Gingrich-style budget cuts slash Germany's health care

by Rainer Apel

The German government was more than pleased when, on Sept. 13, parliament passed the budget-cutting plan for Fiscal Year 1997, with 341 votes by the ruling parties, against the 331 votes of the opposition. Before the vote, it had not been entirely certain that the plan, which had been much criticized, would receive enough votes to pass, and therefore some members from the three parties in the ruling coalition government were brought in from their hospital beds, to secure Chancellor Helmut Kohl's absolute majority of 337 votes. Thus, the sick among the members of parliament saved a budget-cutting plan that will have a disastrous effect on health care for the sick: More than one-third of the budget cuts, in the range of 26.5 billion deutschemarks (roughly $16 billion) for FY 1997, will be in the public health sector, and will burden the average German with considerable new mandatory financial contributions to the health care system.

The budget cuts were motivated as necessary to meet the criteria set forth by the authors of the 1999 European Monetary Union scheme, otherwise known as the "Maastricht II Treaty" signed by the European Union (EU) member governments in February 1992, for state debt and public sector budgets. This scheme, which resembles the "balanced budget" insanity that has dominated the Legislative branch of the United States government, demands that for the sake of "monetary stability," state indebtedness must not exceed 3% of Gross National Product.

Against the background of all governments in the EU being heavily indebted, and increasingly so because of the interest that has piled up over the years on top of the principal, governments are undertaking massive budget cuts, in an ill-conceived, self-defeating attempt to reduce new state borrowings. At the same time that the debt continues to be paid, however, the economic depression has reduced the tax base significantly, so that there is an additional hole in the state budget which, under the monetarist doctrine, has to be filled, or compensated, by further budget cuts or tax increases. Governments, such as that of Germany, that have subscribed to this policy, have entered a maelstrom of shrinking revenues and increasing debt service, from which there is no escape. For the Germans, debt service repayments are already the second-biggest item in the state budget, at 20% of the total of the fiscal year budget of DM 450 billion. The DM 90 billion is paid to the creditor banks, while the other budget items are intensely scanned by the budget-cutters for options for more cuts.

The areas hardest hit

The FY 1997 budget puts the main emphasis of the cuts in the social welfare, public health, labor, and pension sectors of the budget. The most spectacular cuts are to occur in the following areas:

- Labor market policy: Here, the protection against being fired on short notice in small firms has been lifted, from firms with fewer than five employees, to firms with fewer than ten employees. This new regulation, which gives smaller firms more flexibility to hire and fire, will affect at least 120,000 workers in 1997 already, the labor unions have warned. With Germany being a nation of many smaller firms in the range of 5-10 employees each, several million workers are affected in this sector of the economy, alone.

Furthermore, paid sick leave, which so far has been equal to 100% of the last regular paycheck for the first six weeks of illness, will be reduced by 20%, for that period. For periods of illness longer than six weeks, the pay will be reduced from the present level of 80%, to only 70%. This will translate into a net loss of DM 75 per week, for a worker with an average monthly gross income of DM 2,900. For the chronically ill, the situation will be much worse, because they will have a net loss of several thousand deutschemarks per year. For low-income families, this is an unbearable situation.

• Social welfare and public health: Time allowed for recovery from an illness will be cut from the current maximum of four weeks, to only three weeks, and the patient's share of the financial costs will be doubled, from presently 12, to 25 deutschemarks per day for western Germans, and from 9, to 20 deutschemarks for eastern Germans. This means an average additional burden of DM 200-400, per person, for three weeks of recovery (recovery time after childbirth, and recovery time for heart patients, are exempted from the new regulation).

• Pensions: The retirement age will be raised between the years 2000 and 2004 for women, from the present 60 years of age to 65; for men, between the years 2000 and 2001, from 63 years of age to 65. Early retirement will be allowed, but with a cut in benefits of 3.6% for every pre-retirement year that is taken—which means that if a man retires at age 60, he will suffer a net pension cut of almost 20% for five years until he reaches full retirement age (if he makes it). Pension lobbies have warned that this will reduce the average pension, which now is at 69% of the last regular paycheck, to 61% by the year 2010, and lead to an impoverishment of retired people.

Apart from the immediate effects on elder citizens, the new regulation will also burden the labor market, which so far has benefitted a lot from early retirement, because it freed up jobs for younger unemployed persons. The jobless situation for younger citizens will worsen, as the total of employed Germans will not increase, under present economic policies. But the more jobless there are, the bigger the burden is for the state, which has to pay unemployment benefits of various types. The monetarist-minded government consequently plans to go for deep cuts in the jobless support programs in the course of FY 1997. Because such support programs, like temporary employment or professional re-training courses, play an important role in eastern Germany, to keep half a million Germans off the official jobless roles, any deeper cuts in such programs will cause an increase of the jobless rates, or of social welfare programs.

• The budget of the Public Transportation Ministry is the one that suffers most from budget cuts, with DM 5 billion, or almost 10%, in FY 1997. This will have an immediate effect on the construction sector, which, because of the overall economic crisis, is depending more and more on contracts from public-sector-funded projects. Moreover, the FY 1997 cuts also include DM 450 million for housing programs. Up to 80,000 jobs in the construction sector alone, may be affected in 1997, labor union experts have warned. All in all, the Bonn budget cuts for FY 1997 will eliminate at least 200,000 jobs, and most of these in the productive industrial sector, union leaders have charged.

Based on the cuts, the government expects to "save" DM 8.5 billion in the labor market budget, and another DM 7.5 billion in the public health budget. The new retirement regulations will not have an effect before the year 2001. In addition to the DM 5 billion that will be "saved" in the Transportation Ministry, another DM 5 billion is to be "collected," mainly through cuts in the budgets of the R&D, Economics, and Defense ministries.

The cuts will backfire

The labor unions, which have been unable to stop this austerity package, have warned the government not to grow complacent over its victory, because the budget cuts will soon backfire. Michael Geuenich, a member of the national executive of the German labor federation (DGB), forecast at a press conference in Düsseldorf on Sept. 10, that the austerity package for FY 1997 is certain to cause political and economic damage that will be of such a scope that the government, and many in the parliament who voted for the package, may regret having done so, one day not so far away.

Geuenich warned the government not to underestimate the ferment in the working population, which already twice this year has taken to the streets in DGB-organized protest actions against the austerity policy. The ferment which propelled 350,000 into the streets on June 15, and another 250,000 on Sept. 7, is certain to grow, because of already-leaked government plans to cut another DM 7 billion in the labor and social affairs budget, in FY 1998.

Geuenich also warned about the immediate economic effects of the FY 1997 austerity package: Because there are DM 6 billion in cuts in state investments, the cuts would cause a net loss of 200,000 jobs in 1997. The public sector, an important factor of job security, would be hurt severely.

An increase of the jobless rate on such a large scale is certain to reduce the flow of tax revenue into Bonn even more, and undermine all the so-called budget-balancing, and require new borrowings—and thus would also undermine Germany's compliance with the Maastricht criteria. The policy that by government propagandists claim will meet the Maastricht II criteria, is certain to make Bonn fail to meet those criteria, Geuenich mockingly noted. He charged the government's experts with gross economic incompetence.

Granted, the government's economic experts are incompetent, but it is now the labor unions' turn to prove that they have better economic concepts. A first, cautious hint in this direction, was given by Geuenich in his press conference, when he called for an end to the budget-cutting policy, endorsing an increase of funding, instead, even through new state borrowings, for the 14 priority projects of the European Union for cross-border infrastructure development—which it is expected would instantly employ more than 2 million workers.