BUDGETARY SPENDINGS IN GERMANY IN THE EARLY YEARS OF THIRD MILLENNIUM

EVOLUȚIA CHELTUIELILOR BUGETARE DIN GERMANIA ÎN MILENIUL III

CORINA ŞERBAN[1]

[1]Tibiscus University Timisoara, Faculty of Economics, Timisoara, Romania; corinaboiceanu@gmail.com

Abstract: *This paper presents the structure and development of budgetary spending in Germany in the early years of third millennium. Evolution of the Germany's budgetary situation has a great influence on the final balance across the euro-zone and the European Union because of the huge weight that the German economy has in the European Union.*

Key words: *budgetary spending, budgetary deficit, Germany*

One of the most important instruments of the fiscal policy is the level and structure of public spending. Budgetary decisions are political acts, in the field of public spending, handling margin of decision makers is quite low due to primary continuity principle of public services. However, changes in public spending levels remain among the most active mechanisms of the budgetary policies, currently under the direct monitoring of the European Union bodies.

Financial sustainability of expenses and operating margin of the authorities depend on the individual circumstances in each state. Depending on the choice of political forces that assume the act of governance, public spending aim to achieve some social-economical proposed objectives. Modern budgeting of public spending in order to ensure economic growth, output of recession, implies a rationalization of how public money are involved and, therefore, obtaining performance in public field. This refers both to correctly correlate the volume of budgetary spending with the possibilities of purchasing appropriate resources, as well as to the optimum

distribution on destinations of these spending, avoiding waste of resources and inefficiency in their allocation.

Regarding the quality of public finances in terms of cost efficiency, at a meeting IMF director Rodrigo Rato said that *"empirical evidences suggests that productivity of budgetary spending is more important than their volume in ensuring sustainable economic growth and development. It is necessary to target budgetary spending towards sectors with the greatest impact on welfare*[*]*"*.

A statistical analysis of budgetary spending in the European Union notes, that, in the ten-year-review, the budgetary spending a share of GDP increased from 45,30% in year 2000 to 46,9 % in 2007.

Germany has budgetary spending close to the average level in European Union, presenting an oscillating trend with a minimum in year 2000, 45,1% GDP (when it recorded a budget surplus of 1,3 % of GDP), followed by increased budgetary spending by year 2003 (48,1% GDP) and their decrease (to 43,7% GDP in 2008), for reducing the excessive budgetary deficit recorded under the direct supervision of European Commission, initiating the procedure of amending Germany in year 2006. Germany is distinguished by a relatively high share of social security spending (21,87%), above the European average (18,58%), other types of expenses falling with the European average values

After 1990, when they joined the former German Democratic Republic, the economic situation in Germany has shown a deterioration, imposing at that time reductions of budgetary spending, achieved through privatization and reducing bureaucracy of administrative systems and starting a reforming process of the „welfare state".[†]

The central objective of German fiscal policy is to provide long-term support of public finances. In order to achieve this objective, economic and

[*] Cojanu V., Bîrsan Maria, Mureşan L., Aristide Oana – *Elemente ale unei strategii post-aderare,* Institutul European din România, Studii de impact, nr.7, 2005, pag. 29

[†] Somers F. – *European Union Economies, a comparative study* ,3 – rd Edition Addison Wesley Longman Limited, New York, 1998, pag. 254

employment of labor growth are necessary, as well as structural consolidation of budget and social security schemes.

Germany's public deficit situation in 2002-2006 was quite dramatic. In March 2006, the ECOFIN Council begun a warning procedure for Germany, demanding excessive budget deficit in relation to the requirements of the Maastricht Treaty to be reduced by later 2007. As a result, Germany had to reduce the deficit by 1% over one year. Following the tax measures proposed in 2006, public deficit was reduced faster than imposed by the commission, already droping in 2006 to 1,5% of GDP (from 3,3% in 2005), following that in 2008 to reach almost the equilibrium value (0,1% GDP), even if the worldwide financial crisis was already affecting all the economies.

Given Germany's economical plans for the years 2005-2008 and the reforms that the Government would implement, European Commission agreed in July 2006 that Germany has implemented the necessary measures for reducing the deficit within the stated time and withdrew the warning procedure against Germany.

