

GERMANY: Gas levy triggers debate about further support measures

Now that the new gas surcharge has been fixed at 2.4 cents per kWh, its introduction looming on 1 October has triggered political debate about ways to support consumers, prevent political pushback, and maintain broad support for Ukraine.

The levy will start at the lower end of a politically contested range. Chancellor Olaf Scholz has prevailed over Economy Minister Robert Habeck who had suggested a levy of up to 5 cents. In the ongoing crisis, Habeck plays the role of honest and transparent teller of inconvenient truths, catering to the Greens' constituency of higher-income voters. As a Social Democrat, Scholz needs to keep an eye on the broader middle classes, including lower-income voters.

Given widespread fears of political pushback and even social unrest this winter, support measures are likely to be broad in design, covering large swaths of middle-class voters. Scholz has indicated that he is especially concerned about the fate of people not on benefits but with monthly gross incomes between EUR 2,800 and EUR 4,000. According to economists, this would cover around 20% of the population, with the latter figure roughly representing the country's average income level.

The menu of measures currently discussed constitutes a mix of (time-limited) tax cuts and direct support payments. Scholz has already promised an expansion of housing benefits and more generous social welfare payments to replace the wider "Hartz" system by 1 January. As part of its previous EUR 30bn support package, the government also already agreed on a one-off energy payment of EUR 300, which will be paid out in September. Campaigners are now calling for similar payments of around EUR 100 monthly for the next one-to-two years.

The September energy payment will be paid out via wage bills and, therefore, is subject to income tax. Likewise, VAT will be payable on the gas levy following a decision by the European Commission to reject Berlin's request for an exemption. The government is now considering using its remaining leeway under European law to lower VAT on the surcharge to 5%. There are also calls for reducing the energy tax on gas, akin to the scheme currently in place (until 31 August) for petrol.

Against this backdrop, the debate about the envisaged return to the "debt brake" will continue, with some Social Democrats calling for a delay. However, Scholz has backed his fiscally conservative and politically ailing coalition partners, the Liberals (FDP), in their plans for a return to a balanced budget next year. A key political signpost for all these debates will be the final regional state election of the year on 9 October in Lower Saxony.

Overall, the winter will test domestic unity in the standoff with Russia. Foreign Minister Annalena Baerbock was the first to express new middle-class fears of "war fatigue" and social unrest. As the post-communist Left is debating large-scale demonstrations, centrist commentators are warning of "populism" and Putin's attempts to divide the West.

While this focus on external interference has been commonplace in debates about polarization in rich democracies over recent years, the relevant decisions will not be taken in Moscow but in Berlin. The challenge will be to provide enough

Carsten Nickel

Deputy Director of Research
+44 20 7186 8873
carsten.nickel@teneo.com

redistribution to maintain social cohesion. Politically, this will need to be done by a broad middle-class government in which, however, only Scholz's SPD, at least in part, represents lower-income voters.

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Carsten Nickel

Deputy Director of Research
+44 20 7186 8873
carsten.nickel@teneo.com

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