Germany Capital Amnesty, Just to Balance Budget?

by Rainer Apel

The reality of drastically shrinking tax revenues for the state, caused by accelerating corporate defaults and loss of taxpayers through unemployment, has long been an issue addressed—outside of Lyndon LaRouche's associates—only by fringe analysts in Germany. In recent days, however, it has become a front-page item in Germany's leading news dailies. One of the reasons for that change is the late May, revised report of the government's special advisory board on tax revenues, which warned that over the next four fiscal years, the government might run short of 65-68 billion euros (close to $60 billion).

Tax increases are extremely unpopular among Germans, who right now are making up their minds whom to vote for in the national elections on Sept. 22. And, if tax increases are unpopular, so are tax breaks for people who have a higher income than the average working German.

But the pressure under which the austerity-oriented Finance Ministry is operating, increases by the day, and it has to do something with shrinking tax revenues. The ministry is acting under self-imposed extra pressure, because it wants to achieve a balanced budget by no later than FY 2004. But rather than break with the rules of the European Union's budgeting criteria, and invest in projects this Summer that would create production and employment, and thereby, a sound base for tax income in coming fiscal years, the experts of the government and the opposition alike are only considering "magic" solutions.

The government hopes to benefit from an announced repayment of up to 4.5 billion euros from "unused funds" at the European Commission, later this year. But that Finance Minister Hans Eichel, in his draft FY 2003 budget, lists the recent Russian debt payment of 167 million euros as something that has "improved" the record for this current fiscal year, tells how desperate the government has grown over revenues.

'To Him Who Has, More Shall Be Given'

The Christian Democratic (CDU-CSU) opposition, which also counts on that re-transfer from the European Commission, adds its own "magic": In a discussion reported by the *Frankfurter Allgemeine* daily on June 14, Friedrich Merz, chairman of the CDU-CSU group in the national parliament, mooted special legislation to permit an amnesty for any flight capital returned to Germany.

Merz is shadow finance minister in the election campaign team of CDU-CSU Chancellor candidate Edmund Stoiber, which gave additional propagandistic significance to his trial balloon on the amnesty issue. Merz remained vague, apparently aware that a deal with moneyed tax evaders is not very popular among average voters suffering from zooming consumer taxes, water and electricity bills, and rents. Merz referenced the alleged "great success" of a similar amnesty which the Italian government granted at the beginning of the year, and which, according to official data, has returned 50 billion euros of flight capital to Italy. The Italian Finance Ministry, which had offered a one-time, fairly reduced tax of only 2.5% to the returning flight capital owners, has already received extra tax revenues of 1.3 billion euros from that.

Desperate as German Finance Minister Eichel is, he would be glad to have an extra 1.3 billion euros tax income, and so should Friedrich Merz, should he become finance minister in a new government after the Sept. 22 elections. His trial balloon was to prepare the German public for such an "amnesty."

But the case of Italy shows that if returning flight capital does not flow into productive economic investments, the net effect will not be more than that of a drop of cold water on a giant hot stone. There was no increase in net investment into the productive sector of Italy's economy during the first quarter of 2002. The 50 billion euros that have returned to Italian state territory, have apparently flown instead into speculative market operations. Flight capital pulled out of Wall Street, or from the failing financial markets of Argentina and other Ibero-American countries, is now trying its luck with the Italian bubble.

Is that what Merz and other German politicians, citing Italy, want to repeat in Germany?

How much flight capital is there outside of Germany? Dieter Ondracek, longtime chairman of the German Tax Union—the national organization of German revenue service employees—estimates that 60 billion euros evade taxation in Germany every year. If the revenue service staff were visibly upgraded, one might succeed in locating and seizing one-third of that flight capital. Ondracek wants banking laws changed so that banking employees who inform the revenue service of ongoing or past flight capital operations at banks, no longer face punishment, as under present banking laws.

But the austerity-minded government is "afraid" of spending the extra funds for an upgraded staff. Many in Germany say the Finance Ministry is loyal to the banks and investment funds, and to their free-market interests. And so, the government describes granting an "amnesty" to returning flight capital, as the cheaper intervention.

Ironically, the issue may be resolved in another way. The more Wall Street's ill-placed reputation as the "world's monetary safe haven" crumbles, the more attractive German tax-evaders may find it, to transfer their flight capital back to Germany. Paying the long-overdue tax, and perhaps a fine, might prove more profitable to them, than a crash on Wall Street.