Tab.1 German government expenditure by function (%GDP)

Spending	2000	2001	2002	2003	2004	2005	2006	2007	2008
General public services	6,00	5,80	5,80	5,90	5,70	5,70	5,60	5,50	5,50
Defense	1,10	1,10	1,10	1,10	1,00	1,00	1,00	1,00	1,00
Public order and safety	1,60	1,60	1,70	1,70	1,70	1,60	1,60	1,60	1,60
Economic affairs	1,70	4,10	4,00	3,90	3,60	3,50	3,30	3,50	3,50
Environment protection	0,70	0,70	0,60	0,60	0,60	0,60	0,60	0,60	0,60
Housing and community amenities	1,00	1,00	1,00	1,10	1,00	1,00	0,90	0,80	0,70
Health	6,30	6,40	6,50	6,60	6,30	6,40	6,30	6,30	6,60
Recreation, culture and religion	0,90	0,80	0,80	0,80	0,80	0,70	0,70	0,70	0,70
Education	4,00	4,20	4,20	4,10	4,10	4,10	4,00	3,90	3,90
Social protection	21,7	21,8	22,3	22,7	22,2	22,2	21,4	20,4	19,7
Total spending	45,1	47,6	48,1	48,5	47,1	46,8	45,3	44,2	43,7

Source: Annual Government Finance Statistics Data

The table presents the budgetary reform process started in year 2006, in order to reduce the excessive budget deficit, the expenditures with the general public services were significantly reduced by one percentage, from 6,0% of GDP in 2000, to 5,5% of GDP in 2008. Also, expenditures with defense fell from 1,1% of GDP in 200 to 1% of GDP in 2008; spending on public policy remained constant throughout the entire studied period.

Spending on economic activities have doubled their share in GDP, from 1,7% to 3,5%, while housing and land and culture fell 0,3% of GDP.One of the objectives of the federal government was to reduce wage costs, which is a barrier to creating new jobs, due to the large share of social contributions in labor costs. Germany continued the reforms initiated several years ago regarding the labor market. The program „Modern services on labor market" has been evaluated by experts on the effectiveness of active policies on the active labor market. In year 2007, the German government has examined the ways of increasing the efficiency and effectiveness of occupational policies. Some measures have already been taken, on August 1, 2006 entering into force the *Law for the future development of the indemnity for those seeking a job*. This law tries to limit abuse in granting compensation and to simplify administrative practice.

In addition, federal government wanted to extend the labor market prospects for groups with special problems, the issue of raising the educational level being one of the constant concerns contained in the European convergence plan, spending on education in the last decade has slightly declined as a share of GDP, from 4,0% in 2000 to 3,9 % in 2008.

In order to financial stabilize the state pension system in Germany, measures for extending the normal retirement age gradually from 65 to 67 years, starting with 2012, will be introduced. In addition, reducing adjustments should be implemented for the pensions, reductions that have not been applied in the past, canceling the growing transfers from the federal budget to the social insurances – to pay pensions. Public social security insurances for pensions will remain the most significant part of the

pensions' structure, but they will have to be completed with occupational and private pensions.

The share of spending with social security in GDP has an sinuous evolution, increasing in the first studied period to a maximum of 22,70 % of GDP in year 2003, based on the union with former German Democratic Republic and the increasing of the unemployment rate in this part of the country, following a decrease with two percental points, to 19,7% GDP in year 2008, as a result of the effort for reducing the excessive budget deficit of Germany. It has also to be considered that the overall spending on social protection in Germany has the largest share of total budgetary spending, as a result of this state's generous social protection policies.

In recent years, the federal government takes an intensive campaign to promote and support occupational and private pensions, following that, after an assessment of the acceptance degree of these two types of pensions among the population, to take the necessary measures in this area.

In October 2006, the federal government adopted a fundamental reform of the German health system[*]. This was implemented gradually, starting in April 2007 and consisted mainly of the establishment of a health fund, in order to increase the competition between health insurers and to increase transparency of using the resources of the health insurances systems. The federal government will apply a system of equal contributions in the future. If the If transferred funds will not be sufficient, insurers will have to improve their management or to cover the differences by increasing the contributions from the insured persons. As a result of these measures, the health cost rose slightly from 6,3% to 6,6 % of GDP in 2008.

In future, it will be possible to transfer part of the pension reserves to private insurances companies, expecting an increased competition between private health insurance companies, and the policyholders will be able to choose more freely among insurance companies.

