60 YEARS IDOS

THE CURRENT COLUMN 4 March 2025

End environmentally harmful subsidies

The social contract: a lens to design socially just climate policies in Germany

Mauricio Böhl Gutierrez, Daniele Malerba and Markus Loewe
German Institute of Development and Sustainability (IDOS)

Germany's next government coalition must balance economic priorities with urgent climate action. While the economy dominated the elections, climate policy was largely overlooked. Ending harmful subsidies could free billions to cut emissions, improve public health, and strengthen social services. To ensure fair compensation for all affected groups by subsidy cuts, the new government should approach the reform as a renegotiation of the existing social contract.

Domestic climate policy as part of social contracts

Despite climate change's growing threat, elections in the US and Germany prioritised the economy and migration. Many fear climate policies will be costly, yet climate change itself fuels economic instability and migration. Governments must therefore mitigate climate change to

CC BY 4.0 license

protect citizens' future living standards while ensuring that no social group bears disproportionate costs today.

One promising approach is the removal of subsidies for fossil fuels, which cost governments worldwide 1 trillion Euro in 2022. Germany provided tax rebates and direct support for transport sector totalling 25 billion Euro in 2020. Ending subsidies aligns with climate goals and creates fiscal space for other priorities, such as public transportation, digital governance, and social services. It can also ease pressure to reform the constitutional debt break, a key topic after the national elections.

However, subsidy removals are politically sensitive, as shown by the strong resistance of farmers to the German government's proposed diesel subsidies cuts last year. The reform failed due to poor communication and a lack of stakeholder involvement in decision-making. Social contracts offer an analytical framework to identify a fair and widely accepted strategy for phasing out subsidies. Ensuring social contract stability is increasingly important, as declining trust in governments has fuelled the rise of far-right populist movements.

The social contract as an analytical frame

The social contract – the full set of implicit and explicit state-society agreements – offers a powerful analytical tool for designing fair and politically viable climate policies, including subsidy reforms. IDOS established the social contract as tool of analysis, highlighting three core government duties, the '3Ps' – *Protection*, *Provision,* and *Participation*. Assessing how the German government can replace the *Provision* of subsidies with other deliverables under the '3Ps' is crucial to identify accepted forms of compensation for affected social groups.

"Ending harmful subsidies could free billions to cut emissions, improve public health, and strengthen social services. To ensure fair compensation for all affected groups by subsidy cuts, the new government should approach the reform as a renegotiation of the existing social contract."

A path to phase-out subsidies in Germany

Experiences from many low- and middle-income countries, including Colombia, offer key lessons on how to remove subsidies. Using the social contract to analyse removals demonstrates how *Participation* in the planning process and alternative deliverables under the '3Ps' can lead to actionable solutions. For instance, Colombia treated the subsidy phase-out as a negotiation process, offering increased *Protection* on highways and the *Provision* of new trucks and buses to its transport sector.

To phase out subsidies, the new German government should use the following key lessons:

1. Communication is crucial to prevent opposition and to inform affected groups with clear messages about mitigation measures, like cash transfers.
2. All relevant social groups should participate in the process and the social contract lens can help identify the affected groups.
3. A strong coalition, supporting the repurposing of subsidies for other policy areas, strengthens the social contract.
4. Preferences of citizens need to be taken into account when designing compensations.
5. The government should commit the released funds to specific policies, like transitioning to electric vehicles, expanding the "Climate Bonus", or funding military spending.

A chance for Germany to lead

Ending subsidies would demonstrate Germany's commitment to climate action, unlock funds for key domestic policies, reduce dependence on fossil fuels, and help rebuild trust in government. A CDU, CSU, and SPD coalition would be uniquely positioned to drive this change, as they represent key constituencies that may be more willing to accept changes of the social contract under their leadership. The CDU campaigned on expanding the "Climate Bonus" as compensation measure for rising fuel prices. The subsidy reform offers the opportunity to expand this compensation to compensate for the phase-out as part of a renewed social contract.

A successful renegotiation of the German social contract for such a major reform would underline new government's ability to integrate diverse perspectives and respond to citizens' concerns. All coalition parties support the energy transitions and strive for climate neutrality but differ on key details for potential social contract renegotiations. A well-executed renegotiation of the social contract can help them to align their policy objectives and would equip them with political capital for future policy efforts.

The Current Column ISSN 2512-9147

Recommended citation: Böhl Gutierrez, M. / Malerba, D. / Loewe, M. (2025). 16BThe social contract: a lens to design socially just climate policies in Germany (The Current Column 4 March 2025). Bonn: IDOS

© German Institute of Development and Sustainability (IDOS)