National Recovery and Resilience Plan
Germany
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National Recovery and Resilience Plan: Germany

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Abstract

By helping to give birth to the establishment of NextGenerationEU and the Recovery and Resilience Facility, the German government made a U-turn in relation to the Covid-19 pandemic compared with its earlier austerity approach in the management of the Euro crisis. Opposition to the new European debt and transfer instruments has been silent and political leaders have integrated the additional grants into their planning processes concerning changing the country's energy supply and expanding digitalisation. While the Recovery and Resilience Plan was assessed positively, some preconditions for implementing it still seem to be missing, such as better electricity and high-capacity broadband networks. The process of transforming the German economy structurally to be greener and more digitalised has, however, neglected the social implications. While a minor proportion of the RRP will be spent on strengthening social resilience, many vulnerable groups are not in the focus of the state's activities. The EU's conclusions in the 2019 Country Specific Recommendations are treated rather in economic than in social terms. A sustainable new growth model would need to tackle also long-standing problems such as the high external surplus, the low public investment rate, income inequality and the relatively high at-risk-of-poverty rate.

Keywords: NextGenerationEU, Recovery and Resilience Plan, Germany, European Pillar of Social Rights, European Semester.

1. The German government and NGEU.

Criticism of the NextGenerationEU (NGEU) package was silent in Germany after Chancellor Angela Merkel (together with French President Emmanuel Macron) came up with the initial idea for tackling Covid-19 crisis with a common European fiscal capacity. In the negotiations between the Member States in 2020 it was not Germany, but the so-called 'Frugal Four' – Austria, Denmark, the Netherlands and Sweden – who argued against the common debt and transfer instrument. German public opinion took the view that their

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insistence on pursuing the Euro-crisis path of helping countries with loans rather than with grants was regarded as obstructive, hindering the Commission and Chancellor Merkel (as well as the then President of the Council) to make a deal. An agreement was seen as crucial given the sharp plunge in GDP in the second quarter of 2020 and the uncertainty about the future course of the pandemic. Not everyone would go as far as the then German Minister of Finance Olaf Scholz, who spoke of a 'Hamilton moment' for the EU.[1] But unlike the emphasis on the Member States' own responsibility for their economic situation in the financial crisis of 2008/09 and the subsequent Euro crisis, the last Merkel government knew that the pandemic would require a bold and common European response.

2. The German RRP: an overview.

2.1. Timeline and amount requested.

The initial idea for a European recovery fund to counter the recession caused by the pandemic was jointly proposed by Macron and Merkel on 18 May 2020.[2] After intense negotiations between the Member States about the proposal, which was further developed by the European Commission into the NGEU package, the two heads of state described the agreement reached on 21 July 2020 as 'exceptional' and 'historic'.[3] For the German presidency of the Council in the second half of 2020 it was important to consolidate this diplomatic and political success by setting a positive example for other Member States by bringing into force the Reform and Resilience Facility (RRF). Therefore, the cabinet adopted a draft Reform and Resilience Plan (RRP) on 16 December 2020 and submitted it to Brussels before the end of the German Council presidency. This draft RRP was a relatively short 45-page document,[4] which was amended in a consultation process with the European Commission. The final RRP – now 1111 pages long plus annex – was adopted by the German cabinet on 27 April 2021.

Based on calculations made in 2020 (which will partly be revised in 2022) Germany can receive up to 25.6 billion euros (€) net (€28 billion gross) of grants from the RRF. This is the fourth highest amount after Spain (€69.5 billion), Italy (€68.9 billion) and France (€39.4

[1] Dausend P., Schieritz M., *'Jemand muss vorangehen'*, interview with Olaf Scholz, in *Die Zeit Online*, 19 May 2020, https://www.zeit.de/2020/22/olaf-scholz-europaeische-union-reform-vereinigte-staaten?mode=recommendation&page=3.
[2] Die Bundesregierung, *Pressekonferenz von Bundeskanzlerin Merkel und dem französischen Präsidenten Emmanuel Macron*, 18 May 2020, https://www.bundesregierung.de/breg-de/suche/pressekonferenz-von-bundeskanzlerin-merkel-und-dem-franzoesischen-praesidenten-emmanuel-macron-1753844.
[3] Die Bundesregierung, *Pressekonferenz von Bundeskanzlerin Merkel und Präsident Macron am 21. Juli 2020*, 21 July 2020, https://www.bundesregierung.de/breg-de/suche/pressekonferenz-von-bundeskanzlerin-merkel-und-praesident-macron-am-21-juli-2020-1770170.
[4] Bundesministerium der Finanzen, *Deutscher Aufbau- und Resilienzplan. (DARP) Entwurf.* 13 December 2021, https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren_Bestellservice/2021-01-13-deutscher-aufbau-und-resilienzplan.html.

billion).[5] There was no discussion in Germany about asking for additional RRF loans because the country enjoys extremely favourable refinancing conditions for government bonds on capital markets. When submitting its final RRP on 28 April 2021 the government requested a prefinancing sum of €2.25 billion, which is around 8.7 per cent of the average assigned to Germany.

The European Commission adopted a positive assessment of the German RRP on 22 June 2021, followed by approval by the Council on 13 July 2021. The prefinancing sum of €2.25 billion was disbursed by the Commission on 26 August 2021.

