coordinate government policy, with ongoing coalition coordination being particularly important. Coalition agreements provide for clear rules when a coalition committee will meet and who will join the meetings. As in previous coalitions, the current committee consists of the chancellor and the vice-chancellor, the leaders of parliamentary groups and party leaders (if they are not already covered by the persons mentioned above). The coalition committee convened only once in November 2014, when conflicts within the coalition government increased.

According to the Basic Law, ministers are fully responsible for governing their own divisions. However, they are bound to the general government guidelines drawn up by the chancellor or the coalition agreement. On topics of general political interest, the cabinet makes decisions collectively. In case of dissent between ministers, the chancellor in principle has the power to serve as an intermediary. The Internal Rules of Procedure require line ministers to inform the chancellor about all important issues. However, in some cases, the Chancellery lacks the sectoral expertise to monitor line ministries’ policy proposals effectively, which means that effective delegation from the core executive to ministers does not take place.

Executive agencies’ competences and responsibilities are explicitly detailed in law, edicts, statutes and other regulations. Their activities are not only subject to legal, but also to functional supervision. The latter implies that agency’s decisions and administrative instructions will be reviewed. This holds for the federal as well as the regional level. However, the ministries have not always made appropriate use of their oversight mechanism. A number of independent agencies, including the Federal Employment Office, the Federal Network Agency, the Bundesbank and others have deliberately been placed beyond the effective control of the federal government. It is important that monitoring agencies maintain organizational independence so that they may monitor government’s course of action and the financial impact of government decisions and activities on the federal budget.

Citation:
http://www.spiegel.de/wirtschaft/soziales/energiewende-bundesrechnungshof-kritisiert-regierung-merkel-a-987040.html

The delegation of tasks from the national to the subnational level without commensurate funding has been a sore point of German fiscal federalism. The first stage of the German Federalism Reform, which abolished some forms of mixed
financing, represented a positive step in addressing this problem, though other problems soon emerged with the new provisions.

Municipalities have suffered under the weight of increasing costs of welfare programs. Although welfare benefits are defined by federal legislation, municipalities have often had to bear the bulk of their costs. However, a number of adjustments over the last years have substantially rejuvenated municipalities and states. The Hartz IV reform, which merged welfare benefits with unemployment benefits for the long-term unemployed, shifted minimum income payments for individuals capable of work from municipalities to the Federal Employment Agency. In addition, the federal government has begun to take over parts of certain other costs for long-term unemployed persons (Kosten der Unterkunft). In 2009 the federal government began compensating municipalities for basic income support provided to pensioners, the percentage of which reached 100% in 2014. According to the 2013 coalition agreement, further compensations for municipalities are planned for benefits to the handicapped. Financial burdens associated with education have also been shifted to the federal level. The recent amendment to the Federal Training Assistance Act (BAföG) increases the federal government’s financial support from 65% to 100% as of 2015. In short, although the federal government’s financial support to subnational levels with respect to benefits for the handicapped or children, the situation has improved considerably.

New challenges confirm that the federal level is prepared to relieve subnational levels in the event of unexpected financial stress prompted by conditions or events beyond the local government’s control. An agreement was quickly reached in November 2014 that enabled the federal government to compensate states and municipalities for the costs associated with an increasing number of asylum seekers and refugees from the (civil) wars in Syria, Iraq and elsewhere.

A continuing problem for the German federal system is the fact that states lack revenue autonomy. Municipalities, by contrast, have some substantive tax autonomy. In autumn 2014, the Konvent für Deutschland, a cross-party group of former leading state politicians, sharply criticized the grand coalition for failing to draw up coherent proposals and strengthen the financial responsibility of states in the context of the upcoming reform of fiscal equalization (the Fiscal Equalization Act expires in 2019).