[*] Bundesfinanzministerium (2006), German Stability Programme, www.bundesfinanzministerium.de

Starting with 2007, worldwide economic crisis begun to execute its effects on the European powerful economies. Although in 2008 the German budget was almost in balance, the government began an extensive reform of company taxation. The objectives of reform were increasing international competitiveness in terms of business location. The consolidation program of the budget in future considered the budgetary spending reductions as a result of these reforms, and also continued the policies of reducing the public spending, in order to prevent the deficit increases, as a result of these tax reforms.

Although Germany's public finances are in better shape than those of other countries in the European Union, Berlin's budget deficit reached 3.1% of GDP in 2009, and 3,3% of GDP in 2010, breaking the 3% deficit limit set by the EU's rules. This was a consequence of the budgetary incomes' decrease, especially the fiscal ones, and of the public spending increase, due to the action of the automatic stabilizers in the economy.

In 2010 the German government announced the biggest round of spending cuts since World War II. "The last months have shown — in connection with the crisis in Greece and the euro zone — how crucial solid finances are, and they are the precondition for being able to live in stability and prosperity," said the German Chancellor.

The austerity plan was ambitious — the aim was to save up to $95 billion by 2014 through a combination of deep spending cuts and revenue-raising measures.The savings include controversial cuts to welfare payments for the long-term unemployed and reductions in parental allowance for families. Under the plan, 10,000 civil servants working for federal ministries would lose their jobs; 40,000 jobs would be cut in the armed forces; there would be a new "ecological levy" on air travel; a tax would be imposed on the nuclear power industry; and, from 2012 on, there would be a tax on financial transactions.

Some economists welcomed the fact that the government steered clear of tax hikes; others said the round of spending cuts was too severe and could stall Germany's fragile economic recovery. "The government should have postponed the cuts until the economy is really back on its feet again,

Germany's focus on deficit reduction could end up affecting the global recovery. There is also concern that German cutbacks may hobble the feeble global recovery.

Having a strong economy and a relatively stable budgetary situation, Germany was considered the Union's „promoter", contributing with almost third to the European Union's budget. For this reason, Germany is hoping to set an example of budget discipline for other countries so they in turn will also tighten their belts.

The German economy rebounded strongly from the recession, with real GDP estimated to have increased by 3.6% in 2010, the highest growth rate since the early 1990s. Exports expanded buoyantly, largely reversing the massive decline recorded in 2009 and paving the way for a broader-based recovery of the German economy. Indeed, the highest growth contribution came from domestic demand. Catching-up effects after the crisis, increased public spending on infrastructure and rapidly increasing capacity use led to a rebound in investment, while private consumption was supported by the robust performance of the labor market as evidenced by rising employment and hours worked

Germany will again reduce its budget deficit in 2012, bringing it further below the euro-zone mandated ceiling of 3 percent of GDP. The 2012 draft budget of Europe's biggest economy foresees a deficit of €31.5 billion ($44 billion). Revenues are expected to be €272.3 billion, while spending will be roughly unchanged at €303.8 billion, that means the deficit will be well below 3 percent of GDP in 2011, though it would not provide an exact figure.

In conclusion, the real evolution of the economy shows once again that the fiscal measures have to be directed in order to improve the public finances' quality. For the purpose of the budgetary consolidation, the Government's expenses have to be controlled and the savings encouraged, turning in investments in the future. Concomitant with the measures taken in the expenses field, the incomes part is representing a factor of the same importance, regarding the ensuring of the public finances' quality. These have to be estimated considering the effect on the economic increase and

engagement. Any measure ensuring the orientation towards the future of the budgetary structures will be strongly influenced by the European Institutions and by the national budgetary rules.

REFERENCES

1. **BOICEANU (ŞERBAN) CORINA** (2010) – Acomparative analisys of some European Union member states budgetary policies, Teză de doctorat, Univ. Vest Timişoara, pag. 98-100
2. **COJANU V., BÎRSAN MARIA, MUREŞAN L., ARISTIDE OANA** (2005) – *Elemente ale unei strategii post-aderare,* Institutul European din România, Studii de impact, nr.7, pag. 29
3. **SOMERS F.** (1998) – European Union Economies, a comparative study ,3 – rd Edition Addison Wesley Longman Limited, New York, pag. 254
4. **BUNDESFINANZMINISTERIUM** (2006), German Stability Programme, www.bundesfinanzministerium.de