2.2. Main reforms and investments.

The German RRP lists six focus areas of investment activities (see Table 1). The two main areas are climate policy and energy change (40.4 per cent of total) and the digitalisation of the economy and infrastructure (21.1 per cent of total). This is in line with the Commission's priorities. Overall, Germany plans to invest around 42 per cent of total funding to support the EU climate neutrality target in 2050 and 52 per cent to support the digital transition. Both figures outstrip the EU-wide targets of 37 per cent (climate) and 20 per cent (digitalisation). The high share of digitalisation resources is mirrored in many measures throughout the RRP, not only in the respective field. The third biggest policy area for investment and reform measures is the strengthening of a pandemic resilient health system (16.4 per cent of total), followed by 12.5 per cent for modernising public services and tackling investment bottlenecks. Some 5 per cent is reserved for digitalisation in education and bringing up the rear is the reinforcement of social inclusion (4.6 per cent of total).

Table 1: Germany's six policy areas for RRF funding

	Investment/reform area	**Allocated funds in billions of euros (rounded)**	**Share of total funding in %**
1.	Climate policy and energy change	11.26	40.4%
2.	Digitalisation of the economy and infrastructure	5.9	21.1%
3.	Strengthening of a pandemic resilient health system	4.56	16.4%
4.	Modernising public services and tackling investment bottlenecks	3.52	12.5%
5.	Digitalisation in education	1.43	5.0%
6.	Strengthening social inclusion	1.26	4.6%
	TOTAL	**27.95**	**100.00%**

Source: Bundesministerium der Finanzen, *Deutscher Aufbau- und Resilienzplan (DARP)*, 27 April 2021, 15–17, https://bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Europa/DARP/deutscher-aufbau-und-resilienzplan.html; and Bundesministerium der Finanzen, *Monatsbericht Mai 2021*, 7-12,

[5] European Commission, *Recovery and Resilience Facility: Maximum grant allocations (current prices)*, 2020, https://ec.europa.eu/info/sites/default/files/about_the_european_commission/eu_budget/recovery_and_resilience_facility_.pdf.

https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren_Bestellservice/monatsbericht-mai-2021.html.

In the reform areas identified above, ten components with 40 measures and a total of 129 targets ('milestones') form part of the German RRP. As major financing projects with a volume of more than €1.5 billion the RRP mentions measures to modernise hospitals (*Zukunftsprogramm*) and the implementation of a law on public services digitalisation (*Onlinezugangsgesetz*) with €3 billion each, as well as support for the shifting to electric cars (*Innovationsprämie*) and further support to increase energy efficiency in residential buildings (*Bundesförderung für effiziente Gebäude*), each obtaining €2.5 billion. Some €1.9 billion will be invested in a programme for digitalisation and innovation in the car industry. And for two out of three joint projects with France (Important Projects of Common European Interest, IPCEI) to build production and transportation capacities for green hydrogen as well as to develop electronics design and a new generation of processors some €1.5 billion is being spent on each measure.[6]

The anticipated economic impact of the RRF on German GDP is rather low. Based on the draft version of the RRP the German Council of Economic Experts sees a short-term stabilising function of 0.74 per cent of 2019 German GDP. The Council bemoans the fact that around 80 per cent of the measures proposed by the government already form part of older programmes, especially the national economic stimulus package from June 2020, and that the scope of new financial resources remains unclear.[7] The German Institute for Economic Research (DIW Berlin) shares the assessment of low stimulus impact in the short run (0.19 per cent by 2022 and 0.62 per cent by 2025), but calculates an additional GDP increase of 1.89 per cent by 2040 because of the RFF measures. The investments and reforms concerning digitalisation and the health system would have the most striking effect.[8] It is important to note that most of the projects benefit from co-financing by the federal government.

[6] Bundesministerium der Finanzen, *Deutscher Aufbau- und Resilienzplan (DARP)*, 27 April 2021, 15–17, https://bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Europa/DARP/deutscher-aufbau-und-resilienzplan.html.

[7] Sachverständigenrat zur Begutachtung der wirtschaftlichen Entwicklung, *Stellungnahme des Sachverständigenrates zum DARP*, 30 March 2021, 4ff.: https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Europa/DARP/5-annex-2-stellungnahme-nationaler-ausschuss-fuer-produktivitaet.pdf?__blob=publicationFile&v=4.

[8] DIW Berlin, *Quantitative und qualitative Wirkungsanalyse der Maßnahmen des Deutschen Aufbau und Resilienzplans (DARP): Endbericht; Kurzexpertise im Auftrag des Bundesfinanzministeriums (fe 3/19)*, 2021, 14, https://www.diw.de/de/diw_01.c.817155.de/publikationen/politikberatung_kompakt/2021_0168/quantitative_und_qualitative_wirkungsanalyse_der_massnahmen___expertise_im_auftrag_des_bundes___nanzministeriums__fe_3/19.html.

