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MCC Press Release

MCC study sheds light on Germany's designated climate action budget

The Climate and Transformation Fund will soon be larger than the budgets of the Ministries of Economics and Transport combined. Big new items, but no climate money.

Berlin, 12/09/2023. The German government's Climate and Transformation Fund (KTF) is increasingly seen as the central financing instrument for climate policy, with spending set to rise rapidly from 36 to 58 billion euros next year. But important decisions on priorities remain: which expenditures belong in the core budget and which in the special fund, and whether the fund should focus on investment promotion or social compensation. This is the conclusion of a study by the Berlin-based climate research institute MCC (Mercator Research Institute on Global Commons and Climate Change), which has now provided the first clear analysis of this huge pot of money. The study (in German) is available on the MCC website.

The starting point is the federal government's medium-term financial planning, which was introduced in the German parliament last week. While the core budget in 2024 specifies a spending cut, from 476 to 446 billion euros, and will for the first time since 2019 comply with the debt brake rule of new loans not exceeding 0.35 percent of economic output, the KTF will be greatly expanded. Indeed, it will be larger than the budgets of the Ministries of Economics and Transport combined. The biggest items are subsidies in the building sector, which have seen a sharp rise and now amount to 19 billion euros, i.e. a third of spending, and the financing of the levy for the promotion of renewable energies, formerly paid via electricity bills.

Billions in subsidies for Deutsche Bahn railroads and an Intel chip factory in Magdeburg will now also be paid out of the fund. "The government argues that semiconductor production is important for climate-friendly technologies," says Brigitte Knopf, MCC Secretary General and an author of the study. "But a closer look gives the impression that the KTF is being designed in an inappropriate way. It seems to be intended as a general tool to prevent too much strain on the core budget." This also becomes obvious when looking at the railroads. "Since 1993, the constitution has clearly stated that the federal government, as the owner, is responsible for the expansion and maintenance of the rail network; this had nothing to do with climate," explains Niklas Illenseer, Policy Analyst in MCC's Policy Unit, and also an author of the study. "If the debt brake limits spending, the government would have to reallocate elsewhere in the core budget or create further leeway. Instead, they are shirking their responsibility by outsourcing core ministry tasks."

The study also shows that climate policy has little room for manoeuvre around social compensation. In 2021, the governing coalition agreed to develop a "climate money" – it should take the form of a direct payment to citizens, intending to help with the extra costs caused by rising carbon and energy prices. But no money has yet been earmarked for this in medium-term financial planning to 2027. The excuse provided is that Germany's Federal Budget Code prohibits ring-fencing for a programme unless its concept is clear, but this does not hold water with the authors. The required climate money law could quickly be put in place and, according to the Ministry of Finance, the payment channel should be available by 2024.

According to the study, climate money could be justified as early as 2025, depending on the calculation method, in view of the rising revenues from carbon pricing. But this is only feasible if other items are reallocated to the core budget. For 2026 and 2027, the fund is already oversubscribed, with programme spending exceeding budgeted revenues. A cash injection of 60 billion euros from funds originally designed to manage the coronavirus pandemic will be eaten up by 2026. The only source of revenue will then be rising carbon prices via EU emissions trading and national emissions trading for buildings and transport.

"To end the overstretching of the climate special fund, and to make the climate money possible, a fundamental political decision is needed," concludes MCC Secretary General Knopf. "The government should, in principle, integrate the state task of climate protection into the core budget, putting all expenditures for the corresponding public infrastructure there. This is part of the state's provision of public services of general interest. This is the only way to ensure that, beyond the promotion of private sector green investments, sufficient money is available in the climate fund for social compensation – for example via climate money – and for the necessary support of investment programmes for private households."

Reference of the cited article:

Knopf, B., Illenseer, N., 2023, Die Finanzierung der Transformation: Klimafonds, Klimageld und Kernhaushalt, MCC working paper (German)
www.mcc-berlin.net/Publications/2023_MCC_Die_Finanzierung_der_Transformation.pdf

About MCC

MCC explores and provides solution-oriented policy portfolios for climate mitigation, for governing the global commons in general, and for enhancing the many aspects of human well-being. Our seven working groups are active in fields like economic growth and development, resources and international trade, cities and infrastructure, governance, and scientific policy advice. Co-founded by the Mercator Foundation and the Potsdam Institute for Climate Impact Research. | www.mcc-berlin.net/en | https://twitter.com/MCC_Berlin

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