Germany

Revenue Crisis Brings Worse Budget-Cut Folly

by Rainer Apel

The first two November weeks are already certain to go down into history books as a missed chance for economic recovery in Germany. For reasons that insiders say have to do with massive armtwisting by the creditor banks and the hard-line monetarist lobby in the country, the re-elected government of Social Democratic Chancellor Gerhard Schröder decided to drop its earlier opposition to the European Union's Maastricht budgeting rules (see *EIR*, Nov. 1) and to stay on the budget-balancing course, instead.

Finance Minister Hans Eichel even did, what he was not obliged to do, and had recently said he couldn't do: namely, give assurances to the EU Commission and the European Central Bank, that the government would drive the national deficit under the 3% of GDP level in fiscal year 2003. But faced with an "unforeseen" tax revenues shortfall close to 20 billion euros in the fiscal year already, Eichel is certain to be overrun by another "unforeseen" disaster next year as well, because the overall economic situation is not improving, but getting worse. For the first time in years, the national jobless figure did not decrease in October, but increased; not even the traditional pre-Christmas boost is there any longer.

And, there are daily protests in Berlin: Within the first two October weeks, construction workers staged a protest rally; the dentists did so; then social workers and personnel of 40 medical care associations; and medical doctors are even threatening a boycott of government-decreed measures to reduce health costs. Hardly re-elected, and equipped with a parliamentary majority of only four votes, the government is already deep into an Autumn of public discontent. Plans to cut salaries of civil servants by 10%, and the refusal of wage increases for public sector workers and employees, have already prompted the public sector unions to stage warning strikes and to threaten a nationwide strike after the last wage-bargaining contracts expire in February 2003.

The budget-balancing plans of the government are horrendous: In 2003, the government wants to cut labor costs by a total of 5.4 billion euros, plus another 2.5 billion out of jobless support payments; in the health sector, the government wants to "save" another 2.5 billion by imposing a strict ceiling for state subsidies to health insurance companies and hospitals. Families that want to build a home, will lose almost all government support that has been paid to date, and farmers pay new value-added taxes with every purchase of fertilizer, lifestock and agricultural machinery. The mandatory payment to be made by every citizen into the state pension fund, will increase from 19.1% to 19.5% of the monthly income; the next stage of the ecology tax will add several percent to the tax on every liter of diesel or gasoline.

For the average taxpaying citizen, an extra 100 euros will have to be paid every month in 2003; for the average family or household, an extra burden of 300 euros every month is not unlikely.

The Green Party coalition partner of Schröder's Social Democrats wanted to go for even deeper cuts in the social and labor market budgets: They proposed to postpone the promised modest increase of the pensions in 2003 by six months, further "deregulate" labor laws, and cancel state support payments to the coal-mining and shipbuilding sectors. At the same time, the Greens proposed increased funding of insane "alternate energy" projects like solar cell and wind energy development, more nature protection parks, and an end to inland waterway construction. Increased taxation of consumed heating oil and natural gas was also proposed.

The Greens thereby just proved, once again, to be monetarism's strongest battalion in German politics. By backing Eichel in his struggle to smash anti-austerity sentiments among Social Democrats, the Greens helped shift the balance in the Cabinet towards more budget austerity.

Grim Year Ahead

All this is just prelude to what Germany must expect for the coming year, with even bigger tax revenue holes to be filled, more jobs eliminated by increased corporate defaults, less export revenues from shrinking global markets for German industry, and the effects—not only on crude oil prices—of the potential outbreak of a dual war in the Middle East and the Persian Gulf.

The real alternative to this development is what Helga Zepp-LaRouche, leader of the LaRouche's movement in Germany, has outlined in her "Open Letter to the Chancellor" circulating nationwide. There, the Chancellor (and the electorate) is told that unless he returns to national banking-style arrangements for public sector investments, infrastructure development projects, and generation of productive credits, there will be no way out for the depressed German economy, no chance of reducing the national jobless figure.

Especially because Germany is a leading export nation, the only meaningful approach to industrial recovery lies in the Germans' active role in the Eurasian Land-Bridge development. As the response of many Social Democrats and labor union members to the Open Letter, at political events and protest rallies, has shown, there is increased interest in this alternative. If the Chancellor listened less to the budget-cutting Greens, and more to his own voter base, the German economy would be in better condition to resist the coming storms of 2003.