2.3 Impact of the reforms on labour and social affairs.

It's important to differentiate between the explicit and the implicit impact of RRP measures on labour and social affairs. The implicit impact is enormous in terms of the potential labour market effects. DIW Berlin estimates the creation of 230,000 new jobs as a result of the investment and reform plans.[9] This applies particularly to projects on climate and energy change and digitalisation of the economy and infrastructure. There is no hint of whether these new jobs will enjoy good working conditions, however.[10]

Out of the 40 concrete measures envisaged in the German RRF, the federal programme to set up a network for further education (€38 million), the establishment of competence centres for teacher training (€0.2 billion) and equipping them with mobile digital devices (€0.5 billion) or the abolition of investment bottlenecks might induce positive labour market effects, although they would not be easy to measure. The digitalisation and modernisation of hospitals (€3 billion) and public health services (€0.81 billion) would facilitate access to the health system, while the implementation of a national education platform (€0.63 billion) might help to foster access to learning and equal opportunities.[11]

The most concrete measures in social affairs are those concerned with strengthening social inclusion. In detail[12]:

(i) an investment programme on childcare financing 2020-21 (*Kinderbetreuungsausbau*) to support federal states and municipalities with 90,000 new day care places for children (€0.5 billion);
(ii) a 'social guarantee' that social security contributions will not exceed 40 per cent (surplus covered by federal budget and federal states);
(iii) a programme to support companies offering apprenticeships (*Ausbildungsplätze sichern*) (€0.73 billion);
(iv) a reform programme to tackle students' learning lags as a result of the pandemic with extra training groups in schools (covered by federal budget);
(v) a digital pension overview to enhance individual pension information and planning (€34.3 million).

Except for the last measure on pensions the other four projects have a direct linkage to the social consequences of the pandemic and try to address infants, pupils, trainees, single parents and families on low disposable incomes. All of them belong to vulnerable groups hit hard by the crisis. DIW Berlin regards the requirement of supporting social resilience as fully

[9] DIW Berlin, nt. (8), 13.
[10] DIW Berlin simplifies its social assessment with regard to the impact on employment by speaking of the second pillar of the European Pillar of Social Rights (EPSR) and its Social Scoreboard as 'dynamic labour markets' (ibid, p 7). In reality the second pillar is named 'dynamic labour markets and fair working conditions', obviously beyond pure economic dynamism and with reference to disposable income and in-work poverty.
[11] Bundesministerium der Finanzen, nt. (6), 15 ff.
[12] Bundesministerium der Finanzen, nt. (6), 701 ff.

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achieved by these measures to strengthen social inclusion, as well as by the efforts to achieve a pandemic-resilient health system.[13]

3. The social and labour dimensions of the RRP.

3.1 Evaluations by the Commission and the Council.

On 22 June 2021 the Commission approved the German RRP. In a joint statement in Berlin, Commission President Ursula von der Leyen and Chancellor Angela Merkel referred primarily to the two main policy areas of climate protection and digitalisation. The Chancellery press release cites the head of government as referring to future investments 'in hydrogen, microelectronics, the Cloud and IT';[14] while the Commission's press release adds the strengthening of economic and social resilience and mentions support for disadvantaged groups and improving women's labour market participation by expanding day-care services. According to Commissioner for the Economy Paolo Gentiloni, these are 'challenges that the Commission has long recommended that Germany address'.[15]

Overall, the Commission's assessment of the German RRP was very positive. The highest possible rating (A) is awarded on ten out of eleven assessment criteria; only the details and depth of calculation on costing the projects are criticised and rated as only satisfactory (B). The Commission welcomes the German RRP with its six priorities focussing on the green and digital transitions. It describes it as a 'comprehensive and adequately balanced response to the economic and social situation, thereby contributing appropriately to all six pillars referred to in Article 3 of the RRF regulation, taking the specific challenges and the financial allocation of Germany into account'.[16] The Commission calculates on the basis of a GDP stimulus of between 0.4 and 0.7 per cent by 2026, which is in line with DIW Berlin estimates, although only 135,000 new jobs are predicted.[17]

Besides this labour market effect of the green and digital transitions, the planned measures to strengthen social and territorial cohesion, health, economic and institutional resilience, and also policies for the next generation (pillars 4 to 6 of the RRF) are assessed positively. The German government is expected to contribute to social cohesion by, for example, supporting schemes for apprenticeships and the education platform or additional childcare places. Education measures are particularly important in fostering social cohesion, while the

[13] DIW Berlin, nt. (8), 15 ff.
[14] Die Bundesregierung, *Green light to boost digitalisation and climate protection*, 22 June 2021, https://www.bundesregierung.de/breg-de/themen/europa-im-dialog/aufbau-und-resilienzplan-1934676.
[15] European Commission, *NextGenerationEU: European Commission endorses Germany's recovery and resilience plan*, Press Release, 22 June 2021, https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3133.
[16] European Commission, *Analysis of the recovery and resilience plan of Germany*, Brussels, 22 July 2021, SWD(2021) 163 final/2, 36:
https://eur-lex.europa.eu/legal-content/CS/TXT/?uri=SWD:2021:163:REV1&qid=1626959016062.
[17] European Commission, nt. (16), 46.

Commission sees 'a more limited contribution from social measures'.[18] Many projects have the potential to boost territorial cohesion by helping less developed areas to benefit, for example, in the construction and energy sectors. The digitalisation of the health sector might also reduce regional differences. Social resilience would be strengthened mainly through the digitalisation of education. This would also promote social inclusion, as would the tackling of specific disadvantages. In this connection, the Commission mentions[19]:

(i) the acquisition of skills at a young age in order to mitigate socio-economic disadvantages before school age is reached with the announced 90,000 childcare places in nurseries and kindergartens;
(ii) catch-up efforts for pupils behind in their studies (often from vulnerable or migration backgrounds) as a result of the pandemic in order to avoid compounding effects; such efforts would include additional training groups, other learning support and an apprenticeship initiative;
(iii) income and job effects on low-wage earners as a result of capping social security contributions;
(iv) the promotion of gender equality by enabling women to return to work more quickly and work more hours after maternity and parental leave with improvements in early childhood education and care.

