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SAFE Finance Blog

A Pension Guarantee Until 2040 Is at the Expense of the Younger Ones

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Alexander Ludwig: Financing a pension guarantee only possible through higher taxes that would unfairly burden younger workers



The dispute over the pension system goes into the next round: Federal Finance Minister Olaf Scholz calls for a guarantee of pension levels until 2040: "We will insist that the federal government ensures a stable pension level in the 20s and 30s and presents a plausible financing model," he said to the "Bild am

Sonntag". He also threatened the Union to use the pension as a campaign topic: He hopes for a consensus in the coalition, said Scholz. "If that does not work, then it will be a topic of political debate. Then the citizens decide this question with their cross on the ballot," said Scholz.

So far, the coalition agreement has agreed to stabilize the pension level at 48 percent of the average wage by 2025. At the same time, the pension contributions should rise to no more than 20 percent of the gross salary. An expert commission should prepare recommendations for the time after.

Quickly there was opposition from the CDU/CSU fraction: The deputy group chairman Hermann Gröhe (CDU) rejected the proposal of Scholz flatly. "With his vigorously presented predetermination, Scholz is doing a disservice to the Commission's work which has just begun, even endangering the foundations of its work," said Gröhe to the German Press Agency. "This may be due to the persistent low of the SPD, but it is irresponsible!"

In fact, the criticism of Scholz's proposals for fixing the pension level until 2040 is not only understandable, but even fully justified. Because how Scholz wants to finance the pension guarantee, he did not say so far. One thing is clear: Such measures can only be accompanied by higher taxes and thus a higher and unfair burden on the younger working population. However, this has nothing to do with balanced intergenerational fairness.

Facts are mixed together

The German Trade Union Confederation (DGB) also joined in the debate: "Guaranteeing the level of pensions until 2040 and financing them adequately is the right answer to the legitimate concern of many employees that they cannot make ends meet in old age. The DGB has been calling for that for a long time," it was said in a statement. Here, unfortunately, once again facts are mixed together: Firstly, the average level of the pension has nothing to do with poverty in old age, so with the question of whether retirees "make ends meet". Rather, this is a matter of redistribution, such as the introduction of a minimum pension.

On the other hand, this view fails to recognize the additional retirement income that citizens can generate through greater savings. Further, and most importantly, the proponents of such a pension guarantee completely ignore the macroeconomic effects: higher tax and social security contributions would affect the efficiency of the economy. If this impairment is too great – and many serious calculations exactly point this out – in the future all citizens in Germany will be much worse than today. The proposal of Olaf Scholz may be well meant. But in fact, it is to the expense of today's employees, their children and grandchildren.

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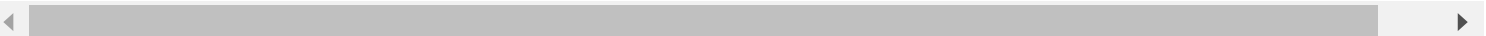
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