

## **Emerging from the crisis**

(primit din Germania)

January 15, 2009

**The grand coalition has agreed on a second recovery package with which it aims to lead Germany back out of the economic crisis. Government guarantees are to help businesses survive the economic crisis. Citizens will benefit from a variety of tax cuts and breaks, putting money back in their pockets. The government has also earmarked €14 billion for investment purposes, to jump start the economy.**

In the wake of the financial crisis last autumn, the economy is now increasingly feeling the pinch. Businesses must be helped to bridge this difficult period until economic recovery once again takes hold, with as few job losses as possible.

The economic and social structures currently in place are basically sound. The German economy is strong, its products competitive worldwide. It just needs to help businesses survive this lean period.

### **Liberating forces to foster growth and employment**

The "Pact for Germany" is to liberate forces to foster growth and employment according to Chancellor Angela Merkel. Vice-Chancellor Frank-Walter Steinmeier feels that the recovery package brings together economic necessities and social justice, in a triumph of common sense.

"We want to emerge stronger from this crisis," the Chancellor declared, explaining the goal of the government. This is to be made possible with the help of sustainable investment in the sectors of the future. All in all, the Chancellor sees the package as a concept to strengthen the social market economy.

Meeting on Monday evening, the coalition committee, which brings together the parties in the coalition, hammered out the main contents of the second major recovery package. The federal, state and local government bodies are uniting forces on an unprecedented scale to provide impetus for growth and employment.

### **Reducing burdens ...**

Short-time work rather than job losses is the principle under which businesses are to be helped keep their skilled workers. The federal government will pay half of the social security contributions that businesses would otherwise have to shoulder alone for workers on short time.

For 2009 and 2010 an additional sum of over €2 billion has been made available for further training and upgrading for workers on short time, but also for young workers with no professional qualifications and for young people who have been seeking a place as a trainee for a long time. Employment agencies are to be granted 5,000 new staff members to help them cope with this and with the additional placement and supervisory workload.

Income tax is to be cut, especially for the lower income brackets. The wage level at which

income tax becomes payable is to be raised by €170, as of January 1, 2009 and by another €170 as of January 1, 2010. The progressive income tax brackets are to be modified, to try to overcome the problem of progression, which often means that after tax, workers find that little is left of wage increases.

State health insurance contributions are to be reduced to 14.9 per cent as of 1 July 2009.

Families are to be granted a one-off bonus of €100 for every child. Recipients of the second stage of unemployment benefit will receive a higher allowance for children as of July.

Safety net for businesses: Healthy large-scale businesses, which currently have limited or no access to credit because of the reticence of the banks, will be granted government guarantees and will be able to borrow money from the federally owned KfW-Bank.

### **... and investing**

To improve nurseries and schools, roads and hospitals the government will be providing about €14 billion. Four billion euros will be earmarked for federal investments in projects such as motorways, while the other 10 billion euros are to finance a municipal investment programme. The federal states are to contribute another €3.3 billion. At least half of the total of over €17 billion is to be spent before the end of this year. To this end, regulations governing the placing of public orders are to be simplified on a temporary basis. These investments are to focus on the education sector, with 65 per cent of the total already earmarked. "We are well on the way to becoming a Federal Republic of Education," declared the Chancellor.

The planned investment has been designed to foster climate protection and energy efficiency.

At this time of crisis, many businesses do not have the resources they need for research and development, although R & D is more important than ever before. In order to bridge this gap, the federal government will be making available 450 million euros a year in 2009 and 2010 to medium-sized enterprises to help finance research projects.

Over the next two years, €500 million have been earmarked to provide assistance and loans designed to encourage the development of the vehicle engines for the future using fuel cells and hydrogen technology.

Broad band is today at least as important as good road connections for economic growth. The second recovery package thus plans to ensure nationwide broad band coverage by the end of 2010. Three quarters of all households are to have a rapid Internet connection by 2014, with one hundred percent coverage to be achieved by 2018, using both cable and wireless technology.

The German automobile industry is a cluster of innovation and high-tech unrivalled anywhere in the world. To help the branch back onto its feet, the demand for vehicles, which has dropped dramatically in the last few months, is to be revived. Anyone scrapping a vehicle that is at least nine years old, and buying a new environmentally-friendly vehicle, will receive an environmental bonus of 2,500 euros. This offer will apply until the end of this year. It is open to all owners of older vehicles who have had the vehicle for more than one year.

As of July 2009, vehicle tax is to be calculated on the basis of emissions caused. For older vehicles, CO2-based vehicle tax is to be introduced gradually as of 2013.

Although the level of national debt will rise for an interim period as a result of all these measures, the government is sticking to its goal of sound long-term financial policy. Along with the individual federal states it aims to enshrine a limit on borrowing in the Basic Law, or constitution, before the next elections.

### **Tackling the root causes of the crisis with new structures**

"Thanks to the reforms of the last five years, our country is in a better state to cope than many others," Vice-Chancellor Frank-Walter Steinmeier pointed out. Germany is well prepared to face the crisis. Nevertheless, an exceptional situation calls for exceptional measures, said the Chancellor.

To ensure that this international financial crisis does not repeat itself, Angela Merkel aims to push for a new global financial market constitution at the G20 summit meeting scheduled for April. As she put it recently, the goal must be to establish "a social market economy on a global scale".