The Commission gives a very general assessment of the impact of the German RRP on young people ('are expected to have more opportunities') and criticises the fact that certain focus groups are neglected, such as older people and people with disabilities. The lack of ambition with regard to gender equality is also criticised.[20] These gaps in the RRP are all the more remarkable, as the Covid-19 crisis has not done too much damage to the German labour market, but 'is likely to increase social vulnerability', especially with regard to the risk of poverty and equal opportunities.[21] Nevertheless, these aspects do not lead to a formal admonition. The proposal for a positive assessment on the German RRP was adopted by the Economic and Financial Affairs Council on 13 July 2021.

3.2 European Pillar of Social Rights and the Social Scoreboard.

In the German RRP the European Pillar of Social Rights (EPSR) is mentioned quite early (p 14) in a table presenting an impact analysis by DIW Berlin (*cf* Section 2.3). It shows that the objectives of the 20 EPSR principles are part of every one of the ten components of the six focus areas proposed by the German government, least realised in 'modernising the public services' and most realised in 'strengthening social inclusion' and 'strengthening a pandemic-

[18] European Commission, nt. (16), 35.
[19] European Commission, nt. (16), 25 and 34–36.
[20] European Commission, nt. (16), 25 ff. and 36.
[21] European Commission, nt. (16), 6–10.

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resilient health system'. Based on this analysis, the RRP explains that the government supports the development and strengthening of the EPSR and that the proposed projects will have a positive impact on implementing its principles. Especially the measures to support the disadvantaged or groups particularly affected by the pandemic would have a positive impact on implementing the EPSR. Early childhood care, support for pupils, the apprenticeship initiative and the digital pensions overview are mentioned in relation to strengthening social resilience in all three chapters of the EPSR. Support for dynamic labour markets and digitalisation of health services and hospitals would also be relevant in relation to the EPSR.[22]

Later, the EPSR is mentioned only occasionally in the RRP chapter on 'strengthening social inclusion', in relation to the fact that the components of the RRP would contribute in particular to all EPSR principles in its first chapter 'equal opportunities and access to the labour market', and that the digital pension information would contribute to principle No 15 'Old-age income and pensions'.[23] Of course other principles are affected as well, such as No 9 'Work–life balance', No 11 'Childcare and support for children', No 16 'Health care' and No 20 'Access to essential services'. It is obvious that the EPSR objectives of the pillar's first chapter are relatively easy to fulfil and compatible with other economic goals, while most of the principles in the second chapter 'Fair working conditions' and the third chapter 'Social protection and inclusion' are not touched on. This mirrors a conflict known from the European Semester between budgetary and competition-oriented policies, on one hand, and a desire to strengthen the social dimension, on the other.[24]

The analysis carried out by DIW Berlin on behalf of the German Ministry of Finance uses the Social Scoreboard to name five social policy groups, in which the country ranges below the EU average: lifelong learning, gender gaps in employment, income inequalities, poverty reduction, and access to health services. The study mentions the following among vulnerable groups exposed to the social consequences of the pandemic: parents (especially mothers), children from families with low socio-economic status, employees in exposed sectors, the low qualified and low-wage earners.[25] These aspects have only partly been taken up in the RRP, as we have seen.

In its own assessment the Commission shares the positive picture that the German government paints in its RRP for implementing the EPSR principles. Although the financial resources earmarked for social inclusion are relatively low, it is supposed that 'Germany's relatively good results on the Social Scoreboard are expected to be reinforced by the plan'.[26] The Commission praises the fact that Germany has 'few' employment and social challenges, its 'well developed social protection system' and the fact that the RRP 'addresses a multitude of employment and social challenges' relevant to implementing the EPSR, adding: 'Still, some

[22] Bundesministerium der Finanzen, nt. (6), 44.
[23] Bundesministerium der Finanzen, nt. (6), 730 and 770.
[24] Hacker B., *A European Social Semester? The European Pillar of Social Rights in Practice*, ETUI Working Paper, Brussels, 2019.05, 2019, 56 ff.
[25] DIW Berlin (2021), nt. (8), 8 ff.
[26] European Commission, nt. (16), 47.

indicators such as early school leaving and persons not in education, employment or training (NEET) have been deteriorating lately and hence the measures of the recovery and resilience plan mentioned above are particularly welcome.'[27]

3.3 Consideration of the Country-Specific Recommendations.

With regard to labour and social affairs the Country Specific Recommendations (CSR) 2019 call for the following[28]:

(i) to 'focus on investment-related economic policy on education; research and innovation; digitalisation […] and affordable housing, taking into account regional disparities';
(ii) to 'shift taxes away from labour to sources more supportive for inclusive and sustainable growth';
(iii) to 'reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners';
(iv) to 'take measures to safeguard the long-term stability of the pension system, while preserving adequacy';
(v) to 'strengthen the conditions that support higher wage growth, while respecting the role of the social partners';
(vi) to 'improve educational outcomes and skills levels of disadvantaged groups'.

