Germany

# Candidates Are Without An Economic Policy

by Elke Fimmen and Rainer Apel

The next national elections in Germany are not scheduled until Sept. 22, but already there are signs of deep discontent among voters against all established parties. The discontent became visible in the election for state parliament in the eastern state of Saxe-Anhalt—the last major election until the Fall—on April 21: Voter abstention was unprecedentedly high for Germany, at 44%, and the governing Social Democratic Party (SPD) lost almost half of its share of the vote as compared to the last elections four years ago.

The latter aspect is particularly alarming for the Social Democrats of incumbent Chancellor Gerhard Schröder, who lead the national government, and are not certain on Sept. 22 to stay in power. Voters' discontent has a lot to do with the worsening unemployment situation, accelerating corporate defaults, and rumors about tax increases after the elections.

Schröder's main challenger, Christian Democratic Governor of Bavaria Edmund Stoiber, is benefitting a bit from the drop in the Chancellor's popularity, and the opposition Christian Democrats in Saxe-Anhalt gained almost as many votes there as the SPD lost. But Stoiber's own Christian Social Union party in Bavaria is moving into the same precarious situation as the Social Democrats of Saxe-Anhalt Gov. Reinhard Höppner: dramatic worsening of the economy.

For example, the April 6 *AZ* daily of Munich, Bavaria's state capital, reported that 100,000 citizens in Munich (Germany's third-largest city, with 1.3 million inhabitants) are caught in a "debt trap"—double the figure at the end of last year. Some 35% of all households have become heavily burdened with personal debt, by buying cars, furniture, or apartments, or by using their bank credit to the three-month limit. The Munich municipal debtors consultation office says that it is flooded with the calls of people who can no longer handle their debt load. It predicts that, "latest at Christmas, every third citizen of Munich will fall into financial chaos." One reason is that since January, when the euro was introduced, prices have generally risen by 30%!

Also, lacking sufficient income, more and more people are paying with credit cards. "Money has become more and more virtual, people lose their connection to it," said a debtor consultation office spokesman. Many young people lead a very expensive life. "If prices then increase suddenly, massively, these people are trapped."

Munich's municipal administration is also becoming precarious. The SPD-Green coalition-led municipal government announced a budget shortfall of 1.4 billion euros, in addition to 1 billion already envisaged. As in all other cities, the biggest problem is the collapse in business tax income, which decreased dramatically last year, and continued to fall in January and February 2002, with no signs of a change.

## A Step in the Right Direction

City counsellor for finances Klaus Jungfer is demanding new credits to finance necessary infrastructure investments. However, this would mean a doubling of interest and debt payments, something financiers oppose as unjustified. But streets, bridges, schools, and public transport have to be repaired, says Jungfer. "Shall we close bridges over the Isar [Munich's main river]? Shall we stop subway construction?" He refuses to present another austerity budget, because "it is not the task of a financial city counsellor to destroy the city."

Jungfer identified the collapse of tax revenue as the biggest problem, which may cause the city to revise its budget even further. He attacked the SPD-Green national government in Berlin, as responsible for the unjust municipal taxation system. He is calling for investments, which "in a recession are necessary to stimulate economic growth."

The collapse in revenue is not Munich's problem alone, or attributable to the fact that it is run by an SPD-Green government. Unemployment, notably in industry, but also in the "new economy" sectors, is rising throughout Bavaria. The biggest, most recent corporate default in Germany, in the range of several billion euros, was the Leo Kirch Media Group, in Bavaria. Kirch has filed bankruptcy procedures comparable to the U.S. Chapter 11; it is indebted to Hypovereinsbank, one of its main creditors, to the tune of 2 billion euros. Hypovereinsbank is Bavaria's biggest private bank. Also, the Bavarian State Bank (Landesbank) is a creditor of Kirch, with 2 billion euros. Half of Stoiber's cabinet is on the Landesbank's board, which creates political instability.

Munich depends heavily on banking and insurance firms as a revenue source, and the collapse is going to hit even harder, very quickly. Bavaria is the home of Siemens, MAN, and BMW, the big auto producers, whose troubles are getting worse. High-technology firms, such as Dornier (aerospace), are collapsing, too; the top Munich-based military-industrial firms, such as Krauss Maffei and MTU, had already been largely destroyed through mergers.

So far, Stoiber has called for a flat tax rate, spreading the illusion that this alone would help to overcome the economic depression. However, he will soon have to present something substantial, because what would be his message if Bavaria, his home state, is falling apart economically?

In January, Helga Zepp-LaRouche, the BüSo party's chancellor candidate, challenged Stoiber to a debate. She has proposed to discuss the collapse, and the need for a New Bretton Woods global financial system.