Citation:

The allocation of tasks and responsibilities between the federal and state governments is defined in the Basic Law. Thus, police functions, cultural tasks and education, including both schools and universities, are the responsibility of the states. This distribution of tasks is largely respected by the central government. Thus, individual
states have considerable flexibility in defining the organization of primary and secondary schools. The first and second Federalism Reform packages slightly extended state competences. Financially, a highly developed fiscal-equalization system that includes horizontal (interstate) and vertical (both general and special-purpose grants from the central level) elements provide funding for state tasks. However, the fiscal equalization system is currently subject to heavy debate and in need of fundamental reforms. Moreover, states lack autonomous tax sources (with the exception of the real-estate transfer tax) (see “task funding”).

In Germany, public services are provided by various levels of government: the federal administration, the administrations of federal states, municipalities, indirect public administrations (institutions subject to public law with specific tasks, particularly in the area of social security), nonpublic and nonprofit institutions (e.g., kindergartens or youth centers), and finally judicial administrations. While some standards have a national character and thus have to be respected at all levels, this is not the case in areas such as education. The principle of federalism implies that the provision of public services will not be uniform across the country. This principle limits the ability to set binding standards unless the states voluntarily agree. It is an essential feature of federalism that it respects differences in preferences, allowing for experiments and heterogeneity in the provision of public services. The first and second Federalism Reforms, adopted in 2006 and 2009 respectively, granted states a number of (minor) new legislative competences, which they started to use during the period under review. The second Federalism Reform was important in that the issue of debt limits has been agreed upon as a package deal between political parties and between the federal level (Bund) and states (Länder). New debt brakes – chaining states to balanced budgets – were introduced to take effect in 2016 (federal level) and 2020 (states).

**Adaptability**

As in other EU countries, EU regulations have a significant impact on German legislation. The country’s legal system is heavily influenced by EU law, but the federal government does not have a central policy unit specifically coordinating and managing EU affairs. Each federal ministry is responsible for all matters within its sectoral purview related to the adoption, implementation and coordination of proposals by the European Commission. Federal structures present specific problems in terms of policy learning and adaptability to international and supranational developments. In general, Germany did not seriously attempt to adopt government structures to the changing national, inter- and transnational context. The coalition agreement neither mentions any concrete reforms nor does it envisage any long-term strategies to improve executive capabilities to adapt to changing international circumstances. On the contrary, the energy transition did not feature coordination between the various state governments, between state ministries, or between the federal government and the states. Overlapping competencies, conflicts and
sometimes organizational chaos dominates, although there is an urgent need for institutional and/or organizational change.

The German government actively collaborates in various reform efforts promoted by the EU and other transnational and international organizations. In the context of the still ongoing euro zone debt crisis, the German government has played a leading role in organizing and creating stabilization mechanisms.

The government strongly cooperated with European partners and international organizations as well as with the United States and other countries in addressing Ukraine’s Crimea crisis and the civil war in eastern Ukraine. Germany is clearly a constructive partner in international reform initiatives and is ready to accept substantial costs and risks in order to realize global and European public goods.

**Organizational Reform**

There is neither a particular institution nor a commission that independently and impartially operates as an oversight body with respect to governmental activities. In addition, institutional self-monitoring capacities are still low. However, the creation of the Better Regulation unit in the Federal Chancellery and the extension of the competences of the National Regulatory Control Council (Normenkontrollrat, NKR) – an independent advisory body – have strengthened the capacities for self-monitoring.

In general, institutional reforms intended to improve the government’s management capacities are extremely rare in Germany. As in other countries, strategic capacities and reform efforts are heavily influenced by constitutional and public-governance structures and traditions. Germany’s federal system assigns considerable independent authority to the states which, in turn, play a crucial role in implementing federal legislation. This creates a complex environment with many institutional veto players across different levels. Institutional and organizational inertia spells for low levels of strategic capacity, although the German Federalism Reform has begun to have an impact in some areas, as is demonstrated by the fact that the states Länder are increasingly using their new legislative competences and the Bundesrat’s veto has become less relevant (Reus/Zohlnhöfer 2015).

Citation:
II. Executive Accountability

Citizens’ Participatory Competence

Empirical analyses of German citizens’ level of political knowledge point to inconsistencies. On the one hand, the supply of independent political information is high. Germany has a diversified media-ownership structure and comparatively pluralistic and decentralized television and radio markets. Although the nationwide print-media market is dominated by five leading daily newspapers, the Internet has become an increasingly important medium for citizens to gather information. Broadcasters, radio stations and newspaper have adapted to the new circumstances by providing a great deal of their services online. Nevertheless, television news programs are the main source of information for most citizens. High-quality news broadcasts have comparatively large audiences. According to one survey, around half of the population watches a news program every day.