This is a fairly comprehensive set of recommendations linked to the labour market and social affairs as things stood before the pandemic. The Commission (and later the Council adopting the Recommendations) identified some structural problems in Germany. Taxes on labour and especially social security contributions are too high to promote more employment. This creates problems particularly for women and people with migrant backgrounds wishing to participate fully in the labour market. Joint income taxation for married couples (so-called *Ehegattensplitting*) discourages women from working more hours. The share of low-paid workers (22.5 per cent in 2017) is above the EU average. Real wage growth is modest, while collective bargaining has been declining further, and housing is less affordable. People with migrant backgrounds make up a high proportion of early school leavers and experience difficulties in finding an apprenticeship. Children of low-skilled parents have a very high risk of social exclusion. For pensioners, the level of the public pension benefit ratio is expected to fall to 37.6 per cent in 2040.[29]

[27] European Commission, nt. (16), 47 and 50 ff.
[28] European Commission, *Recommendation for a Council Recommendation on the 2019 National Reform Programme of Germany and delivering a Council opinion on the 2019 Stability Programme of Germany*, Brussels, 5 June 2019, COM(2019) 505 final, 8, https://eur-lex.europa.eu/legal-content/DE/ALL/?uri=COM%3A2019%3A505%3AFIN.
[29] European Commission, nt. (28), 5–7.

The 2020 CSR – in the shadow of the pandemic – added the following recommendations to these challenges[30]:

(i) to 'strengthen the resilience of the health system, including by deploying eHealth services';
(ii) to 'focus investment on […] digital infrastructure and skills, housing, education and research and innovation'.

This focus is explained by the lack of preparedness of the German health sector for the pandemic, the danger of reduced income for vulnerable groups and unevenly distributed socio-economic consequences as a result of the crisis. The labour market and the education system were prone to leave people behind because of their lack of technological progress, which poses a challenge in particular to disadvantaged pupils and students with vulnerable socio-economic and migrant backgrounds.[31]

The German government sees its RRF as being in line with these recommendations. The 'social guarantee' stabilises social security costs at a maximum of 40 per cent, while support schemes for childcare places, training courses for students and more apprenticeships would address disadvantaged groups. Digital pension information would help citizens to optimise their decisions on employment and retirement provision. Digitalisation projects would respond to demands in the educational and health sectors.[32] This view is widely shared by the Commission, which also notes that 'further efforts are needed in the coming years on several reform areas', mentioning the high taxes on labour, the disincentives to work for second earners (mostly women), and the challenge to ensure sustainability and adequacy of the pension system.[33] Additional aspects of the 2019 and 2020 CSR not touched by the German RFF are the challenges regarding affordable housing and better conditions for higher wage growth, for example, by stopping the decline of collective bargaining agreements.

4. Lessons from the previous crisis.

4.1 Recommendations in the context of the in-depth reviews.

Germany has been monitored each year since the 2014 European Semester cycle by an in-depth review to identify and assess the severity of macroeconomic imbalances. This is because of the country's high current account surplus, mirroring its high export share of goods, services and capital, but lower import share. Since implementation of the

[30] European Commission, *Recommendation for a Council Recommendation on the 2020 National Reform Programme of Germany and delivering a Council opinion on the 2020 Stability Programme of Germany*, Brussels, 20 May 2020, COM(2020) 505 final, 8: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020DC0505.
[31] European Commission, nt. (30), 5–7.
[32] Bundesministerium der Finanzen, nt. (6), 21–30.
[33] European Commission, nt. (16), 36 ff.

Macroeconomic Imbalance Procedure Scoreboard in 2011 this surplus has remained above the permissible 6 per cent benchmark. The surplus peaked at 8.6 per cent in 2015 and has been declining, albeit slowly, ever since. Although external trade contracted during the pandemic, German exports remained strong. The surplus decreased from 7.6 per cent in 2019 to 7.1 per cent in 2020, but quickly grew again to 7.4 per cent in 2021. It is expected that there will be another decline to 6.4 per cent in 2022 in view of the high energy prices and trade disruptions following the war in Ukraine.[34]

Already before the pandemic the Commission was criticising the high current account surplus. While there was careful optimism in the alert reports in 2019 and 2020 on growing public investments, the 2022 in-depth review criticises its slow pace and its level below the EU average for two decades, 'resulting in underinvestment, notably at the local level, and has dented the quality of public infrastructure'.[35] During the pandemic, household and corporate savings increased further, which poses a threat to new investment challenges in decarbonisation and digitalisation. The Commission recommends boosting investments by tackling bottlenecks and by using government savings to a greater extent.

Regarding social and employment policies, the 2022 in-depth report mentions the investment needs in education, recalling that Germany's public spending in this area, at 4.7 per cent of GDP, remains below the EU average (5 per cent in 2020). Investing in early childhood education and care, all-day schools and universities would help disadvantaged groups to achieve better educational outcomes, therewith up-skilling the labour force, promoting growth and contributing to social inclusion.[36] Furthermore, the report discusses income inequality in Germany as an important reason for the high household saving rates, citing data from 2018 suggesting 'that 40% of German households with the lowest income have overall negative or around zero saving rates, and the high average saving rate is driven in particular by the highest income groups – with the 10% of the population with the highest income providing for 54 to 65% of total savings […]'.[37] In this light it is confirmed that taxes on labour are too high in Germany and there exist disincentives for certain groups (among others, married women) to work more hours. The Commission welcomes the planned increase of the minimum wage to €12 per hour from October 2022 onwards (an increase of 25 per cent) and encourages the German government to work on the tax wedge with the following aim: 'Policies that increase disposable incomes particularly among low- and middle-income households, which have an above-average propensity to consume, could help external rebalancing, while also fostering more inclusive growth'.[38]

[34] European Commission, *In-depth review for Germany in accordance with Article 5 of Regulation (EU) No. 2011/1176 on the prevention and correction of macroeconomic imbalances*, Brussels, 23 May 2022, SWD(2022) 629 final, 4, *see*: https://ec.europa.eu/info/sites/default/files/economy-finance/germanyswd_2022_629_1_en_autre_document_travail_service_part1_v1.pdf.
[35] European Commission, nt. (34), 5.
[36] European Commission, nt. (34), 21.
[37] European Commission, nt. (34), 5.
[38] European Commission, nt. (34), 6.

