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Two steps forward, one step back: Germany's renewed debate about raising the state pension age

(Dr Frank Eich, Pension Corporation)

- **In Germany, previous grand coalition legislated for increase in state pension age from 65 years now to 67 years by 2029 to deal with challenges arising from population ageing.**
- **Coming out of recession, the issue has returned to the headlines, with parts of the Social Democrats, now in opposition, demanding a policy u-turn.**
- **Episode is interesting for other countries too as it shows that hard-won, necessary policy innovations could come under scrutiny in future.**

When the previous grand coalition of Christian (CDU) and Social Democrats (SPD) in Germany agreed in 2006 to lift the official state pension age from 65 years now to 67 years by 2029, it all seemed so simple. Starting from 2012 onwards, the age would be increased by one month every year, helping the country deal with the economic and fiscal consequences of its rapidly ageing population. Millions of older workers would be encouraged to stay in employment, keeping pension spending down and boosting tax revenue along the way. And given that Germany's working-age population is already falling, there was no doubt that labour market prospects for older workers would be bright. Unlike in some other countries the whole discussion and policy process was relatively smooth.

Fast forward four years and one deep recession later, and the issue is back in the headlines, with the Social Democrats – now in opposition – fighting fiercely over whether to stick to or drop its own previous decision. On the one side of the argument are the left wingers who demand the abolition of the announced increase, on the other side are those who were involved in or supported the legislation in 2006. Sigmar Gabriel, the current party leader, appears to be sympathising with the former but is also keen to find a compromise. One idea floating around could be to increase the age once, say, half of all older workers are in employment (this misses the point that the age as an external signal affects the labour market behaviours of both workers and employers). Franz Müntefering, the former party leader, accuses Mr Gabriel of playing party politics at the cost future generations. The party leadership wants to decide on the matter by Monday.

Meanwhile the Christian Democrats, the senior partner in the current coalition, have accused the SPD of following ideology rather than reason and urge it to accept reality. The Green Party, which has gained in popularity in recent times, argues that the increase to 67 years by 2029 is essential to maintain inter-generational fairness but has suggested postponing the starting point from 2012 by a few years.

Perhaps not surprisingly, the trade unions want to see the policy reversed, while the *Institut der deutschen Wirtschaft*, a free-market think tank, is doing its bit to keep the debate lively by arguing for an increase to 70 years.

Given its rapidly ageing population, one should hope that the current policy will survive intact, not least because labour market conditions in 20 years' time are likely to bear little resemblance with those seen today. But politicians will also need to ensure that this transition will be as smooth as possible. Lifelong learning will become ever more important as will a changing workplace culture, which might require some government regulation and guidance (the recent abolition of the default retirement age in the UK comes to mind).

There is a bigger lesson to be learnt though for other countries too from this episode of German day-to-day politics: that even the most obvious, hard-won and reasonable policy innovations, which appear to be settled for good, can suddenly come under scrutiny again and could be reversed in the future.