However, a recent survey indicates a dramatic decline in public interest in politics and in parliamentary debates in particular. Only 25% of the public express interest in politics and follow debates regularly (compared to about 50% 30 years ago). According to the study, mostly younger cohorts were not able to mention any parliamentary debate they followed with interest. Furthermore, only about 50% of respondents knew that the grand coalition consists of the CDU/CSU and the SPD. In addition, decreasing confidence in parties and politicians is undermining the motivation to stay informed. Political knowledge is continually decreasing and the informed evaluation of government policies seems extremely difficult for ordinary citizens. Compared to other European countries such as Great Britain, German citizens’ knowledge of politics is substantially lower.

Citation:
http://www.spiegel.de/politik/deutschland/bundestag-nur-wenige-buerger-interessieren-sich-fuers-parlament-a-1006678.html;

Legislative Actors’ Resources

The German Bundestag has adequate personnel and structural resources to effectively monitor government activity. Members of parliament can conduct their own research or obtain information from independent experts. The parliamentary library and the parliamentary research unit respectively have staffs of 175 and 450 individuals.
Every member of parliament receives a monetary allowance (about €16,000 per month) allowing him or her to maintain two offices and employ, on average, two experts. About 2,500 experts are currently working in the German Bundestag, and roughly the same number are working at the constituency level. Parliamentary groups also have resources to commission independent research studies.

The German Bundestag is a “working parliament” – that is, parliamentary committees are of great importance in preparing and discussing legislative initiatives. Outside their law-preparation activities, they also serve an oversight role with respect to government ministries. Committees can invite the ministers responsible for their policy areas to hearings, and have the right to ask for governmental information. Furthermore, in committee hearings, parties are allowed to invite their respective experts. Nonetheless, the ministerial bureaucracy sometimes tries to withhold information in cases where the opposition may try to use it to support criticisms of the government or prepare policy alternatives. Moreover, there are some restrictions regarding the provision of documents on the grounds of various forms of legally prescribed confidentiality, for example nondisclosure of official and commercial secrets. But most documents are made public and can be accessed in a variety of ways, including larger libraries and the Internet. In an important ruling on September 12, 2012, the FCC’s Second Senate strengthened the information rights of German parliamentary representatives regarding the European Stability Mechanism Treaty (ESM). Government officials had previously been reluctant to keep the Bundestag informed on this issue, claiming executive secrecy.

Parliamentary committees’ right to summon ministers is established by the Basic Law. The Basic Law also gives members of the federal government or the Bundesrat the right to be heard in front of the plenum or any committee.

Parliamentary committees are able to hold public hearings at any time, and can summon experts to attend them. This mechanism is regularly used. Rule 70 Section 1 of the Rules of Procedure of the German Bundestag states that “for the purpose of obtaining information on a subject under debate, a committee may hold public hearings of experts, representatives of interest groups and other persons who can furnish information. Where an item of business has been referred to it, the committee responsible shall be obliged to hold such hearings if one-quarter of its members so demand.” Experts are often able to influence parliamentary discussions or ministerial drafts and bring about changes in the draft laws, thus enhancing the quality of lawmaking.

In general, the task areas of parliamentary committees and ministries coincide. However, this is not always the case since the Basic Law provides for the establishment of several committees that do not have a ministerial counterpart (including the Committee on the European Union; the Petitions Committee; the Parliamentary Control Panel). Furthermore, several committees sometimes deal with matters that are within the responsibility of a single ministry (e.g., the Committee on Internal Affairs and the Sports Committee both monitor activities performed by the
Federal Ministry of the Interior), and a single committee sometimes deals with matters that are not clearly assigned to a single ministry. Nonetheless, parliamentary committees’ most important policy areas fully coincide with those of the ministries, enabling effective monitoring.