4.2 Country Specific Recommendations 2022.

The 2022 CSR for Germany integrate the 2019 and 2020 CSR (see above), which have remained relevant during the course of the European Semester and the implementation of the RFF plans.[39] The recommendations concentrate on budgetary and economic as well as on energy policy aspects, but are rather silent on social issues. From the demands identified in the 2019 and 2020 cycles, the Commission again mentions the following[40]:

(i) to improve 'tax incentives to increase hours worked';
(ii) to 'safeguard the long-term sustainability of the pension system'.

In the social sphere the following is added:

(i) to ensure 'targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine'.

The Commission recommends 'a fiscal policy aimed at achieving prudent medium-term fiscal positions', although expectations for reducing the government deficit (1 per cent of GDP in 2023) and debt (64.5 per cent of GDP in 2023) are positive. Supporting measures in response to rising energy costs might last longer than expected. It is bemoaned that some of the instruments are not targeted, such as the increase in commuter allowance and the reduction of energy tax on fuel. Reducing energy dependency on fossil fuels and energy imports from Russia, as well as increasing energy efficiency are becoming the most pressing policy objectives. This is in line with the green transformation of the economy outlined in the RRP. Digitalisation as its second big policy field remains important as well. The CSR 2022 adds the necessity to expand high-capacity broadband and 5G, neither of them covered in the RRP. The complaint about the labour tax wedge and its adverse incentives for low- and middle-income earners and second earners is not new. The CSR sees this as in line with stronger work incentives necessary for ensuring the sustainability of the pension system. The state-subsidised private pension scheme (*Riester Rente*) is openly criticised. In particular, low-income earners will experience insufficient retirement savings without a pension reform.[41]

In the Commission's 2022 Country Report on Germany there is more information about the challenges identified in Brussels, going beyond the positive assessment of the RRF in 2021. While the approach to climate, energy and digital change remains the right one, the Commission sees additional challenges ahead: 'These include in particular, improving framework conditions for investing in the green and digital transitions[,] boosting education and skills, improving the tax mix, addressing inequalities and preparing the pension system for an ageing society.'[42] One year after accepting the German RRP, some requirements for

[39] European Commission, *Recommendation for a Council Recommendation on the 2022 National Reform Programme of Germany and delivering a Council opinion on the 2022 Stability Programme of Germany*, Brussels, 23 May 2022, COM(2022) 606 final, 2:
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2022%3A606%3AFIN&qid=1518252661475.
[40] European Commission, nt. (39), 11.
[41] European Commission, nt. (39), 5–10.
[42] European Commission, *2022 Country Report – Germany*, Brussels, 9 June 2022, SWD(2022) 606 final/2, 8, https://ec.europa.eu/info/files/2022-european-semester-country-report-germany_en.

fulfilling its objectives and milestones seem to be missing. Planning structures remain low and investment bottlenecks persist. Given the state of the electricity network and the low coverage of high-capacity broadband networks, as well as qualified labour shortages, the green and digital transitions are in danger.[43]

Regarding the social agenda, progress on implementing the 2019 and 2020 CSR is assessed as 'limited' in most fields.[44] This is even more problematic given the recent deterioration in social indicators in the Social Scoreboard. Unlike one year ago, when only two indicators out of 14 ranged below the EU average, Germany now has eight out of 16 indicators below the EU average. The Social Scoreboard values from 29 April 2022 have worsened in seven categories compared with the previous year's data, which have been the basis for assessing the RRP. There is only progress on three indicators, while three others remain unchanged.[45] Germany's social situation is far below the EU average on the indicators: early leavers from education and training, the income quintile ratio, the disability employment gap and housing costs are overburdening the population. Also below the EU average are individuals' level of digital skills, being at-risk-of-poverty or social exclusion for the whole population as well as for children, and the proportion of children below three years of age in formal childcare. These critical indicators are to be found in the EPSR's first and third chapters, whereas all indicators in the second chapter perform at the EU average or better. In its 2022 Country Report the Commission worries especially about the social vulnerabilities for women, low-qualified people, people with disabilities, early school and training leavers, children affected by poverty or social exclusion and low-income earners.[46] These implicit warnings in the social sector have found their way into the draft 2022 CSR only to a very peripheral degree.

4.3 Politicisation of the NGEU process.

Since the period in which the German government led the austerity management of the euro-crisis from 2010, a lot has changed in the country's economic debates.[47] There are several reasons for this turn of events. First, the Commission under the presidency of Jean-

[43] European Commission, nt. (42), 8–11.
[44] European Commission, nt. (42), 25.
[45] It is important to note that between 2021 and 2022 the Social Scoreboard was enhanced with three new indicators (the disability employment gap, the excessive burden of housing costs and being at risk of poverty or social exclusion for children), while another was replaced (net earnings of a full-time single worker). While in the latter case Germany belonged among the best performers, the country shows poor results for the three new indicators. The Commission has added changes in the statistical methodology and suggested caution in interpretating the figures, *see* nt. (42), 43.
[46] European Commission, nt. (42), 42 ff.
[47] In line with the surprising turn from conditionality to fiscal transfers in the EU, *cf.* Heise A., *Die Aufbau- und Resilienzfazilität und Covid-19 oder: Wie die EU aus Fehlern lernt*, in *ZÖSS-Discussion Papers*, April 2021, https://www.wiso.uni-hamburg.de/fachbereich-sozoek/professuren/heise/zoess/publikationen/zoess-discussion-papers/dp-84-heise-aufbau-und-resilienzfazilitaet-der-eu.pdf; Watzka S., Watt A., *The Macroeconomic Effects of the EU Recovery and Resilience Facility*, IMK Policy Brief, 98, October 2020, https://www.imk-boeckler.de/de/faust-detail.htm?sync_id=9110.

