Report from Bonn by Rainer Apel

Sobering begins on red-green policy

Social Democrats are beginning to split and industry is unhappy over the government's tax policy.

Only four weeks after it was sworn in, the new government coalition of the Social Democrats and the Greens is faced with domestic trouble: Its plans for ecology taxes are drawing heavy fire from industry, especially smaller firms; consumer organizations; and senior Social Democrats.

The team around Chancellor Gerhard Schröder had gone into the election campaign with promises of tax relief for the average citizen. Campaign propagandists said a lot about how the planned "tax reform" would put as much as 3,000 deutschemarks into the pockets of every lower-income household. Less was said, however, about the fact that most of this tax relief would not materialize before the tax reform was fully implemented in the year 2002. But even by next year, the ecology tax will begin to hit households—with a 4% increase in the gasoline tax, additional taxes in the same range on energy and raw materials consumption, and ensuing increases for electricity and prices of most consumer goods.

The government also plans to eliminate tax exemptions for part-time jobs (the so-called DM 620 jobs). The labor unions have long backed this, to stop the erosion of better-paid full-time jobs, and the proliferation of such part-time jobs. This labor union stance is justified, but it does not take into account that, since many households are heavily indebted, family members are trying to get such part-time jobs to cover household bills. The labor leaders have not addressed the fact that the government's tax reform is less motivated by concern for the safety of full-time jobs, than its appetite for revenues to balance the budget. Labor leaders, most of whom support the red-green policy at this moment, better begin to address the balanced-budget policy, which is beginning to make the government very unpopular among union members.

Many households (most of which are headed by union members) depend on that extra income, and have no interest in paying DM 124 in new taxes on their DM 620 earnings from an extra job. Within the bounds of traditional taxation policy—eliminating old exemptions here, granting new exemptions there—no solution to the paradox can be found.

A solution can only come through debt moratoria and rescheduling, on the one side, and punitive taxes on non-productive financial operations, on the other, in order to give incentives for the creation of new, full-time jobs through productive, long-term investments. This would get rid of the giant debt burden on the German taxpayer and consumer, which is a legacy from the neo-liberal era of high interest rates. No less than 26% of the fiscal year 1999 budget will be absorbed by debt service. And, many households pay more than 20% of their monthly income for private debt as well. But the government wants to balance the budget—on the backs of taxpayers.

In industry, particularly among small and medium-sized firms, this ever-increasing debt burden has led, over the last 15 years, to a dramatic under-capitalization. Ever since the high-interest-rate policy began in late 1979, firms have had to pay more for debt service. Most firms depend on bank loans, but bankers, whose interest has shifted to short-term financial operations that promise higher yields in less time, no longer want to lend for long-term corporate investment. Previous governments have calmed industry protests by granting tax exemptions: depreciation allowances; sector-related bonuses, for example in coal mining and the power sector; bonuses for home-builders and homeowners, and so on. But the new government, which has championed "taxation justice," wants to eliminate these exemptions to generate more revenues to balance the budget, not to create a "just" tax system.

Industry, already upset about these proposals to eliminate tax exemptions, is also enraged at the ecology taxes, which will put new financial burdens on the production process: for the consumption of energy, of raw materials, and so on. The net effect of the ecology tax will be an additional annual tax burden of DM 30 billion for a sector of industry which comprises close to 3 million small and medium-sized firms, which is 95% of the entire corporate sector. Small and medium-sized firms employ two-thirds of the national labor force, and train 80% of all apprentices.

These data, and some more, were cited in a letter mailed on Nov. 9 to the government by Wolfgang Clement, the Social Democratic Governor of North Rhine-Westphalia, who warned of a labor market disaster, because many small firms will no longer be able to produce if saddled with such additional tax burdens. Clement's criticism spells big trouble for the government: North Rhine-Westphalia is not only the most populated state, but it also controls the biggest section of the Social Democrats, with about 30% of the national party membership.