The Federal Court of Audit (FCA) is a supreme federal authority, and thus an independent body which is not overseen by government or parliament. According to the Basic Law, FCA members enjoy the same degree of independence as the members of the judiciary. Its task is to monitor the budget and the efficiency of state’s financial practices. The FCA submits its annual report directly to the Bundestag, the government and the Bundesrat. The Bundestag and Bundesrat jointly elect the FCA’s president and vice-president, with candidates nominated by the federal government. According to the FCA’s website, around 1,300 court employees “audit the (state) account and determine whether public finances have been properly and efficiently administered,” while the FCA’s “authorized officers shall have access to any information they require” (Federal Budget Act Section 95 Para. 2). The FCA tends to demonstrate its independence by generating critical and substantive reports that include severa examples in which the government has wasted taxpayers’ money. These reports receive considerable media attention. Each federal state has their own independent courts of audits with equal competencies related to the state budgets.

Citation:

The standing parliamentary petitions committee is provided for by the Basic Law. As the “seismograph of sentiment” (annotation 2 Blickpunkt Bundestag 2010: 19; own translation), the committee deals with requests and complaints addressed to the Bundestag based on every person’s “right to address written requests or complaints to competent authorities and to the legislature” (Basic Law Art. 17). It is able to make recommendations as to whether the Bundestag should take action on particular matters. Nonetheless, its importance as a citizens’ advocate and initiator of governmental action in response to public concerns is limited, and it is sometimes viewed as a largely symbolic institution. However, the committee at least offers a parliamentary point of contact with citizens. Two additional parliamentary ombudsmen are concerned with the special requests and complaints made by patients and soldiers.

Media

Public TV and radio broadcasters generally offer in-depth reports on the political process. The market share of the two main public television broadcasters, ARD and ZDF, has declined in recent years, forcing the public broadcasters’ head editors to copy the private channels’ successful infotainment and politainment formats. Nevertheless, by international standards, ARD and ZDF in particular offer citizens
the opportunity to obtain a relatively deep knowledge of political decision-making. The plurality and heterogeneity of the country’s television broadcast market is enhanced by the availability of programming from international broadcasters such as CNN, BBC World, CNBC Europe, Al-Jazeera, etc. In January 2014, the newspaper Süddeutsche Zeitung and the Norddeutsche und Westdeutsche TV established a research team designed to improve investigative journalism in Germany so as to counter official government information where necessary.

**Parties and Interest Associations**

During the period under review, party leaders of the coalition government were re-elected without facing major opposition for party leadership. No direct participation of party members regarding important decisions took place. The parties retained traditional hierarchical decision-making practices and candidate-election procedures. A copy of the coalition agreement was sent to all 475,000 members of the Social Democratic Party of Germany, who casted their vote in early December 2013. Within the CDU, delegates confirmed the coalition agreement. However, party members have little say in day-by-day politics. Decision making is firmly in the hands of top politicians within the government and party elites.

Economic interest associations like trade unions or employers’ associations in Germany are well-functioning organizations endowed with rich analytical and lobbying resources. They are definitely able to develop policy strategies and proposals and to present alternatives to current politics. Both trade unions and employers’ association have their own economic think tanks supporting their policy proposals through substantive research on costs and benefits of different options. Furthermore, these organizations also invest substantial resources in lobbying for their positions among the general public and do so successfully. For example, the decision to introduce a general statutory minimum wage had been preceded by trade unions’ extensive public lobbying.

As of April 2013, the government’s official list contained 2,142 registered associations, 56 more than in 2010. One-third of those can be considered noneconomic interest associations. Within the process of policy formulation, interest-group expertise plays a key role in providing ministerial officials with in-depth information necessary to make decisions. Citizen groups, social movements and grassroots lobbying organizations are increasingly influential actors, particularly at the local level. Although policy proposals produced by noneconomic interest groups can be described as reasonable, they tend to be focused on single issues and often ignore economic and financial constraints. In this sense their suggestions appear less realistic. Although noneconomic interest associations can succeed in placing subjects on the policy agenda that other actors tend to ignore, their lack of political weight means their influence is limited.
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