Claude Juncker put an end to 'pure' austerity by making the use of the Stability and Growth Pact more flexibly and by turning attention away from budget issues to growth and investments, as well as to employment and social inclusion (not to mention initiating the EPSR). The IMF was very critical in its evaluation of the austerity approach and its own involvement in the conditionalities of the rescue umbrellas. Receiving credit lines as financial assistance from the European Stability Mechanism (ESM) implemented in 2012 and its precursors was possible only by agreeing on an adjustment programme focused primarily on budgetary issues. With the idea of working towards better terms of trade and reducing public debt in order to please the capital markets, countries in crisis radically cut public spending, for example, investments and social benefits. The devastating effect of cutting demand during an economic downturn produced negative economic and social effects not only in the mainly southern European countries affected by euro-crisis management, but also for their solvent northern European trade partners. The need for common European responses to crises that, to boot, do not exacerbate the socioeconomic situation and cut established trade flows became apparent for Germany in the migration crisis and in the Brexit discussions not long after the euro-crisis began to calm down in 2015.

Turning away from discussing what other countries might do better, new political debates arose around neglected investment policies in Germany. These include the important car industry with its emissions scandal and failure to keep up with competitors such as Tesla in relation to electrification; but also the public sector, with its failure to keep infrastructure up to date and tackle structural transformation in the face of climate change, digitalisation and globalisation. In a rare show of unity the DGB trade union confederation and the BDI industry confederation jointly demanded a public investment initiative of €450 billion over the course of ten years, especially in municipal infrastructure, education, the railway system, broadband technology and carbon dioxide reduction.[48] When the pandemic hit Europe in early spring 2020, the need for investment instead of an austerity agenda, as well as for a European instead of merely a national approach was obvious, even for many hawkish economists and politicians.[49]

It is speculative, but maybe because of this new unity in the economic policy debate the government held consultations on the RRP at a low level. The DGB, the BDI, the Confederation of German Employers' Associations (BDA) and the United Services Trade Union (ver.di) were invited to a meeting to discuss the general alignment of the RRP in November 2020. They were also asked to comment on the draft report, along with the main welfare and environmental associations. While the final report states that these actors were 'closely involved' in the process of drafting the RRP, the relevant associations have described this as only partially true. In a written statement, the DGB complained that the social partners

[48] BDI, *BDI und DGB verlangen ambitionierte Investitionsoffensive der öffentlichen Hand*, 18 November 2019, https://bdi.eu/artikel/news/bdi-und-dgb-verlangen-ambitionierte-investitionsoffensive-der-oeffentlichen-hand/.

[49] *Cf.* an overview on the main lines of discourse on the euro-crisis in Germany, Hacker B., Koch C.M., *Reform discourses on the Euro zone. Continuity, expansion or roll-back in the German debate*, Friedrich-Ebert-Stiftung, Berlin, December 2016, http://library.fes.de/pdf-files/id/ipa/13000.pdf.

were not involved properly; the Environmental Action Germany (DUH) objected that there was no consultation with environmental associations beyond two video conferences; and the German Association for Public and Private Welfare complained that it had not been given sufficient time to prepare a position paper.[50] The same resentment was voiced by the federal states (*Länder*). In a resolution in the Bundesrat, they vented their anger by declaring 'emphatically' that the government had not responded to their request to be involved in the process of drafting the RRP. Accordingly, and 'regretfully', they noted that regional perspectives on the far-reaching transformation processes had not been properly represented.[51]

In general, the various associations' written statements welcomed the RRF initiative. Besides their involvement in the process there are some suggestions on how to improve the projects integrated in the draft version. While these partly amend some details, as the BDA did the apprenticeship programme,[52] there is also some sharp criticism of the social aspects. The German Red Cross (DRK) complained that vulnerable groups and non-profit actors had been neglected.[53] The German Association for Public and Private Welfare did not see enough effort to strengthen social inclusion.[54] Finally, the DGB expressively noted a government 'warning' against lopsided structural reforms intended to make labour markets more 'flexible' and social security systems more 'market efficient'. The DGB recalled that the CSR from 2019 (see above) entailed many related points that could have been used as social RRF projects. The RRP would do better to consider the country's social problem areas as identified by the EPSR, such as precarious employment, wage dumping, the gender pay gap or growing inequality.[55]

5. Conclusions.

There has been social progress in Germany. The government has also used the funds allocated within the framework of the NGEU plan to strengthen social resilience. One

[50] Biegon D., *Stellungnahme des Deutschen Gewerkschaftsbundes zum Entwurf des Deutschen Aufbau- und Resilienzplans (DARP)*, in DGB, 15 February 2021, https://www.dgb.de/downloadcenter/++co++e7c8b2bc-714f-11eb-a1a2-001a4a160123; Deutsche Umwelthilfe, *Deutscher Wiederaufbauplan verpasst Chance für Klimaschutz und Biodiversität*, 26 April 2021, https://www.duh.de/presse/pressemitteilungen/pressemitteilung/deutscher-wiederaufbauplan-verpasst-chance-fuer-klimaschutz-und-biodiversitaet/; Deutscher Verein, *Stellungnahme der Geschäftsstelle des Deutschen Vereins für öffentliche und private Fürsorge e.V. zum Entwurf des Deutschen Aufbau- und Resilienzplans (DARP) in der von der Bundesregierung beschlossenen Fassung vom 16. Dezember 2020*, 5, 19 February 2021, https://www.deutscher-verein.de/de/download.php?file=uploads/empfehlungen-stellungnahmen/2021/dv-5-21_aufbau-und-resilienzplan_darp.pdf.

[51] Bundesrat, *Entwurf des Deutschen Aufbau- und Resilienzplans (DARP)*. Beschluss des Bundesrates, Drucksache 106/21 (Beschluss), 5 March 2021, 2, https://www.bundesrat.de/drs.html?id=106-21%28B%29.

[52] BDA - Die Arbeitgeber, *Bundesregierung mit sozialpolitischen Aspekten des Deutschen Aufbau- und Resilienzplans (DARP) auf gutem Weg*, 12 February 2021:
https://www.agv-vers.de/fileadmin/doc/covid19/AR_2021_09_Anhang_C_DARP_Stn_BDA.pdf.

[53] DRK, *Stellungnahme des Deutschen Roten Kreuzes zum Entwurf des Deutschen Aufbau- und Resilienzplans (DARP)*, 22 February 2021, https://drk-wohlfahrt.de/uploads/tx_ffpublication/DRK_Stellungnahme_DARP.pdf.

[54] Deutscher Verein, nt. (50), 3.

[55] DGB, nt. (50), 5–7.

cannot accuse the last Merkel government of failing to include labour and social aspects in Germany's RRP. Creating jobs by shaping the green and digital transformations is a top priority. This is absolutely in line with the European policy agenda, as well as with the country's acknowledged structural deficits. The digitalisation projects represent 52 per cent of the total amount spent in the ensuing years and also reach into policy areas such as health care, education and social security. This and a number of other projects have helped to strengthen social resilience. The government has tried not to overlook the groups most affected by the Covid-19 crisis, including students, parents, apprentices and low-wage earners.

The scope of policy projects dedicated to social inclusion, not to mention the amount expended on them are fairly low, however. Not all vulnerable groups have been taken into consideration, a fact that has been criticised by the DGB and welfare associations, as well as the European Commission. Older people, women in the labour force, people with disabilities, migrants, tenants and employees with precarious jobs are mentioned in this context. The German RRP contains no special social projects to boost their resilience and inclusion. Interestingly, the Commission's criticism was raised only very cautiously in the assessment of the RRP in 2021. It seems that it was distracted by Germany's priorities and/or relatively good results on the Social Scoreboard at the time (cf. chapter 3.2). It should also be mentioned that the integration of social actors in drafting the reform plans cannot be judged positively for Germany.[56]

In fact, the German RRP has only partially taken on board the outline of a new growth model from the 2019 CSR: major efforts are planned in relation to the structural transformation of the economy, but the social dimension has to some extent been left by the wayside. Even though the 2022 CSR do not pick up on this point formally, the 2022 in-depth review and the Country Report do not mince their words in scrutinising whether the preconditions have been put in place for developing a greener, digitalised and more resilient economy in Germany (cf. chapter 4.1 and 4.2). The country's path dependencies seem to be very strong as regards its external surplus, which could be tackled by a more ambitious public investment agenda, also by integrating missing social aspects into the RRP.[57] Increasing the

[56] This contradicts the effusive assumption of a 'socialisation' of the European Semester via the RRF. *Cf.* Vanhercke B., Verdun A., *The European Semester as Goldilocks: Macroeconomic Policy Coordination and the Recovery and Resilience Facility*, in *Journal of Common Market Studies*, 60, 1, 2022, 204–223, https://onlinelibrary.wiley.com/doi/epdf/10.1111/jcms.13267.

[57] *See* Hanesch W. and Gerlinger T., *ESPN Thematic Report: Social protection and inclusion policy responses to the COVID-19 crisis. Germany*, European Commission - Directorate-General for Employment, Social Affairs and Inclusion, Brussels, 2021, 38–42, https://ec.europa.eu/social/BlobServlet?docId=24606&langId=en. Hanesch W. and Gerlinger T. do not expect a transformation of the social protection system after the pandemic and identify gaps also in the national responses to the pandemic, especially as regards better policies for precarious workers, the self-employed, minimum income recipients and other people at risk of poverty. *Cf.* Dauderstädt M., *Wirtschaftsprogramme gegen die Pandemiekrise – Deutschland im internationalen Vergleich*, in *Wirtschaftsdienst*, 101, 5, 2021, 1–7, available at: https://www.wirtschaftsdienst.eu/pdf-download/jahr/2021/heft/5/beitrag/wirtschaftsprogramme-gegen-die-pandemiekrise-deutschland-im-internationalen-vergleich.html. Dauderstädt M. argues in the same vein,

disposable incomes of low- and middle-income households, diminishing the relatively high risk of poverty and focusing better on the whole range of disadvantaged groups would help to accelerate the transformation agenda, balance the European economy and enable a sustainable growth model.

criticising the failure to prioritise the socially deprived and a coherent investment strategy for the economy after the pandemic in the national programmes to counter the crisis.